

The markstrat simulation as a strategic marketing tool



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The Markstrat simulation was created more than thirty years ago by Jean-Claude Larréché, Alfred H. Heineken Professor of Marketing at INSEAD, and Hubert Gatignon, The Claude Janssen Chaired Professor of Business Administration and Professor of Marketing at INSEAD, and has been constantly improved since its creation.

Used in combination with traditional training methods such as conceptual sessions or case studies, Markstrat is a highly effective tool to learn strategic marketing concepts, such as brand portfolio strategy or segmentation and positioning strategy, as well as operational marketing. Similar to a flight simulator, this marketing simulation allows students and managers to practice new skills in an intensive time frame and in a risk-free environment before trying them out in their real business environment.

The mathematical model of Markstrat is based on solid theoretical foundations, and the underlying formulas have been extensively tested. These simulations have been used to successfully train a large number of participants and executives from many universities and organizations.

OVERVIEW OF THE MARKSTRAT WORLD

The Markstrat world is a fictitious industrialized country of 250 million inhabitants whose monetary unit is the Markstrat dollar (\$). In this country both inflation and GNP growth are fairly stable, and no major political, social or economic event is anticipated in the near future.

The Markstrat world does not intend to represent any particular country, market or industrial sector. However, it roughly behaves like most markets, and the general management and marketing knowledge that you have

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acquired through business experience or formal education applies to this new world.

In the Markstrat world, there are a handful of competing companies that manufacture and market consumer durable goods. These goods are comparable to electronic products such as hi-fi systems, telephone sets or computers as well as office equipment, cars, books, or any other consumer durable goods. With most scenarios, each firm starts in a different situation in terms of product specification, target customer groups, brand awareness levels, market share, distribution coverage, profitability, R&D expertise, etc. Consequently, the marketing strategy of each firm should be adapted to its particular situation within the industry.

However it includes a few scenarios where all firms start in the exact same situation. These scenarios are called competition scenario and an instructor informs the participants if they are using them.

Nevertheless, no firm has a relative advantage over the others and initially many characteristics are common to all firms. For instance, the initial brand portfolio of all companies is comprised of two brands.

As mentioned before, each firm will have the opportunity to design and develop new R&D projects and to introduce new products or upgrade existing ones. All R&D departments have the same capabilities to develop new projects, in their range of experience. Similarly, all sales forces are equally qualified to handle distributor relationships.

SONITE PRODUCTS

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At the beginning of the simulation, all rival firms market two Sonite brands. It is now a well-established market, with several strong brands at different price points covering a wide range of needs. Analysts believe that the Sonite market will continue to grow over the next five years.

VODITE PRODUCTS

Recently, there has been industry speculation that a new type of electronic product might emerge, the Vodite. Vodite products will satisfy entirely different needs from that of Sonite products so that demand for the two products will be completely independent. They will not be complementary in any way and there will not be any substitution from one to the other. The expertise required of potential suppliers is similar for both markets in terms of technology, manufacturing, marketing and distribution.

STRATEGY AND PLANNING:

Strategy:

Long Term Planning - Initial presence in low price market, so steadily waited for higher volume in later periods.

Focus on Gaps - Catered to the markets which were not targeted by competitors

Fig: OVERALL PERFORMANCE

PERIOD 1, 2:

Strategy - SELL was focused on Singles, SECT on others, these two segments were going to grow at high rate in 5 years, so we continued with product with investment in marketing.

Performance - A decrease in SPI

Learnings - It is important to focus on Ideal positioning of the product. To increase the brand awareness, marketing and sales expenditure needs to be more than that of competitors.

PERIOD 3, 4:

Strategy - Modification of products as per Brand Map to obtain ideal values

SELL on basis of PSELT

SECT on basis of PSEXY

Performance - Positive growth in SPI since P0

Learning - If the gap between the perceived product and ideal product is large then increase in marketing spend can't do much, in such a case R&D is required.

PERIOD 5, 6, 7:

Strategy - Tapping the untapped Market

Launch of SEPR for professionals

Entry in Vodite Market with VERY

Withdrawal of Bad Product SECT

High Investment in Research for ideal positioning as per Ideal value trend-
Regression Analysis (as per future prospect)

PSEY2 for others

PSEH1 for Hi-Earners

PSEP1 for Professionals

PSES1 for Singles

Performance - Exponential growth in the period with the SPI index reaching
the Top Position in the Industry.

Learning -

Untapped markets, though with lesser growth rate are an earning
opportunity.

While entering a new market, launch a product with very high initial price.

Had to launch a new product with same configuration but higher price in

Vodite Market.

