

PharmaSim Marketing Plan

Megan Walters

Florida State College at Jacksonville

Professor Joanna Scarboro

MAR3803 (345850)

June 28, 2011

CONTENTS

	PAGE
Exec. Cover Memo	3
Situation Assessment and Analysis	4
Marketing Goals	6
Marketing Strategies	6
Marketing Plan Budget	12
Measurement	14
References	16

Executive Cover Memo

The Allround brand is in a favorable position, but the cold medicine is also becoming a cash cow. I believe that Allround needs to increase its unit sales with both grocery stores and chain drugstore by 3.5 percent, and that Allround also needs to increase its unit sales with mass merchandisers by 5 percent. Furthermore, volume discounts for orders between 250 and 2500 units needs to be lowered from 33 percent to 30 percent. The current discount rate of 33 percent is the highest on the market, and is a 27 percent increase from our largest rival's (Besthelp) discount rate. Decreasing our volume discount while increasing aggregate unit sales should create an increase in gross profits of up to 15 percent.

Furthermore, I believe that Allround needs to remove “*reduces chest congestion, dries up runny nose*” from its list of promoted benefits. Customers do not perceive the Allround brand as being effective at fixing those problems, so they need to be dropped from our ads. This change should help Allround increase its customer satisfaction by 2 percent within the next 12 months. I am also urging the company to invest in a new non-drowsy allergy medication, which would be the first of its kind on the market. With moderate marketing goals and a small investment, Allround should earn around \$13.33 million in gross profits within the first 12 months of its release.

Finally, I am suggesting that Allround increase its promotion budget for coupons by \$0.5 million, and that it increase its coupon amount from 50 cents to one dollar. If the new dollar-coupons are released in one wave (prior to cold season), the number of intended purchases for Allround should increase by 4 percent. This tactic will also help Allround increase its unit sales, because the channels will find it more appealing for promotions.

Situation Assessment and Analysis

<p style="text-align: center;"><u>STRENGTHS</u></p> <ol style="list-style-type: none"> 1. Allround has the highest brand awareness on the market. 2. Our product formulation treats multiple symptoms, which makes it more appealing to a larger segment. 3. We have the smallest sales force among competitors, but we are only behind one competitor in retail sales (efficiency and productivity). 4. Allround has one of the highest customer satisfaction percentages. 5. Allround has the largest market share for OTC cold medicines. 	<p style="text-align: center;"><u>WEAKNESSES</u></p> <ol style="list-style-type: none"> 1. Allround has a low percentage of doctor recommendations. 3. Allstar takes fourth place in generated net income. 4. Allround has a low retention rate for customers. 5. Allround's trade rating dropped from 6.2 to 6.0. 6. Allround+ has been a dog for three periods. 7. Allround+ has one of the lowest market share values. 	<p>Internal</p>
<p style="text-align: center;"><u>OPPORTUNITIES</u></p> <ol style="list-style-type: none"> 1. The ability to offer larger coupons to entice consumers to switch brand loyalty. 2. The ability to introduce a non-drowsy allergy product that would be the first on the market. 3. The inflation rate has lowered to 3.2%, which means consumers will have more spending power than in past periods. 4. The ability to add or remove a brand extension that fits customers' needs. 	<p style="text-align: center;"><u>THREATS</u></p> <ol style="list-style-type: none"> 1. Retail sales only increased 2.5%, which is very low and indicative of limited purchases. 2. Convenience store sales decreased by 24.3 percent. 3. Consumers find that alcohol in OTC medicines is a negative attribute. 4. Besthelp (our main rival) is focusing their advertisements on comparisons to rivals. 5. Besthelp has the highest doctor recommendations for OTC cold medicines. 	<p>External</p>

Currently, the Allround brand is in a strong, favorable position. Allround has the highest brand awareness and conversion ratio in the market. Allround also possesses the largest total market share for an over-the-counter cold medicine. Furthermore, the brand is highly efficient, because it manages to financially compete with competitors that employ double the amount of employees. Overall, Allround is a very stable brand, which is why it has begun to transition into a cash cow on the brand's portfolio graph.

