

“A Handle For Every Bag”



Launch Strategy,
Forecasting &
Financial Returns

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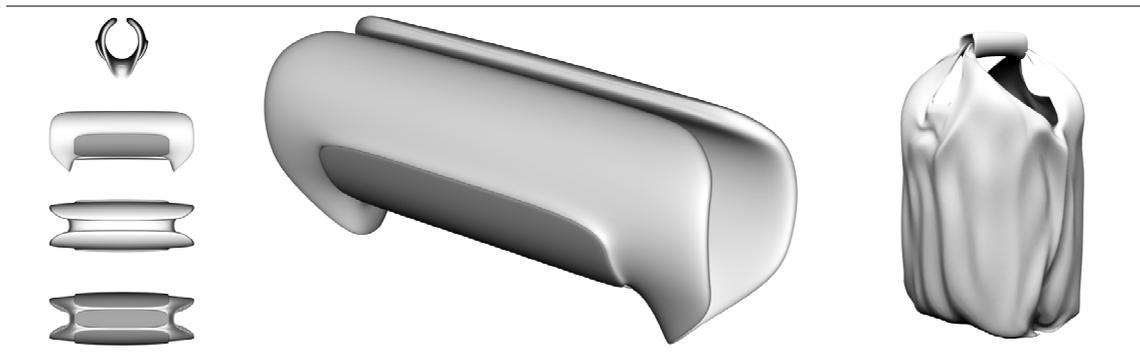
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1. Introduction

After a long period of research, planning and analyses, a new product has been developed that fulfils unsatisfied consumer needs. This report outlines the most suitable launch strategy for this product.

Product Offering

Developed from previous analyses, the proposed product is a „Shopping Bag Handle“, designed to facilitate the transportation of common, supermarket plastic bags. The concept design (below) best illustrates its form and function. The materials most likely to be used are plastic and rubber.



Packaging

The handle might not need specific packaging because it communicates its benefits best through its simplicity and form. However, what would be advantageous is emphasis at the point of sale and a positioning close to the dispatchment area of plastic shopping bags. This could be achieved through a dedicated sales stand as proposed in the concept drawing on the right.

The lack of packaging could also encourage immediate trial and impulsive purchase.

It might be practical to sell handles in pairs, because several bags are easier to carry with two hands. Further research needs to address this issue, but to simplify forecasts single unit sales will be assumed.



2. Launch Strategy & Marketing Mix

Launch Strategy

The handle is a very new product and has no direct competition but strong indirect competition and many substitutes (plastic bags, rucksack, trolleys, etc). The handle fits the 'high compatibility' - 'low relative advantage' category most, which will determine the launch tactic. The launch strategy will be discussed within the framework of the suggested marketing mix.

Place & Distribution Channels

The nature of the handle (to be used in conjunction with plastic bags to carry goods) clearly demands this product to be available closely to retailers' and supermarkets' checkouts. Therefore, ideally, the handle would be distributed through the retailers. Market research (assignment IV) has found that a large share of the potential buyers shop in Tesco and ASDA. These two distribution outlets should be approached with high preferences to reach the target market. Nonetheless, negotiations should be held with all retailers where plastic bags are provided and goods' purchase weight is deemed sufficient to create need for the usage of the handle.

This creates two possibilities:

- i) Retailers are willing to distribute shopping handles in their stores (possibly as part of their own brand programmes). It might also be that a single retailer is willing to pay a higher price to take over the distribution exclusively in order to gain a competitive advantage over other retail chains, of course this would increase the price of the handle for the single buyer. This option has almost a business-to-business character.
- ii) Alternatively the handle is distributed by 'ourselves' through traditional channels to be sold in retail stores. Of course, disintermediation will increase our margin and is therefore desirable. Hence the usage of 'wholesalers' should be avoided if possible. An online order system could also reduce distribution costs.

Option i) would require more 'push', while option ii) would work better with both 'push' and 'pull' forces present. Either way, supermarkets would require some distribution incentives to stock the new product, and therefore some funds have been designated for creating this incentive. The further launch strategy will assume that a deal with several major supermarket chains would lead through to a situation where the handle is sold directly to supermarkets, which market it as their own product (option i). This option is chosen because it is seen as the most likely distribution channel at this point.

