Welcome to MBA 565

(OPENING)
This is what it will look like when you access PharmaSim. Your version is slightly different than this one. You should print all reports (purchased and free) to better organize your analysis. To make better decisions longitudinally and identify causal relationships, you should record this information in an Excel spreadsheet. The print button is next to the help button (question mark) on the top left. You should view the briefing and read the case, which is under the startup Tab on the top left.

You are the brand manager, which means you are “responsible for all aspects of the marketing decisions for the Allround brand. Only the team leader can advance the simulation, although any member can purchase surveys or enter decisions. The team leader can lock decisions, that is, preventing other team members from entering decisions. All group members share equally in the simulation. If a member is not, please contact your instructor immediately.

Note: You are in period zero as indicated in the top right next to period.

(ANALYSIS)
We will start with the Budget Allocation tab under Analysis tab. Allround has a budget of $39.3 million of which you can spend $5.9 this period (each period is one year). If you subtract the total for promotion, advertising, sales force, and research from $39.3, you arrive at $5.9. This is money you will allocate under Decisions.

(WHAT IF)
You can use What If to estimate the impact of your Decisions. What If “is a helpful financial check on decisions, especially price. It may also be used for sensitivity or breakeven analysis on price and unit sales. However, it is up to you to determine whether the sales estimates are realistic.” During this period, What If only allows you to change sales.

(COMPANY)
The next tab is Company. Under performance summary, the Manufactured Suggested Retail Price is $5.29. This is a guideline as to what retail outlets should charge for a brand. The actual price paid by consumers depends on retail and wholesale markup, promotional allowance and volume discounts, which we will discuss later.

The average discount we offer to wholesalers and retailers is 34.2%.

This is a combination of volume discounts which goes from 25% for less than 250 to 40% for wholesalers. We also offer a promotional allowance of 17%, sometimes called a slotting allowance. These are in addition to volume discounts. Promotional allowances are necessary “to
gain retail distribution, obtain desired shelf facings (i.e., number of brand packages facing the consumer on the retail shelf), and gain retailer support for a brand in advertisements and promotions undertaken by the retailer.” They are especially important when trying to establish distribution channels for new products. It is given as a percentage of the price to the retail channel or MSRP with the minimum being 10%.

(PERFORMANCE)
Cost of Goods Sold or COGS is the variable cost of the product for each unit (e.g., materials, labor, and product costs)

Gross margin is revenue less promotional allowance and COGS. You should monitor this closely.

Promotion is comprised of trade (i.e., wholesalers and retailers) and consumer. Trade includes promotional allowance and co-op advertising (Note: Promotional allowance is listed in a separate category). Consumer promotion includes free trial size packages, coupons, and POP or point-of-purchase displays (these are sale racks, on-shelf ads, or end-of-aisle displays).

Stock price is essentially a measure of discounted future earnings or profits.

Marketing efficiency index is net income (which is profit) divided by marketing expenditures (i.e., advertising and promotion budget, but excluding promotional allowance).

Capacity utilization is the “extent to which the physical product ability of a plant facility is being used.” Here we are using 85.1% of capacity.

Shelf space is how much space the retail channels allocate to each brand. More profitable brands get more space.

Trade rating is from a survey of retailers and wholesalers on our trade support, and it goes from one to 10, which is the highest. Retails consider stock turnover rates, profitability, promotional allowances, sales support, and trade promotion. Low shelf space, means lower sales.

Brand awareness measures consumer familiarity with a brand. Here we are using unaided recall. For example, you would ask consumers: What brands of cold medicine have you heard of?

Consumer satisfaction measures overall satisfaction of products you purchased.

(SALES FORCE)
Moving further down, we have a summary of decision: this tells us where our 127 person sale force is allocated. It also tells us that the majority of budget, $20 million is going to advertising.

(INCOME STATEMENT)
The next tab is the income statement. It is a summary of profitability or loss for one period of time, often a fiscal year. It is also called a P&L statement. Our income statement and product contribution provide a portion of the same information from the performance summary, but in a different format. The production contribution report is at the product level.

(SALES REPORT)
The sales report tells us the volume discounts offered and sales force by channel, for example, 22.8% of our dollar sales are in chain drugstores and we have 28 salespeople there, which is 22% of our sales force.