Allround's weaknesses focus around its retention and recommendation rates. Currently, Allround is only being prescribed by 9 percent of doctors to treat cold symptoms, which is half of Besthelp's whopping 18.8 percent. Furthermore, Allround's biggest weakness is its line extension of Allround+. For three periods, Allround+ has remained categorized as a dog on the brand's portfolio graph. The line extension is not generating income despite increased investments into advertising and promotions.

Luckily, Allround has a few opportunities in the market! First, Allround has the ability to increase the value of its coupon discounts, which can create competition and generate more business. Currently, retail sales are lagging, so a chance to increase coupon discounts may boost Allround sales. Along the same lines, the inflation rate has dropped to 3.2 percent, which is a large dip from when it was at 4.2 percent two periods ago. A drop in the inflation rate should give consumers more discretionary income to spend, which means that Allround has an opportunity to make more money. Allround also has an opportunity to add a non-drowsy allergy medicine that would be the first of its kind on the market. Being the first product of its kind could give Allround a fresh look, and change customer perceptions of the brand in a positive way. Finally, Allround has the ability to discontinue an old line extension or add a new one, which can change profits and customer perceptions.

Allround does have some looming threats in the market as well. First, retail sales only grew by 2.5 percent, which is a drop-off from previous growth. This lag in growth shows that customers are aggregately spending much less than in previous years. Secondly, convenience store sales dropped by 24.3 percent; since Allround's biggest market share has been with convenience stores, this may be a financial problem. Next, consumers are still concerned with the side-effects of their medicines; alcohol is generally seen as a negative ingredient in cold medicines, and Allround has the highest alcohol content on the market. If consumers are rank side-effects any higher in their decision-making processes, Allround may suffer. Finally, Besthelp has been focusing its advertisements on comparisons with rival brands- mostly Allround. Besthelp has also captured the largest amount of doctor recommendations for cold medicines, and the brand is our biggest rival.

Marketing Goals

Business-to-business goals (in the next 12 months):

1. Increase Allround sales with the grocery store channel by 3.5 percent (1.7M unit sales).
2. Increase Allround sales with the chain drugstore channel by 3.5 percent (1M unit sales).
3. Increase Allround sales with the mass merchandisers channel by 5 percent (0.8M unit sales).

Consumer goals (in the next 12 months):

1. Increase customer satisfaction for Allround by 2 percent.
2. Increase customer intended purchases for Allround by 4 percent.
3. Increase market penetration for allergy medicines by 10 percent.

Marketing Strategies for Business Goals

To increase channel sales with grocery stores, chain drugstores, and mass merchandisers, Allround has a few similar options that will result in varying costs. First, Allround can increase its promotional budget for point-of-purchase displays from \$3 million to \$5 million.

Furthermore, Allround needs to specify that more of the point-of-purchase displays are used in those three targeted channels than in other channels. For example, with a drop in convenience store sales of about 24 percent, Allround should avoid putting too many point-of-purchase displays in those channel stores. I suggest that Allround split its promotional budget for point-of-purchase displays as follows:

- Independent drugstores: \$0.7 million
- Chain drugstores: \$1.3 million
- Grocery stores: \$1.7 million
- Convenience stores: \$0.3 million
- Mass merchandisers: \$1 million

TOTAL: \$5 million

Using those figures, the point-of-purchase displays will be given to our targeted channel stores, which is also more in line with the average retail sales generated by each channel.

Secondly, Allround can adjust its promotional allowances for volume discounts. Currently, Allround is ordered primarily with volume discounts for wholesales and for orders under 2500, but above 250. Table 1 identifies the trends for volume discount orders amongst all channels.