Price Strategy

The pricing strategy depends on the distribution channel selected before. For example, the retailer might decide to offer handles for free to its customers as a special

service. This does not seem unlikely in the extremely competitive retail sector where retailers are constantly seeking to innovate.

In any case, previous market research has shown that a large share (>50%) of the most promising market segments – ‘cool student’ and ‘single mums’ – are prepared to pay between £1 and £2 for a handle. The product was also noted to be price elastic, so that a much higher (end consumer) price (above £2) is not recommended, or would lead to too few units being sold.

A low introductory pricing strategy is recommended to get as many people as possible to trial the new product.

Promotion activity

The shopping bag handle is a cheap, low-involvement good, almost a commodity. Point of sales displays and convenient product positioning are recommended to create awareness. The suggested point-of-sales stands have been shown above, realising this will require some collaboration on behalf of the retailers.

Short-term sales promotion and sampling are suitable to create trials, encourage first time purchase and increase market share. The fact that the benefits of the handle are best learnt by actually using it supports these promotion activities. Another very effective promotional activity requires the cooperation of the supermarkets: It would be appropriate to give a handle away for free with every purchase over a certain value. These customers – having bought a certain volume – could actually make immediate use of the handle.

Above-the-line communications are not recommended because of their extremely high cost, which might not work for a commodity-like, low-relative-advantage product such as the handle. Brand building might gain more importance once more competitors and me-too products have entered the market.

On a business level, direct selling and direct mail should be used to create interest amongst potential distribution outlets. An online presence can offer further detailed, information inexpensively, round the clock.

3. Timeline for availability & activities

The timeline matrix (overleaf) shows the suggested activities at the suggested time. Simultaneously, the expected costs and sales are displayed graphically (very rough estimates) and show the typical beachhead and increased sales. Test marketing should have occurred in good time before the launch, and take the form of minimarkets or test marketing in individual stores or cities. Because of the low relative advantage of the product and the consequent danger of imitation, pre-announcements are kept to a minimum.

As a final safety catch, availability is initially locally (in an area to be determined) so that with good results, national roll out can follow quickly. Mass production is routinely set before the launch to test the production line and create a stock of goods.

An online website, direct marketing and direct selling are intended to target distribution outlets rather than end consumers to create a pull-force amongst suitable

channels. At the same time funds set aside for distribution incentives should encourage stocking the new products, acting as a push force.

Sales promotion, sampling and point of sales displays should target the end consumer to create awareness and stimulate trial. These should occur at the time of launch and can be repeated periodically.

4. Financial Forecasts

Sales and Profit Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5
Market Size	250,000	275,000	302,500	332,750	366,025
Target Market Share	90%	90%	85%	90%	90%
REVENUE					
Sales (units)	225,000	247,500	257,125	299,475	329,423
Price	£0.80	£1.00	£1.50	£1.50	£1.50
Sales (value)	£180,000	£247,500	£385,688	£449,213	£494,134
COSTS					
Fixed Costs	£50,000	£50,000	£50,000	£50,000	£50,000
Variable Costs per unit	£0.50	£0.40	£0.30	£0.30	£0.30
Tot. Manuf. Costs/ unit	£0.72	£0.60	£0.49	£0.47	£0.45
Gross Margin	10%	40%	67%	69%	70%
MARKETING COSTS					
Launch Costs	£30,000				
Advertising Costs					
Online	£10,000	£5,000	£3,000	£1,000	£500
Direct Marketing	£5,000	£5,000	£5,000	£5,000	£5,000
Direct Selling	£10,000	£10,000	£5,000	£5,000	£2,500
Distribution Costs					
Distribution Incentives	£30,000	£30,000	£20,000	£20,000	£10,000
Other Promotional Costs					
Sales Prom./ Sampling	£30,000	£20,000	£10,000	£5,000	£0
Point of sales displays	£15,000	£10,000	£5,000	£5,000	£5,000
PBIT	-(£112,500)	£18,500	£200,550	£258,370	£302,307

Assumptions:

Initial Market Size in units 250,000 *Market Growth Rate* 10.0%

The handle is assumed to be a new product and therefore is expected to gain almost the entire market by creating it. The market size of 250,000 has been obtained by analysing the number of people prepared to buy the handle from the previous research (part IV) and projecting the number of these people and the share of their clusters on the UK population which visit retail supermarkets (assuming the handle has a 10-12 month product life) (Keynote, 2003, Supermarkets).