(PROMOTION REPORT)
The promotion report shows where we are spending our trade and consumer promotion dollars and its impact. Free trial size bottles is the only vehicle not being used. 1.2% of retail outlets are participating in co-operative advertising, which is an agreement in which a manufacturer pays a portion of a retail’s local advertising costs.

(PORTFOLIO GRAPH)
The portfolio graph shows that Allround has good growth and a high relative share. This makes it a cash cow and should be a good source of funds for marketing expenditures and new brand introductions.

This is how we arrived at that conclusion.

The cold market grew at a 6.6% rate.

Relative share is the ratio of the company market share to the next largest competitor. Allround has 40.4% of the cold market and Besthelp has 25.2. If we divided these 40.4 by 25.2, we get 1.6. The circle’s coordinates is (1.6, 6.6), where 1.6 is the x-coordinate and 6.6 is the y-coordinate.

(MARKET)
We now move to the next category tab: Market
Market update: this provides valuable information, for example, what inflation is or what competitors are doing. Who are your competitors? You are not competitors with all brands. What is the effect of inflation on sales force expenditures and COGS?

(INDUSTRY OUTLOOK)
Industry outlook gives information on population and industry growth and cost of research.

(SYMPTOMS)
Symptoms reported tells you what consumer symptoms are most prevalent.
There are five basic symptoms: aches and fever, nasal congestion, chest congestion, runny nose, and cough. Allergies share many of the same symptoms and are therefore often grouped with cold remedies. However, there are products formulated specifically for allergy relief. Symptoms are usually used as a basis for determining the brand's direct competition, but this does not account for cross-usage, for example, cold medicine to relieve allergy symptoms.

(BRAND FORMULATION)
Brand formulations tells you ingredients for all competitors and time of delivery for the product offered. You should match this to segment needs.
Analgesics provide relief for aches and fever.
Antihistamines reduce the secretions that cause runny nose and watery eyes.
Decongestants reduce nasal congestion by shrinking the blood vessels in the nose lining to clear the passages and restore free breathing.
Cough suppressants reduce the cough reflex
Expectorants provide relief from chest congestion by loosening the phlegm, thereby making each cough more efficient.
Alcohol provides a base for the other ingredients in some products and helps the patient rest, although some consumers view alcohol as a negative attribute.

There are five different product categories: cold liquid, cough liquid, allergy capsule, cold capsule, and nasal spray. Nasal sprays contain only a topical nasal decongestant that provides faster relief from sinus congestion than other forms.
Capsule and liquid cold medications might contain any combination of ingredients, although cough medicine is usually found in liquid form to help soothe throat irritation.

(MANUFACTURERS’ SALES)
Manufacturers’ sales estimates each brand’s market share by product category. Allround sells in the cold market with competitors such as Besthelp and Dryup. The cold market is growing at almost 7 percent. Allround has 40% of the cold market and 23.8% of the total market (which is cold, cough, allergy, and nasal). The cold market is comprised of four brands: Allround, Besthelp, Dryup, and Extra.

Multi-symptom brands, such as Allround, are listed in the cold category despite being used for cough or allergy symptoms. There are three different measures of market share: share of manufacturer sales (in $), share of retail sales (in $), and share of consumer purchases (in units).

The rest of the reports cost money. You should purchase as much marketing research as possible the first few periods. Record this information in a spreadsheet so you can access it easily and compare across competitors to establish causal relationships.

(OPERATING STATISTICS)
Operating statistics provides information similar to your firm’s income statement, but for all competitors. You are missing competitors’ budgets.
Here is a hint: Allstar’s gross margin, as a percentage of sales, is not the highest among competitors. Capacity utilization is estimated. Under-capacity competitors may try to gain share through aggressive pricing or heavy marketing expenditures.

I do want to comment on one of these: test markets.

(TEST MARKETS)
Once you have gathered all the data. You can run test markets before making decisions. You can see the impact of your marketing mix effectiveness on awareness, market share, and net contribution. Before you impact decision changes to your marketing mix, use test markets. You can run three test markets at a cost of $100k each. You can change price +/- 10 and advertising and promotion representing $20 million or double the current levels, whichever is greater. Baseline is what you are currently doing.

We will now examine the survey tab.