Table 1

Volume Discounts by Channel

Channel Discount Detail: Allround					
	< 250	< 2500	< 2500+	Whole-Sale	Total
Volume discount	22.0%	33.0%	36.0%	40.0%	34.4%
Indep. Drugstores	3.2	1.7	0.0	11.0	15.9
Chain Drugstores	2.9	17.2	3.1	5.4	28.6
Grocery Stores	7.2	15.8	5.8	19.2	48.0
Convenience Stores	0.5	0.4	0.0	1.9	2.8
Mass Merchandisers	2.0	7.0	1.8	4.5	15.4

If Allround decreases its discount for orders between 250 and 2500 units, it may encourage the target channels to order larger quantities (to get a better discount). I suggest lowering the discount for orders between 250 and 2500 units from 33 percent to 30 percent; this will cause the price to go from \$3.85 to \$4.02. At that point, the 36 or 40 percent discounts will be much more favorable, which could generate larger orders. In turn, stores with larger orders sitting in inventory will try to promote the product more to maintain good turnover ratios.

Finally, Allround can target its co-op advertising toward those three targeted channels. Currently, Allround spends \$4 million on co-op advertising, but it is divided among all retail channels. Instead, I believe that Allround should maintain the same budget (\$4M), but that the brand should only participate with the grocery stores, chain drugstores, and mass merchandisers. Dividing the funds in this manner will give each aforementioned channel about \$1.3 million in invested co-op advertising. With such an investment, the channels should begin promoting Allround more than rival brands.

To meet each of the business-to-business goals, costs will slightly vary for each channel. Reapportioning the the co-op advertising will not cost Allround any additional funds, because the total budget for co-op advertising will remain the same. However, if sales do not increase, Allround may lose up to 1.8 percent of sales (about \$9M). However, this would be an extreme loss, because it would mean that all co-op advertising is done through the independent drugstore and convenience store channels; this loss is also based on an assumption that the percentage of stores participating in co-op advertisements is directly proportionate to manufacturer sales. The likelihood of a profit loss attributed directly to this change in co-op advertising is very slim.

Changing volume discounts could result in varying costs and profits for Allround within each channel. Table 2 displays the varying results if sales remain the same, but the volume discount changes.

Table 2**Current sales with current/new discounts**

	<250	<2500	<2500+	Wholesale	TOTAL Sales (M)	TOTAL SALE
Grocery stores	7.2	15.8	5.8	19.2		
current discounts	\$32.33	\$60.83	\$21.34	\$66.24	\$180.74	
new discounts	\$32.33	\$63.52	\$21.34	\$66.24	\$183.43	
Chain drugstores	2.9	17.2	3.1	5.4		
current discounts	\$13.02	\$66.22	\$11.41	\$18.63	\$109.28	
new discounts	\$13.02	\$69.14	\$11.41	\$18.63	\$112.20	
Mass merchandisers	2	7	1.8	4.5		
current discounts	\$8.98	\$26.95	\$6.62	\$15.53	\$58.08	
new discounts	\$8.98	\$28.14	\$6.62	\$15.53	\$59.27	
					Aggregate sales current	\$348.10
					Aggregate sales new	\$354.90

Without including the anticipated increases in sales for each channel, Allround will already make about \$7 million more with the new volume discount rates. To avoid any loss in sales though, Allround will need to ensure that no more than half of the current retailers that place orders between 250 and 2500 units begin placing orders over 2500 units. Once retailers make more than half of their current low-range orders over 2500, Allround will lose 34 cents for each dollar of profit. So, changing the volume discounts should not cost Allround any money if less than half of the retailers decide to start making larger purchases.

Finally, increasing Allround promotional budget for point-of-purchase displays will cost the company exactly \$2 million, since the budget will be increased from \$3 million to \$5 million. As for impact costs, the risks are minimal for a loss of profit. The new plan will direct the point-of-purchase displays toward markets that are generating more income, so the company should not lose purchases as a result of the new appropriation. It is a small risk decision that should generate more income for the company.