When a product is bad, investment in it's marketing is waste of money,

therefore it should better be withdrawn from the market.

Fig: PERIOD 5

Fig: PERIOD 6, 7

PERIOD 8, 9

Strategy -

Monitoring the Ideal values of the products.

Entry in High earners with SEHI

Improvement in Others & Hi-earners market through PSEY1, PSEHI

Performance - A drop in market share due to improved positioning and heavy marketing of competition.

Learning -

When coming with a better product high investment in Marketing is also necessary.

With every improvement in product, the inventory is sold to the trades. To reduce loss, either increase the production or launch improved product as a new brand (though it'll require heavy marketing)

PERIOD 10, 11

Strategy - Investment in focused Heavy Advertising and Sales forces of the products.

Performance - Exponential Increase in SPI

Year

No. of brands

Work Style

Objective

Sonite

Vodite

0

2

0

Having only 2 brands to manage, work was distributed in terms of various functions involved in marketing the 2 brands. The function-wise division was as follows:

Market Research on requirements and perceptions

Production planning

Sales Force Management & Advertising

Research and Development

Market size analysis

1 person was allocated to co-ordinate expenses on the research projects, sales force management and advertising expenditures between the brands

No significant activities in terms of targeting a particular brand to a particular set of customers with particular attributes.

Heavy emphasis on R&D for both Sonite and Vodite categories

To get acquainted with the Markstrat world and various functions involved in developing, marketing and selling the product to potential customers.

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2 people were allocated to work on the Vodite Market and the remaining were to work on the Sonite Market

1 person allocating budgets towards various activities remained constant

The need for newer products to suit various customer sets started being formalised and the need to launch vodites was also very crucial for organization profitability and growth as competition was catching-up in Sonite markets

Most members in the team were now acquainted with various functions and could manage brands to the fullest. The organization had to leap-frog into the Vodite market and be a pioneer in the same.

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Specific brands were being handled by particular group members whose function was to track performance of a particular brand vis-à-vis competition and gauge the crucial aspects that help in increasing sales.

Functions like Production planning and Budget allocation remained separate from the brand managing functions.

To run the Sonite and Vodite Market as separate business centres with separate profit-generating capabilities. Overlap of people working in both markets was avoided.

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The second year, we took a loan to invest in research and development. Our understanding that R&D would lead to better products was re-instated with the fact that we took a loan every alternate year to invest in development of new products and bettering existing ones

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The division of Sonite products and Vodite products continued with a separate persons handling budget allocation and demand planning

changes to products continued

Sales force allocation had to be improved

Advertising costs were rationalised due to lack of budgets

Year 9 - 11 witnessed 4 brands in Vodite market as a flanking strategy but failed to deliver in the long run due to added investments in Sales force and advertising

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Key Focus Areas throughout the game:

Expenditure on Sales Force management (Highest in the Industry)

Expenditure on Research and Development (Highest in the Industry)

Expenditure on Advertising (Highest in the Industry)

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Loans taken on a frequent basis to boost R&D projects

SWOT Analysis:

Strengths

Weaknesses

Largest Sales Force

Largest Budget allocations for several years

Largest R&D expenses

Largest Advertising Expenses

Very High Brand Recall across brands

Very high distribution across brands

Brands designed for specific Target Audience with minimum overlap

Low base prices for several products across industries

Lack of focus on specific audiences

Out-of stock situations for several years, leading to loss of sales revenues

Inventory pile-up for few years leading to high inventory holding and disposal costs

Very low brand purchase intentions

Inability to quickly follow changing trends in various customer segments

Opportunities

Threats

Focussing on Vodite markets

Gaining maximum market share amongst sonite players

Increasing profitability and sustaining revenues and market shares

Competition from other teams (organizations) with specific products for specific customer segments

Increasing marketing budgets for other teams (organizations)

Higher turn-around of R&D

Quicker changes in customer ideal values

MARKET COMPARISON WITH THE REAL WORLD

COMPETITION: An industry most similar to our scenario currently is the detergent and soap market.

Industry Overview

The soap and detergent industry includes companies that are primarily engaged in manufacturing soap, synthetic organic detergents, inorganic alkaline detergents, and crude and refined glycerin from vegetable oils and animal fats. It is an international industry, and during the early years of 1990, world demand for its products has increased 1 to 3 percent every year.

Many of the participants in the industry competed on a global basis.

According to analysts, there is a firm correlation the standard of living of a nation and its usage of soap and detergent products. The analysts are

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expecting the industry to continue to grow in both the industrialized as well as developing nations.