(CONJOINT SURVEY)
Conjoint is available when three product line options are either on the market or available for launch. Consumers make trade-offs and choices in a manner more similar to their actual purchase process. Positive utility values mean that these attributes are preferred relative to the other choices. Negative utility values are less preferred.

(PURCHASE SURVEY)
Purchase survey should be used to link symptoms with segments (e.g., allergy and retired). It will provide data on brands purchased for that linkage. The two segmentation schemes are illness and demographics (household/family). This cross-sectional analysis may provide a better understanding of the consumer needs that are driving the market.

Allround has 74% of the Cold market which is 22% of the total market. When you play, you will have to pay for this report.

You can do the same with the Brands Purchased, Purchase Intentions, Satisfaction, Brand Awareness, Decision Criteria, and Brand Perception, and Tradeoff.

(BRANDS PURCHASED)
Brand purchased: estimates market share for each brand based on unit sales. Brand share is the share of units purchased for a brand in a particular segment. Percent of brand is the percentage of the brand’s total unit sales purchased by a particular segment.
PERCENT OF MARKET
Percent of Market
74.2% of OTC cold medication purchases were for cold usage.
Cold, cough, and allergy sum to 100% as does young singles, young families, mature family, empty nester, and retired. Mature families is the largest segment for

Allround has 25.4% of cold suffers and 13.6% share of Young Singles for cold, which is about the size of the Young singles market at 14.6%.

Allround has a disproportion size of the retired market. It represents 14.2% of the total market, but Allround has a market share of 25.5%.

85.8% of Allround’s sales come from cold suffers.

(CROSS SECTION)
You can get the same information using cross-section.

PURCHASE INTENTIONS
Purchase intentions reports what consumers are most likely to purchase before they actually enter the retail outlet. Consumers often switch to a different brand due to price discount or other POP promotions. If intended is less than bought, it means discounts and POP are having a positive effect. This is the case for Allround for Young Families. This is done by illness and demographics and tells you who your competitors are for each illness/demographic.

SATISFACTION
Satisfaction estimates the percentage of purchasers of each product who are satisfied with their product choice and are likely to repurchase. (Note: Heavy users are weighted more than light users.) Satisfaction leads to a greater number of repurchases and more Word of Mouth recommendations.

Cold and young singles. 55.2% of this group is satisfied with Allround (highest among competitors). Its overall satisfaction level is 58.3%, again highest among competitors.

We are examining cold (which is the illness) and young families (the demographic), which represents 17.4% of the market.

BRAND AWARENESS
Brand awareness is the next section. We are examining the cross section: young singles and cold. Note: this report does not consider repeat usage. Mentioned without prompting, which called unaided recall, is 77.0%
Allround has the highest brand awareness, maybe too high, since you may be making consumers aware who will never purchase your product.

Allround has the second highest brand trial at 45.6% and is the most second most frequently purchased among competitors. These figures also help identify competitors.

Conversion ratio is the percentage aware of a brand who have tried it. Here Allround sixth highest at 59.2%. The retention ratio, percentage who have tried a brand who now list it as purchasing it most often, is only fifth highest, which may be a sign of future problems. Brands that fill very specific needs often have higher retention rates than brands that are mature or not highly targeted. Allround is not very targeted, since it is a little of everything.

(DEcision criteria)
Decision criteria indicates what factors are most important to the consumer’s brand preference. Five factors are considered: product effectiveness, side effects, price, form, and duration. This is very helpful in understanding customer needs.

Market penetration is the percentage of people in this cross-section who use medication to relieve a cold related symptom.

Usage is the average purchase per year.

Market penetration is 65.4% with an average purchase per year of 3.2 for young families in the cold market.

Average usage can have a significant impact on your extent of demand analysis. If average usage in the current market is 2.7, what happens if usage increases to three? Sales would climb 11%.

Product effectiveness is most important for this segment, 59% and 41%, respectively, followed closely by side effects (alcohol may be a problem).

(BRAND PERCEPTION)
Brand perception shows how consumers perceive the effectiveness of each brand with regard to these symptoms. Allround, for young families in the cold market is viewed as more effective than Besthelp against fever, chest congestion, and cough, but less effective against nasal congestion, runny nose, and allergy symptoms. You may focus advertising on improving Allround’s perceived effectiveness against nasal congestion, runny nose, and allergy symptoms.