Marketing Strategies for Consumer Goals

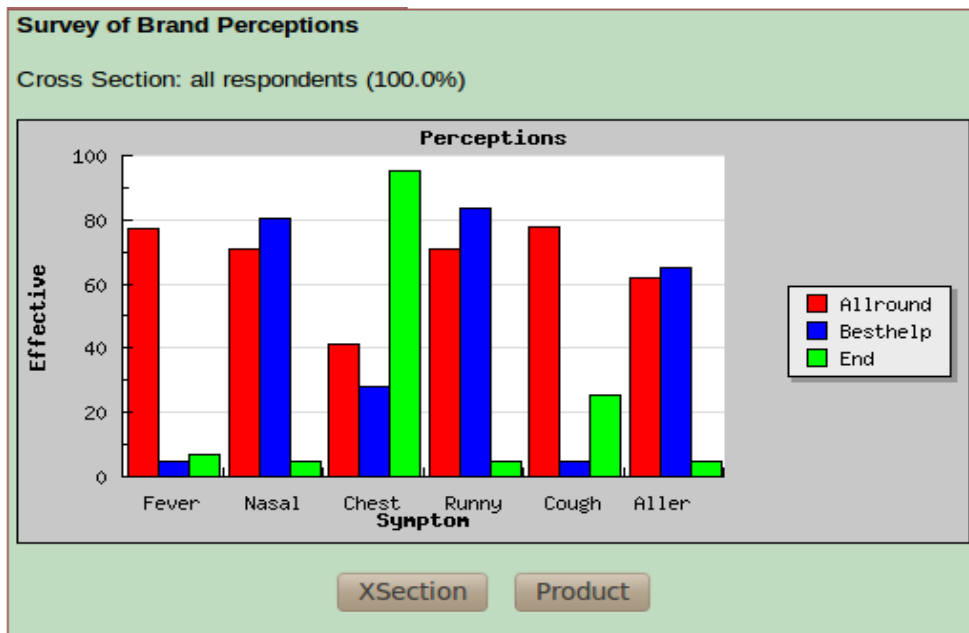
Increasing customer satisfaction may prove to be a simple task. Based on Chart 1, the brand perception of Allround varies from its promoted benefits:

“relieves aches, clears nasal congestion, reduces chest congestion, dries up runny nose, suppresses coughing, helps you rest”

Customers clearly don't find our brand to be effective at drying up runny noses, nor do they find our product to be superior at relieving chest congestion. Although Allround is a multi-symptom medicine, it would be in Allround's favor to remove those promoted benefits since customers are not perceiving our product as being able to effectively provide them. Regardless of formulations, customer perception determines what our product can and cannot do well.

Chart 1

Survey of Brand Perceptions



To increase customer satisfaction, Allround needs to promote benefits that consumers already perceive our product as being able to effectively provide. This way, customers will not have higher expectations for our product, and then feel dissatisfied with product effectiveness.

Increasing customer intended purchases relates back to promotional allowances for coupons. I believe that Allround should increase its coupon budget by \$0.5 million, which will then put it at a total of \$5 million. Furthermore, Allround should increase its coupon amount from 50 cents to one dollar. I believe that Allround should release these dollar-coupons only once during the year. As the cold/flu season approaches, Allround needs to issue the dollar-coupons to entice customers to “stock-up” early on the product. The larger coupon should attract customer from all demographics, because price is ranked as number one in the decision-making process. Furthermore, telling customers to “stock-up” on the product could create an urgency, because it makes it sound as though the supply/deal will be quickly depleted. This will cost the company a total of \$5 million to produce the coupons, but it should help increase channel sales and also increase the percentage of intended purchases for the brand.

Allround has an opportunity to release a non-drowsy allergy product, which would be the first of its kind on the market. By choosing to invest in this new product line, I estimate that Allround could increase its market penetration for allergy medicines by at least 10 percent within the next 12 months. Currently, the basic Allround formula is seen as an effective use for allergy symptoms, and 3 percent of doctors are even recommending Allround for allergy-related symptoms. This is amazing, because Allround is not sold as nor advertised as a medicine for allergy symptom relief. With such a high brand perception for its cold medicines, Allround could manufacture and sell this actual allergy medicine with some ease.

