

The history of optical distortion marketing essay



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Optical Distortion, Inc. should launch their product only in the State of California, focusing their scarce resources in building awareness and generating enough cash flow as to afford their expansion to other regions. They should target only the "big players" of the Poultry industry considering their CLV and fit with the product / company. They should position themselves as experts for this industry instead of as a contact lens company. They should develop competitive advantage leveraging on their know-how while looking for ways to reduce their operation and go-to-market costs.

Company - ODI is a non-operating company focused on the poultry industry with an only product to be launch during 1974: contact lens for chickens. Its strengths lie in its 9 years of experience in the study of chicken behavior, in a patent that will protect it for the next three years, and in an exclusive contract with its more relevant supplier. They have tested several prototypes before coming out with a product that it's ready to market. Its resources, however, fail to be a sustainable competitive advantage. First of all, being an only product company puts them under high financial risk, having "all their eggs in one basket". Second, their product patent would not protect them from new entrants for enough time as to efficiently penetrate the market in order to defend their share and keep growing when bigger and more cost effective competitors will enter. Their product is vulnerable to be quickly imitated once the patent expires, not only by the human-use contact lens producers, but by their current only supplier, New World. New World not only owns the key input for production of the ODI contact lens (hydrophilic polymer), and therefore they could charge a higher price that take them out of market, but also is receiving ODI's know-how by getting their injection

molds on a regular basis. Once the patent expires, they could either sell the product themselves or get a new bigger agreement with an established player in the contact lens industry. Third, ODI lacks the financial support to introduce a new product considering they have only 200, 000 as initial investment, which they would need only to operate. There is not enough budget as to launch an awareness campaign on a mass scale. And finally, their know-how relies on only 4 people, so they lack an organization big enough as to support their business' growth. They will need to develop a sell force from scratch, which is never an easy, quick or cheap thing to do.

Customer - The potential customers are farms that as a B2B market would care only about functional or economic benefits. They would look for a solution to a non-addressed problem or for a most cost - effective way to solve it. Their scale could be correlated to their needs, decision making process, and purchase / negotiation practices. The Small farms (10, 000 < birds) are family operated business that have been declining at a rate of 25% per year. They are probably getting out of business by bigger farms that have lower costs. Their owners would probably lack of formal training and have strong beliefs about how they should run their business. ODI's product would face a higher challenge of compatibility and complexity within this segment. They don't have much negotiation power. The Medium farms (10, 000-50, 000 birds) are still managed by the farm's owner but operate in a professionally way. They would like to negotiate as a bigger player. However, an innovative product like ODI's will still face compatibility issues. Large Farms (> 50, 000 birds) operate as any big firm, they have high negotiation

power (because of their high scale and presence in the market) and skills, and they are growing in share, presumably from small farms.

Competition- For now there is no direct competition, but there is an established substitute for the need they are trying to address: debeaking. This alternative has been in practice for 50 years in the industry, and so ODI's lens will face the big challenge of changing customer's current mindsets and beliefs regarding how to operate in this industry within three years. After that window of time, if the product proves to be appealing for big poultry players, those players with enough scale to be cheaper in production and most efficient in distribution will take the market.

Segmentation - Below a segmentation table proposed for this market.

Family owned small business

Family owned professional Farms

Large Farms

Big Players

Number of firms

289, 494

2, 870

631

345

Size

<10000

20, 000-49, 000

50, 000-99, 000

> 100, 000

Average flock size[1]

636

31, 238

90, 403

288, 798

Average Henhouse size

(number of birds)

1000-2000

2000-5000

5000 - 10, 000

5000 - 10, 000

Decision maker

Owner / farmer

Owner / farmer

Organizational decision

Organizational decision

Negotiation power

Low

Low

Medium

High

ODI's product advantage (ACCORD)

Low.

Only cannibalization at lower scale

Medium.

Only cannibalization

Medium

Only cannibalization, but at a higher scale

High

Cannibalization plus potential food reduction benefits

How much could ODI save them by year[2]

\$102

\$5, 016

\$14, 518

\$46, 378

ODI's product compatibility (ACCORD)

Low

Low

Medium

Medium

ODI's product complexity (ACCORD)

High

High

Medium

Medium

ODI's product observability (ACCORD)

Low

Medium

High[3]

ODI's product riskiness (ACCORD)

High

Medium

Medium[4]

ODI's product divisibility[5](ACCORD)

High

High

High

High

CLV by client[6]

\$1, 309

\$91, 367

\$238, 952

\$1, 122, 912

Targeting - ODI should target the " Big players" segment. This segment is more likely to understand and value ODI's offer because of their characteristics as a business and their scale. Also, despite the fact that they could use their negotiation power to get a lower price, their Customer Lifetime Value is substantially higher considering the tactics below.

Positioning- " For the big players of the poultry business, ODI's provides the most cost - effective solution to cannibalization among birds. Relative to other suppliers, ODI's offer the most innovative technology because they are experts in bird's behavior with proven results over the last decade"

Product. Considering the need of establishing a brand related to solutions for the Poultry industry, avoiding the trap of becoming a " contact lens" company, the product will be positioned as a solution for cannibalization. The company should focus on commercializing this only product for the next three years considering its introduction stage. Share of market was estimated for the " Big players" segment in each zone adapting Bass Model to consider yearly repurchase. The p and q values for California were estimated at 0. 09 and 0. 7 respectively[7].

Price - A skimming price strategy is suggested. The total savings by use of product is \$0. 16 per hen/year. The price is suggested at \$ 0. 1 in order to offer sufficient value to the clients as to compensate the risk of replacing a 50 years old practice (debeaking) for such an innovative solution.

Place - Considering their limited budget, ODI should focus on only one location, California, for the next three years. California is the only state with enough concentration of " big players" as to support operation's costs.

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1974

1975

1976

1977

1978

Total farms (Big Players)

8

20

35

48

50

Market share in CA (number of chickens)

7%

18%

31%

42%

44%

Revenue

\$219, 210

\$542, 261

\$942, 056

\$1, 272, 735

\$1, 332, 410

COGS

\$143, 217

\$354, 277

\$615, 477

\$831, 520

\$870, 508

Gross Profit

\$75, 993

\$187, 984

\$326, 579

\$441, 215

\$461, 902

Office expense[8]

123, 000

123, 001

123, 002

123, 003

123, 004

Other expenses

53, 000

53, 000

53, 000

53, 000

53, 000

Sales Rep[9]

\$40, 000

\$40, 000

\$40, 000

\$40, 000

\$40, 000

Technical Rep

\$0

\$0

\$0

\$0

\$0

Promotion costs

\$5, 227

\$8, 068

\$11, 134

\$12, 731

\$10, 816

Total SG&A

\$221, 226. 67

\$224, 069. 29

\$227, 135. 82

\$228, 734. 16

\$226, 819. 94

Patent agreement

\$25, 000

\$25, 000

Injection mold

\$12, 000

\$12, 000

\$12, 000

\$12, 000

Total Profit

(\$182, 234)

(\$61, 085)

\$87, 444

\$200, 481

\$223, 082

IRR

28%

VAN[10]

\$124, 994. 04

Promotion - ODI should approach their clients by direct sale, considering the need to introduce the technology and proof of success of this new solution. A free sampling, as mentioned before, should increase trialability and reduce the economic risk that might be associated to the product. The argument should focus on the proven economic benefits due to less cannibalization and more production per chicken and on the potential savings in food expenses.