

Modi-revlon – value proposition



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Decision and Background: Despite being well associated with high quality cosmetics products, Modi-Revlon has failed to increase sales and turn profitable last three years, mostly because the company's highly-priced products are only affordable to a very small percentage of wealthiest Indian women. Megna Modi, executive director for Modi-Revlon must decide how to make Revlon-branded products' prices more attractive to the mass premium market while maintaining Revlon's position as high-end cosmetics products. Modi-Revlon's main focus, the high-end premium market, is too small to have any profitable return. Revlon needs to penetrate down to the mass premium market, which has generally been rejecting Revlon's highly-priced products. Surveys show that Revlon's products are perceived as high quality but not worth the expensive price.

Revlon's initial strategy to have both breadth (wide variety of products) and depth (high availability of products) in Indian market has failed due to a number of reasons: importation delay because of shipment embargo, poor coordination between promotion and distribution, and most importantly, a thinly-stretched distribution network. Recommendation: Megna Modi should restore Modi-Revlon's initially intended position, "affordable glamour," by lowering the price of its products, as well as offering the products in smaller quantity, to appeal to a broader range clientele, including the existing premium and the prospective mass premium ones. Additionally, Revlon needs to drop unprofitable retail outlets and the ones that are not in the highly populated metropolitan areas, to focus the company marketing resources to fewer but more profitable areas. Revlon should have adequate advertising to compete with Lakme for media coverage.

Basis for Recommendation: Revlon's surveys in 1997 showed that 21% of nail enamel users committed to buy Revlon's 15ml bottle at Rs. 79 while only wealthiest 2% of Indian women can afford the 15ml at its current price of Rs. 85. Marketing research showed a lower frequency of Indian cosmetics usage as well as the higher preference of Indian women for color experimentation. This finding makes the smaller 8ml bottle an attractive alternative for the 15ml.

It is unlikely that Revlon can compete against Lakme's vast distribution network, so Revlon should continue focus on differentiating its outlets to make them truly special places for cosmetics experience. Keeping the outlets level at around 3, 000 like in 1996, Modi-Revlon can achieve growth four or five coming quarters in 1998 and 1999 (Exhibit 1). Data show a direct correlation between lack of media advertising and decrease in Revlon's sales (Exhibit 2) Assumption and Uncertainties: The calculations are based on anticipated growth of 10% per year. The launching of the smaller bottles is based on Revlon's projection of selling 1 million units if the 8ml by 2000, with only a 3.

1% reduction in existing 15ml sales. Action Steps: Modi should lower the price of Revlon's products, specifically, the price of the 15ml nail enamel bottle from Rs. 85 to Rs. 79.

Revlon should also start launching the new shades and colors in both 15ml and 8ml bottles. An evaluation after one quarter, based on sales of each type of bottle, will determine whether Revlon should continue to apply this strategy to the whole products line. Also, in first two quarters, Modi-Revlon

has to increase media coverage of its product 30% of total media spend in cosmetics sector (roughly half of Lakme's), with future target to be comparable in term of products' media coverage.