This new medicine would have start-up costs of about \$10 million, with that amount being split evenly between advertising and promotional allowances. Table 3 shows the current manufacturer sales for each market category.

Table 3

Manufacturer Sales

Market Share Based on Manufacturer Sales					
	Cold	Cough	Allergy	Nasal	Total
Mfr Sale (\$M)	\$1,484.4	\$370.1	\$233.3	\$229.4	\$2,317.2
Growth	5.1%	-1.8%	3.7%	-3.1%	3.0%
Allround	28.1%	0.0%	0.0%	0.0%	18.0%
Allround+	5.6%	0.0%	0.0%	0.0%	3.6%
Believe	0.0%	0.0%	70.5%	0.0%	7.1%
Besthelp	25.0%	0.0%	0.0%	0.0%	16.0%
Besthelp+	7.2%	0.0%	0.0%	0.0%	4.6%
Coldcure	11.9%	0.0%	0.0%	0.0%	7.6%
Coughcure	0.0%	48.0%	0.0%	0.0%	7.7%
Defogg	0.0%	0.0%	29.5%	0.0%	3.0%
Dripstop	0.0%	0.0%	0.0%	38.8%	3.8%
Dryup	8.9%	0.0%	0.0%	0.0%	5.7%
Dryup+	4.8%	0.0%	0.0%	0.0%	3.1%
Effective	0.0%	0.0%	0.0%	61.2%	6.1%
End	0.0%	52.0%	0.0%	0.0%	8.3%
Extra	8.5%	0.0%	0.0%	0.0%	5.4%

The allergy market brought in \$233.3 million in sales for period six. Assuming that sales stay the same (ceteras paribus), a market penetration of 10 percent would earn Allround \$23.33 million in sales. Of those sales, \$10 million in fixed costs would be deducted for advertising and promotional spending, which would leave a gross profit of \$13.33 million; this would be a favorable gross for a first year product. I estimate that Allround could become a leader in the allergy market, because there are few rivals in that market. Allround is a strong, trusted brand with high awareness and loyalty, so it would not be difficult to attract customers from the allergy market. The most this venture would cost in losses would be \$10 million, which is assuming that not one channel buys the allergy medicine; an event that is highly unlikely.

Finances

If all business-to-business goals are met, Allround should see an increase in unit sales of at least 2.8 million. Given that inflation is at 3.2 percent, I recommend that Allround increase its product price from \$5.75 to \$5.89, which is just below the inflation rate. Table 4 outlines the

possible results with the new price and increased sales. Allround should expect an increase in revenue of about \$29 million; this is already adjusted for the average discount rate of 33.2 percent, which puts the average price per unit at \$3.93. Given that the estimated price of each unit is \$1.49, Allround can expect an increase in gross profits of about \$14.2 million; this will increase the total gross profits from \$182.2 million to \$196.4 million, which is about an 8 percent increase generated from the business-to-business goals.

Table 4
Projections for Allstar

Projections for Allstar				
	Allround	Allround+	Allright	Total
Mfr. Sugg. Retail Price (\$)	\$5.89	\$5.11	\$0.00	
Average Discount (%)	33.2%	34.2%	0.0%	
Est. Unit Sales (M)	113.4	24.7	0.0	138.1
Est. Mfr. Sales (M\$)	445.9	83.1	0.0	529.0
Promotion Allowance (M\$)	80.3	14.8	0.0	95.1
Cost of Goods Sold (M\$)	169.2	31.0	0.0	200.2
Gross Margin (M\$)	196.4	37.3	0.0	233.7
Promotion	14.5	7.0	0.0	21.5
Advertising	12.0	6.0	0.0	18.0
Prod. Contrib. (M\$)	169.9	24.3	0.0	194.2
Sales Force (M\$)				7.6
Administrative (M\$)				14.5
Fixed Costs (M\$)				93.1
Net Income (M\$)				79.0
Capacity Utilization (%)				98.6%

Note: Fixed costs include overhead for the new product.

