

Organickidz: marketing strategy

Business



A Report on OrganicKidz: Marketing Strategy LETTER OF TRANSMITTAL From Atul Kumar To Jane Walter OrganicKidz Calgary, Canada Date: September 20, 2009 Subject: Regarding Costco's offer to supply stainless steel baby bottles

Dear Ms Jane Walter, With reference to the above mentioned subject, please find my report enclosed. The report contains an analysis of the situation, problem statement, a list of the options available, the criteria for evaluating these options and a final recommendation with the proposed plan of action. I recommend you to delay the Costco offer for now and prepare a new design for them.

Yours sincerely, Atul Kumar Enclosure: Report ? EXECUTIVE SUMMARY

Change in consumer preference away from polycarbonate baby bottles has opened an opportunity to create a market for stainless steel bottles. Having already seized the first mover advantage, OrganicKidz faces a dilemma to accept the proposal to sell bottles through Costco or not. The options available are: to accept or reject the offer or to create a new design to be sold only to Costco. They are weighed against the possibility of backlash from existing customers, realization of higher sales growth and lesser future risk in terms of distribution. The option to create a new design cores high on all three criterions and hence has been recommended.

(Word Count - 107) Contents SITUATIONAL ANALYSIS5 THE PROBLEM/OBJECTIVE6 OPTIONS7 CRITERIA FOR EVALUATION7 EVALUATION OF OPTIONS7 RECOMMENDATION9 ACTION PLAN9 EXHIBITS11 ?

SITUATIONAL ANALYSIS Popularity of a new product line always attracts many bidders and OrganicKidz has been approached by one such. Early success of stainless steel baby bottles as BPA-free and shatter proof

<https://assignbuster.com/organickidz-marketing-strategy/>

alternative to polycarbonate (PCB) ones, which commanded a whopping 95% market share till early 2008, has prompted Costco to approach OrganicKidz to let it sell their product. Even though the baby bottle market was mature, it was looking for a safe alternative to PCB which can be construed from the huge response the stainless steel bottle received at the “ ABC Kids Expo” even without any sample to display. Visit from retail majors and specialty stores distributors from half a dozen countries further establishes its future growth prospect. Bestowed with several industry awards, the product has established its quality too. There has been substantial effort to maintain the premium image of the narrow-necked baby bottle by making it available at only specialty stores.

To cater to the demand from mass merchandisers an altogether new line of baby bottles - wide-mouthed versions was designed with price range \$15 to \$18 as against \$19. 99 to \$24. 99 for narrow-necked one. It was a great strategy to minimize the conflict of interest as they cater to two very different market segments. The narrow-necked design has met with immediate success in the very first year of its launch with sales of about 6000 bottle for \$65000.

Distribution also expanded to 12 countries from the initial of 5. The market share in a \$500 million industry might still be low but the growth looks positive with the sales expected to hit \$100, 000 mark by the year end. With the prospect of greater sales in the future looking bright, Costco has approached the firm with a proposal to let it sell the bottles through its warehouse stores. Costco earns profits on the investing cash due to timing difference of cash receivables and payables whereas current distributors

<https://assignbuster.com/organickidz-marketing-strategy/>

earn profits by charging margins on end consumers. This approach enables Costco to keep the sales prices low which in the current case can be as low as \$10 for low end bottle whose sales price for OrganicKidz on an average is \$9.45.

Such low price might force mass merchandisers and specialty stores to lower their price and operate on lower margin which might not be a feasible business option for them. Contingent on the success of first order with Costco, the future orders are expected to touch \$400,000 in sales revenue which will enable OrganicKidz to pay off their loans, to invest in new product lines and to carry out the advertisement strategy aggressively. As the current deal is only a one time commitment with the potential to disrupt existing customer relations, a failure to meet market expectation will require additional effort to normalize existing relations. In extreme scenario, one may have to search for a new distributor. Alternatively, a new lower end product for different market segment can be designed for Costco which minimizes the impact on current customers.

To maintain the product exclusivity of narrow-necked bottles, it should not be made available to any store other than the specialty ones. As the wide-mouthed version is also a low end product, it can also be made available to Costco along with the mass merchandisers.

THE PROBLEM/OBJECTIVE How best to respond to Costco's proposal of selling baby bottle to them?

OPTIONS

1. Reject Costco's offer altogether and maintain status quo in terms of distribution channels.
2. Delay Costco's offer with a promise to design a new product exclusively for them.