The target market share is expected to fluctuate slightly as new competitors are likely to enter. As recommended, a price penetration/ sales promotion strategy will result in low initial prices, which increase steadily until a retail price of roughly £1.50 is reached. The majority of the target cluster was prepared to pay between £1 and £2 for the handle.

The handle is a very simple product and does not require any expensive materials nor manufacturing processes and therefore the manufacturing costs should be very low as well. Variable/ marginal costs include the raw material, labour and electricity. These are estimated at roughly 50p in the first year, but are expected to decrease over time as expertise and manufacturing volume increases and economies of scale become possible. Outsourcing to cheap manufacturing countries is another source of cost reduction.

Otherwise, some basic machinery will be necessary. It is likely that using machines will allow a high mechanisation of the process and therefore little manual labour is required. The fixed costs will include the machine lease costs and the rent for a production plant (the section discussing ‘assumptions’ will discuss the option of outsourcing the entire production process to a contractor but to gain an estimate of the production costs – in any case – a detailed breakdown of production costs was used).

Marketing costs are given as rough estimates that could change, but because of the lack of comparable/ guideline figures estimates were necessary. These include the activities described before, and the point-of-sale materials.

A net present value calculation returns positive results for three chosen discounts rates. Being a start-up company, banks are likely to charge relatively high interest rates.

NPV Calculation		Discount Rate		
Year	Cash flows	5%	10%	15%
0	0	<i>Present Values</i>		
1	-£112,500	-£107,143	-£102,273	-£97,827
2	£18,500	£16,780	£15,289	£13,989
3	£200,550	£173,243	£150,675	£131,866
4	£258,370	£212,561	£176,469	£147,723
5	£302,307	£236,867	£187,708	£150,301
		£532,308	£427,870	£346,052

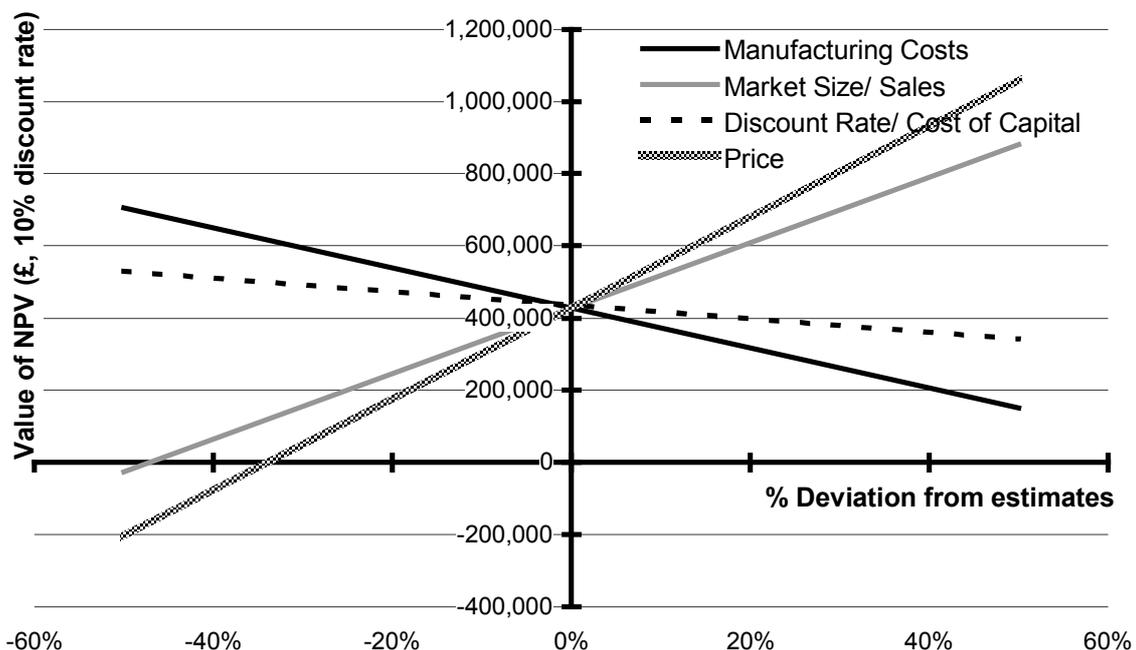
At this point the existence of other sales and forecast models should be acknowledged, amongst them are the A-T-A-R, BASS model. However, while these models are very useful, this study had to decide on a single method to remain within the set constraints. In an ideal situation several models should be used because “all models are wrong but some are useful” (quote by George Box). It was also found that other models required a greater amount of detail that was not available at this point.