If Allround's consumer goals are met, there should be another \$13.33 million added to the gross margin, which would then be an increase of 15 percent. These few changes could make next period very financially appealing!

Standards of Success

Allround will measure its success with unit sales, net income, capacity utilization, brand awareness, customer satisfaction, and market penetration. While this is a long list to consider, it does give a broad picture of the company's success. Unit sales and net income will reveal our exact financial position, and determine our true success. Table 5 details the estimated figures needed for an average, above average, or excellent year; the average year's percentage growth is representative of the annual growth percentage for both categories over the past six years.

Table 5

Standards of success for unit sales and net income growth

STANDARDS FOR UNIT SALES

Current Units	Average (1.5%)	Above Average (2.5%)	Excellent (3.5%)
110.6M	112.3M	113.4M	114.5M

STANDARDS FOR NET INCOME

Current Net Income	Average (2.7%)	Above Average (3.7%)	Excellent (4.7%)
77.5(M\$)	79.6(M\$)	80.4(M\$)	81.2(M\$)

In order to have an “excellent” year, Allround will need to increase its unit sales to 114.5 million, and also increase net income to \$81.2 million. This is also the reason why Allround needs to use its capacity utilization percentage to measure success. I believe that Allround needs to maintain capacity utilization between 96 and 98.5 percent; anything lower or higher begins to err on the side of inefficiency. If Allround can obtain “excellent” unit sales and net income while keeping its capacity utilization in the prescribed range, the company will be operating successfully internally.

Brand awareness is currently high at 82.5 percent, which is an increase of about 11 percent over the past six years. I believe that Allround is being successful if its brand awareness does not go below 80 percent, because positioning above 80 percent will keep Allround's awareness higher than all competitors. More than awareness, Allround also needs to focus on its customer

satisfaction. The brand has the same satisfaction now as it did six years ago, so I propose that Allround also measure its success by an increase in customer satisfaction by 2 percent within the first 12 months.

Finally, Allround also needs to focus on market penetration. Currently, Allround has a market penetration of about 28 percent for the cold medicine market; this is a large drop-off from its previous penetration of about 40 percent in period zero. Allround's decrease in market share is a result of new-entry rivals and also the established competition. Within the first 12 months, Allround needs to increase its market penetration to at least 30 percent, because Allround had been losing its market share by about 2 percent annually. So, if Allround increases its market share by 2 percent annually, it will be back to its previous penetration percentage within six years. I believe that 2 percent is an attainable number, and that a 12 percent increase over six years is also attainable.

Measuring unit sales, net income, capacity utilization, and market penetration will not add additional costs to the company, because the costs associated with those measurements are paid for through salaried employees. Without a clear break-down of administrative salaries, it is too difficult to pinpoint an exact estimate for those costs. The measurements for brand awareness and customer satisfaction come in a bulk survey report purchase; this survey report will cost the company at least \$122,325. This price may increase slightly with inflation, which amounts to an annual increase of around 3 percent. So, within the next twelve months, the price for this survey report may rise to around \$126,215. This is a very small (needed) cost to measure the success of the brand.

Sources (Reports Used)

Company Reports:

- Performance Summary
- Income Statement
- Sales Report
- Promotion Report
- Portfolio Graph

Market Reports:

- Market Update
- Manufacturer Sales
- Operating Statistics (\$)
- Sales Force (\$)
- Promotion (\$)
- Channel Sales (\$)
- Pricing (\$)
- Recommendations (\$)

Survey Reports:

- Brands Purchased
- Purchase Intentions
- Satisfaction
- Brand Awareness
- Decision Criteria
- Brand Perception