3. Accept Costco's offer but supply only wide-mouthed baby bottles to them.

CRITERIA FOR EVALUATION In order of decreasing priority: 1. Higher growth in terms of sales revenue. . Minimize the negative reaction from existing customer.

3. Minimizing the risk of not having a distributor in times of high growth.

EVALUATION OF OPTIONS Option 1: Reject Costco's offer Criterion 1: Growth in terms of sales revenue Although the current growth experienced by the firm has been impressive and the products are well accepted in the market, rejecting the Costco offer leads to \$100, 000 sales revenue at the year-end which is lowest amongst all the options evaluated [Exhibit-1] Criterion 2: Minimizing backlash from existing customers The option satisfies this criterion as there won't be any reaction from the existing customers if Costco's offer is rejected. Criterion 3: Minimizing the risk This option satisfies this criterion as there is no threat on the relationship with current customers. It may get strengthened given the high growth prospect.

Option 2: Delay Costco's offer Criterion 1: Growth in terms of sales This option leads to sales revenue of \$125, 000 and \$525, 000 in events of only one order and more orders being received from Costco respectively. Both are highest amongst all the options considered [Exhibit-1]. Criterion 2: Reactions of existing customer base The option satisfies this criterion as there will be minimum reaction from the existing customers if the offer is delayed and a new product line is offered to Costco exclusively. Criterion 3: Minimizing the risk This option satisfies this criterion as there is virtually no threat on the relationships with current customers because of introduction of new product line for a separate market segment. Option 3: Accept Costco's offer Criterion

<https://assignbuster.com/organickidz-marketing-strategy/>

1: Growth in terms of sales This option leads to sales revenue of \$120, 000 and \$520, 000 in events of only one order and more orders being received from Costco respectively.

Both are 2nd best amongst all the options considered [Exhibit-1]. Criterion 2: Reactions of existing customer base The option fails on this criterion as there will be severe reaction from the mass merchandisers who will be forced to lower the product prices. Criterion 3: Minimizing the risk This option fails on this criterion as the existing relationships are getting affected and if Costco doesn't make any further order, OrganicKidz will have to look for new distributors or reignite ties with old customers. RECOMMENDATION It is recommended that OrganicKidz should delay the Costco's offer currently and create a new design for them as this option meets every criterion whereas others fail on one or the other. ACTION PLAN 1) Confirm the rejection of Costco's current offer but clearly specify that a new design would be created exclusive for them. 2) In case of any objection from the current customers, explain to them clearly that a new design would be for less quality conscious customers and would not interfere in their existing customer base.

3) To minimize the backlash, extra benefits to mass merchandisers in the form of lower cost of sale can be given. 1099 words) ? EXHIBITS EXHIBIT 1: EXPECTED FUTURE REVENUE ANALYSIS Case 1: Costco's offer is rejected Sales revenue at year end (2009): \$100, 000 Case 2: Only one order from Costco is received Options Break-up of revenue Total Revenue Supply a new product design \$100, 000 (year end projected revenue) + \$30000 (Average first order from Costco) - \$5000 (design and prototype preparation cost) \$125, 000 Supply wide-mouthed design \$100, 000 (year end projected revenue) + <https://assignbuster.com/organickidz-marketing-strategy/>

\$30000 (Average first order from Costco) - \$10000 (loss of revenue because of mass merchandiser backlash)\$120, 000Case 3: Multiple orders are received from Costco OptionsBreak-up of revenueTotal Revenue Supply a new product design\$100, 000 (year end projected revenue) + \$30, 000 (Average first order from Costco) + \$400, 000 (Average subsequent order from Costco) - \$5000(design and prototype preparation cost)\$525, 000 Supply wide-mouthed design \$100, 000 (year end projected revenue) + \$30000 (Average first order from Costco) - \$10000 (loss of revenue because of mass merchandiser backlash) + \$400, 000 (Average subsequent order from Costco)\$520, 000Assumptions: 1) New product design implementation is feasible and it generates the same sales revenue without having any cannibalization effect on existing product line as it will be designed for a different market segment. 2) Analysis is done after assuming that new design is ready by the year end 3) It is assumed that the second order from Costco would be received before the year end. EXHIBIT 2: SWOT ANALYSIS
 STRENGTHSWEAKNESSESOPPORTUNITIESTHREATS 1) Industry response has been good from day 1 with the product finding many takers 1) Acceptance of new distribution channel can lead to a price war. 1) Large \$500 mn untapped polycarbonate market. 1) Acceptance of new channel may reduce the 2) Product has been perceived as of high quality with it receiving several industry awards