Scenario Writing

To be prepared for all eventualities, some form of scenario writing, focusing on the best and worst case scenario, should provide this. Sensitivity analysis lends itself particularly well to this objective. The table below shows the numerical results of the sensitivity analysis. The following factors have been identified as significant to the success of the project and have therefore been included in the sensitivity analysis. For these factors a deviation of 50% either way has been calculated to assess the likely effects on the value of the NPV. The method of calculation has been the same as for the NPV shown above, but using the new cash flows that would occur with the – 50%/+50% change. All NPV calculations assume a discount rate of 10%.

Deviation from estimates	-50%	0%	50%
	5%	10%	15%
Discount Rates	£ 532,308	£ 427,870	£ 346,052
	125,000	250,000	375,000
Market Size/ Sales (10% discount)	-(£ 25,538)	£ 427,870	£ 881,277
	-50%	as predicted	50%
Manufacturing Costs (10% discount)	£ 705,025	£ 427,870	£ 150,714
	-50%	as predicted	50%
Price (10% discount)	-(£ 207,924)	£ 427,870	£ 1,063,663

These calculations allow a graphical presentation, which allows a quicker assessment of the effects of a changing variable.



The graph shows the changes in the net present value (NPV) should a key-value deviate from the estimate. The y-axis shows the NPV value (after 5 years @ 10% discount rate) of the project, the x-axis the deviation from the estimates. Where $x=0$, the situation corresponds to the NPV derived from the estimates made in the initial sales and profit forecast table above. What has to be remembered is that this graph shows the effect of a change in a single factor, but most certainly several factors will deviate by varying degrees. Therein lies the main limitation of this model.

Best Case Scenario

Clearly, everything that increases profit improved the situation. The steeper the graph, the more significant are changes in a factor. What becomes apparent is that only a reduction of the market size of 48% would lead to a negative NPV and production cost would have to increase by 65% to create a zero NPV.

Besides financial considerations, other factors must be considered. Ideally, a suitable distributor, who can reach the target market, is found and willing to distribute the handle. High customer satisfaction would lead to high sales. Considering the positive figures of the forecast, the best scenario would be the one in which all estimated values can be achieved.

Worst Case Scenario

The graph also shows the impact of unfavourable deviations.

In non-financial terms, it might be that distribution channels (i.e. supermarkets) are not prepared to sell the handle or are not prepared to cooperate. This would have a great negative effect as the handle requires a point of sale close to the check-out and the point-of-sale display is an essential launch tool.

Despite considerable market research and focus group analysis the possibility that they handle will find low acceptance and no repeat purchases cannot be ruled out.

On the other hand a successful launch could be ruined by a stronger, low-cost competitor who offers a (better?) me-too product.

Production difficulties or low quality of the final product could also negatively influence the performance. The opportunities for failure are endless.

Assumptions

Assumptions have been stated throughout the plan. Assumptions omitted so far should be listed here.

The shopping bag handle has been launched by a start-up company that was founded specifically for the purpose of marketing this product. This implies that initial (year 0) investments are necessary to establish the infrastructure (offices, equipment, staff, etc.) of such a venture. These initial investments have been ignored in the NPV and sales calculations. If the handle would be developed by an established company then these costs would probably not occur. Another reason to ignore these costs is that the production process could have easily been outsourced to an established manufacturer, who would require only the blueprints. The detailed cost break-down of the product however (as if self-produced) was necessary to estimate the likely cost of such a production order.

The handle, if sold directly to the supermarkets would require a considerable profit margin to be attractive for the supermarkets. This means that the estimated consumer price that has been specified here would not be paid to our company, but supermarkets would pay a lower price to maintain their own target margin. Alternatively, the supermarkets could sell the handle at a higher price. This pricing problem has been ignored in the calculations and estimates by ignoring the margin that supermarkets would charge (because it unknown).