According to recent trends, liquid cleansing products are outpacing the traditional bar soap and powder cleaning products. In addition to environmental and health considerations, societal transformation has propelled the changes in the soap and detergent industry

Population growth, especially households with children, drives demand in the consumer sector, while growth in economy drives demand in the commercial sector. The profitability of individual companies depends on several factors, such as efficient operations and effective sales and marketing

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Large companies have scale advantages in domains like buying, manufacturing, distribution, and marketing. Small companies can effectively compete with large companies by formulating specialized products, offering superior customer service, or catering a local market

The modifications in the cleaning products were also spurred by technical innovation, availability of improved ingredients, such as bleach additives, better optical brighteners, and improved technologies to improve the performance of soap and detergent products. Marketers packaged products differently to meet the needs and requirements of specialized users like households with infants or with men performing tasks that are traditionally associated with women.

To meet the requirements of different market segments, the industry saw a development of brands and varieties. For example, a specific large supermarket might contain more than 40 different varieties of soaps and detergent detergents including both liquids and powders.

Category

Houseware -> House supplies -> General Laundry Accessories -> Laundry Detergents

Laundry Detergents

Laundry detergent, or washing powder, is a substance which is a type of cleaning agent that is added when one is washing laundry to aid in getting the laundry cleaner. Laundry detergent has traditionally been in a powdered or solid granular format, but the use of liquid laundry detergents has gradually increased over the years, and the popularity of liquid detergent now rivals that of solid detergent.

In some countries where washing clothes by hand is more popular, detergent bars are more popular. Recently, environmentally friendly detergents have experienced a surge in popularity. Laundry detergent typically consists of ionic and anionic surfactants which act as the ingredient to remove the dirt from the clothes, perfume, phosphors which make clothes appear whiter, and for powders anti attacking agents to prevent the powder becoming one large lump in the presence of moisture. For liquid detergents, the bulk of the product is water; for concentrated liquids, the water content is somewhat lesser. Detergents may have other additives such as bleaches and fabric

softeners and these are usually advertised clearly on the packets as selling points

Solid laundry detergent is commonly sold in cardboard boxes and plastic tubs as a powder, although compressed tablets are also available. In many parts of the world, laundry detergent is also sold in single-use packets or sachets. This single use allows the consumer to buy the detergent they need for the day rather than having to spend a larger amount upfront. The size of the boxes can vary from small single-use boxes to large economy-size boxes. For domestic use, powder detergent is generally sold by volume in box sizes of around 1 kilogram (2.2 lb) and 3 kilograms (6.6 lb). In some cases, plastic measuring scoops have been included inside the boxes. Liquid detergent is sold in plastic bottles, usually high density polyethylene or sometimes PET or other kinds. Again, various sizes are available. On large-size bottles, a handle to carry the bottle is often pre-formed as part of the bottle. The bottle caps are often made large enough so they can be used as cups for measuring out the liquid detergent;

Types of stains : Organic, Inorganic, Pigments

Stain removal : Water, Surfactants, Phosphates, Acids and Bases, Enzymes, Oxidizing Agents, Temperature

Some examples of the major brand in this category are Tide, Ariel, Surf Excel, Comfort, Sunlight, Nirma, Wheel

As an example we look at the SWOT analysis for Surf Excel

Strengths : Strong brand portfolio, Price quantity and variety, Solid company base, innovative aspects, High quality manpower, Extensive Reach, Social responsibility, Competitive advantages, Success of its tagline

Weakness : Strong competitors, high price, substitute products, Financials, lack of control in markets, lack reliability of data, plan predictability, lack of competitive strength

Opportunity : Changing life style of people, new markets, vertical, horizontal, increasing the volume of production, seasonal weather and fashion influences, geographical export and import, niche target market, Business and product development, Technology development

Threats : Political effects, legislative effects, environmental effects, economic crisis, change in lifestyle, introduction of local products, Obstacles faced, increase in production and labor cost, chances of price war.

All the brands in this category are facing tight competition. Since the competition is high, the company/brands have to keep watching the market closely for avoiding any sudden collapse for the product. For surviving in the coming years, the company needs to take a lot of steps in developing the products by doing research and analysis, introducing innovations and new technologies, producing different varieties of products according to the tastes of the consumers etc.

Category: Personal Care -> Bathing Soaps

Bathing Soaps :

Personal care products are generally used for personal health and hygiene.

Soap is a product that many people might take for granted or consider rather ordinary, but for some, lathering up can be a treasured part of a morning or nightly routine.

Scented or unscented, in bars, gels, and liquids, soap is a part of our daily lives.