(TRADEOFFS)
Tradeoffs shows how consumers make trade-offs between price and effectiveness. Higher priced brands are on the top part of the grid, and brands with the highest perceived effectiveness are on the right-hand side of the grid. Those brands located below the line have a lower price than anticipated and therefore a higher value. Those brands above the line are not as
effective as consumers expect for this price. These differences may provide insights into price sensitivity versus the need for symptom relief. For young families and colds, Allround’s price is commensurate with its value.

After you have analyzed the data, you are ready to enter your decisions, which are under the Decision tab.

(SALES FORCE)
The first is the sales force. You can adjust or add salespeople.
Direct sales force sells to retailers and also presents trade promotions, allowances, and new product introductions to retailers.

Merchandisers provide special support to retailers for their in-store activities, such as shelf location, pricing, and compliance with special promotions. Detailers contact doctors and pharmacists to provide information about their brand, introduce new products, and encourage doctors or pharmacists to recommend their brand to consumers.

(PRICING)
Pricing allows you change the MSRP and volume discounts. Advertising allows you to change the budget, ad agency, target segments, and symptoms.
Primary creates awareness and stimulates primary demand (this for the category)
Benefits: emphasize product benefits to consumer
Comparison compares product with competitors
Reminder maintains awareness and stimulates repurchase

(PROMOTION)
Promotion has two components: trade: retailers and wholesalers and consumers. For the trade, you can offer promotional allowances and co-op advertising. For consumers, you can use POP displays, free trial size and coupons. POP and coupons can focus on specific retailers.

The simulation tab is where you will advance the simulation to the next period. Again, only the team leader can advance the simulation.

Before advancing, use the performance summary option on the company menu to print a report. This provides a hard copy of your decisions and a summary of results. Save this for your records.

(GENERAL COMMENTS)
Here are some general comments

Your strategy should be paramount, which provides stability. Conduct a SWOT analysis. Strengths and weaknesses are internal and opportunities and threats are external.

- Strengths: firm's resources and capabilities that can lead to CA
• Weaknesses: necessary resources not possessed by the organization
• Opportunity: allow a firm to take advantage of organizational strengths, overcome organizational weaknesses, or neutralize threats
• Threats: challenges posed by environments, if in the absence of defensive action, sales or profit deteriorate

You should analyze markets on both an aggregate basis (i.e., total market for OTC cold medications) as well as a segmented basis (e.g., market for children’s cold medicine).

What is your competitive advantage? A competitive advantage is when a company provides superior value to selected target markets, either by offering lower prices than competitors do or by providing more benefits to justify higher prices because competitors cannot or will not (too costly) match (combinations). It is something you do better than the competition that customers value. The result: higher delivered customer value and satisfaction, which leads to high repeat purchases and high company profitability.

There are three types of competitive advantage:
1. Differentiation Strategies is when a consumer perceives (from promotion, WOM, usage experience) a product to differ from its competition on any physical or nonphysical characteristic including price
2. The second type of competitive advantage is low cost. It is where a company offers similar products and benefits at lower prices than competitors.
3. Finally, the last competitive advantage is focus or a niche. Here a company has a better understanding of customer needs and wants for a narrow target market.

Customer needs are paramount. Advertising message should appeal to the target group and promote the benefits that are most important to them. Advertised benefits should match customer brand beliefs. When comparing with another brand, target the current segment leader. Never compare to non-competitors. This will create an advertising campaign that communicates why your brand is superior to the competing brand. Where will consumers shop? You should not view a pull (focus on consumers) will a push (focus on trade) as mutually exclusive.

Push manufacturer’s marketing activities are directed at channel intermediaries to induce them to order, carry and promote to the next channel member. This is done primarily through a sales force and trade promotions.

Pull marketing activities are directed at end users to induce them to ask intermediaries for the product and intermediaries to order from manufacturers, for example, through ads and consumer promotion.

I have also listed comparative result metrics for you to view (view results)
Balanced Scorecard value: manufacturer sales (cumulative), net income, and stock price.

Finally, PharmaSim rewards those players who perform a thorough market and competitive analysis and develop marketing plans that are:
• customer-focused
• reasonable in the both the short- and long-term
• consistent and integrated
• financially sound, and
• responsive to competitive strategies

Good luck in the simulation.