India is a vast country . Household penetration of soaps is 98%. People belonging to different income levels use different brands, which fall under different segments (see table below), but all income levels use soaps, making it the second largest category in India (detergents are number one). Rural consumers in India constitute 70% of the population. Rural demand is growing, with more and more soap brands being launched in the discount segment targeting the lower socio-economic strata of consumers.

The basic need for bathing soaps is self cleaning and a sense of freshness after bath. The marketers have various brands of soap with nearly similar function to perform. These all are segmented according to consumers preference and choice also according to the cost factor.

Example : Premium (Lux, Dove) , Economy (Nirma, Lifebouy), Popular (Cinthol, Nirma), Others (Rexona, Dove, Santoor) Godrej, Fiana Di wills, Nivea, Pears

The two major players in personal wash (soap) market are HUL, Nirma, P&G

Soap price in Rupees (per 75 gm cake)

Carbolic : 5 ; Discount : 7 ; Popular : 11 ; Premium : 17 ; Super Premium : 35

Soap is primarily targeted towards women, as they are the chief decision-makers in terms of soap purchase. Medicated positionings like germ killing and anti-bacterial are marketed to families.

About 75% of soap can be bought through these different types of outlets:

Kirana Store: This is the most common source for buying soap, which usually forms a part of the month's grocery list (which is purchased from these Kirana Stores). Consumers exhibit loyalty to these stores, which is largely dependent on proximity to consumers' homes. Here consumers buy across the counter and do not have an option of browsing through display shelves.

Pan-Beedi Shops: These are really small shops, almost like handcarts, and they are primarily set up to dispense cigarettes and chewing tobacco. However, one would find such a shop at every corner and they are the main sources of soap purchase for the lower socio-economic classes. These kinds of shops exist by the dozen in rural areas.

Department Store: In India, there are very few department stores and the "Indianised" version of department stores are called "Sahakari Bhandars." It is still a fairly new concept. However, department stores have good display counters and this is the only place where consumers get a first hand experience of shopping and choosing from available options. Here soap prices are also discounted below the retail prices.

Similarities between real and markstrat world

Understanding customer needs

Long term perspective

Marketing as a profit center

Competitive environment with major players coming up with different brands targeting different customer segments

Marketing strategy is based on segmentation, positioning, and resource allocation

Large territory with highly developed economy

Firms have come into existence at different time points in different respects

Distribution channels

Objective : To maximize share price index by optimizing market share, sales growth, net growth, cumulative net contribution, R&D investments

Market research to understand consumer survey, consumer panel, distribution panel, semantic scales, multi-dimensional scaling, industry benchmarking, market forecast, competitive advertising, competitive sales force, advertising experiment/research, conjoint analysis

Tactical decisions regarding Production planning, Inventory disposal, pricing, mass communication, sales force and distribution, market research

Each firm has a marketing budget for the current year based on the previous years performance

It is possible to take a loan amount

The Sonite is the only product type currently marketed by your company. Sonite brands are differentiated mainly in terms of physical characteristics as well as base cost. In our chosen industry we can look at Bathing soaps as a sonite product.

We can distinguish five segments in the Sonite and hence Bathing soaps market with different characteristics and significantly different purchasing behavior:

Bufs (Bu) - People who are enthusiastic and very knowledgeable about the products. They are primarily concerned with quality and technical features. e. g. Nirma, Lifebouy

Singles (Si) - People in this segment live alone. Although they are less technically competent than Bufs, they demand good performance from a product that they may use more than the average consumer. E. g. Pears, Nivea

Professionals (Pr) - Persons who have a higher level of education and income. They tend to be more independent in their occupations and to engage in many social activities. Their purchase of the product is partially motivated by social status needs. E. g. Dove, Fiama di wills

High earners (Hi) – People who have high incomes but do not possess the higher level of education or occupational independence of the individuals in the Professionals segment. E. g. Lux, Cinthol

Others (Ot) – Consumers who do not belong to any of the above groups. This segment represents the largest proportion of the population. E. g. Rexona, Santoor

Although the scientific bases are known and available, substantial R&D efforts are likely to be required for the development of a Vodite product. In our industry, Detergent soaps can be comparable to Vodites.

COMPANY MOST SIMILAR TO OUR COMPANY IN MARKSTART

The company chosen is Hindustan Unilever Pvt. Ltd.

The Similarities identified are:

Aggressive Marketing and Distribution Strategy:

HUL puts its consumers and customers at the heart of its business. HUL actively engages its consumers and customers, translating their needs and requirements into products and services, thus creating consumer value wherever it positions its products.

This was the basis of its innovation process. Similarly, our company E had a very aggressive distribution and marketing strategy.

Throughout the 12 periods, we have consistently focussed on marketing as a means to reach our consumers. Our products were kept after much research

keeping in mind the consumers' product needs in terms of product characteristics. Thorough research was done on every consumer segment and the entire profile was created. Based on this segment profile, the product development process was completely based on this analysis.

Even during periods of low profits, we have never shifted our focus from the consumer in order to maintain profitability. HUL also creates products clearly targeted at a particular target segment and creates the positioning and marketing depending on the consumer segment and what appeals to them in terms of product characteristics. The distribution of our products was well defined based on where our consumers for that product shop. As the shopping behaviour changed, our distribution changed with it to ensure that the product meant for a particular segment reached them as per their convenience.

Today, HUL has one of the highest marketing spends. Our company had the highest marketing spends almost through most of the 12 periods. We have even taken loans to fund our marketing. Even when competition was focussed more on product research and development, we maintained our focus on marketing along with R&D. Our sales force numbers were always one of the highest in the market and led other companies to follow our approach of selling aggressively.

In its market, HUL too is the leader in distribution and is known for its strong selling strategy. Our actions were exemplary for competitors so much so that we could see a sharp rise in sales force sizes of other companies after the period when we increased our sales force strength for a particular brand.

Focus On Innovation and Product Research

HUL has always maintained its focus on creating value for the consumers through well researched products. The company has always maintained its attention on well engineered processes and products. Similarly, our company E has always tried to divert more funds towards research and development. We conducted multiple research and development projects for a single brand so that our products fit well with the consumers' changing needs. When we could not commission a research project, we brought fewer units of the brand into the market so that our consumers are not supplied with products they do not prefer (in terms of characteristics).

We were the first to commission a research project on the Vodite market. Our approach has always been to provide the best products to our consumers through a well researched bunch of product characteristics. We innovated in terms of balancing product characteristics and intelligently provide what the consumer needs.

Brand Management and restructuring

We had one brand manager assigned to each brand in our team of ten people so as to have a detailed review on previous years brand performance and steps to be taken to enhance the brand value for our consumers. HUL also has a very comprehensive brand management team for each brand and has a very strong approach towards effective brand management. When the company had low funds, we went the HUL way in restructuring our brand portfolio in the Vodite market so as to streamline processes and direct funds to vital areas (power brands).

We shelved two of our Vodite brands so as to focus our attention on other power brands (brands performing well). At the start of every period, our analysis focussed on a detailed yet quick study of each brand's performance versus its competitors and whether there were any new competitors in the market. The analysis was done keeping in mind distribution, marketing, product characteristics, sales person allocation, amongst various other parameters.

Differences:

Quality as the fundamental to HUL's Business Success

Quality of products has always been the focus of HUL's business strategy and at no point has HUL had any case wherein consumers lost trust in its brands. Though our company did have a very high priority for product development and characteristics, limitations in the game did not allow us to manipulate processes to check for quality of the products being delivered in the market to the consumer.

HUL as an environmentally responsible organisation

Again this difference was due to the limitations of competing virtually rather than in the real world where such initiatives are possible. Though our company would have been inclined to undertake such activities, we were limited by the possible activities in the game, and so we are different from HUL in this area. The real world poses such problems where a company can undertake activities beyond its perview to contribute in bettering the environment. This could also serve as CSR (part of marketing) for HUL, which is something we could not achieve due to game constraints.

HUL's presence in numerous product categories

HUL is a very big entity and has high muscle power to compete in multiple product categories. Our company could compete in two product categories - Sonites & Vodites. HUL also has been market leader consistently for the past many years. Though the working and operating strategies have many similarities, performance-wise we have not been able to match up to HUL's standards.

DECISIONS BASED ON ENVIRONMENTAL VARIABLES

Market Competition (Brand Characteristics)

Change of retail price of products based on competitors product in the same segment

Modifications through R&D in our product based on Ideal Value trend of the consumers in different segments.

Economy (Economic Variables)

Increase in price based on inflation rate of the period

Inventory sale decisions based on forecasted Inventory Holding Costs

Shift in sales force allocation

FUTURE RECOMMENDATIONS AND CONCLUSION

Based on forecasted demands in respective markets

Taking into account un explored market segments

On current brand awareness levels of a product

Future planning of two years ahead, as it takes a year to Research of new product, and another to Develop and launch

Sonite Market

Target the unexplored growing Professionals market

Consolidation of existing successful products

Vodite Market

As R&D has been conducted on few brands, Launching a new product for Innovators