

## Product Positioning, Branding, and Product Line Strategies

- *The best positioning is put in the context of solving a problem for a specific buyer. That means that there are multiple positioning documents, each conveying product value in terms that resonate with the specific buyer.* — Steve Johnson, *Pragmatic Marketing*

Steve Johnson's observation on positioning could be used to initiate a discussion around product positioning within the context of a product focus on solving a specific customer problem. This quote also lends itself to a discussion of customer value and product line variations needed to solve different buyer problems. Each car in the Toyota product line or each beer in the Anheuser-Busch product line addresses a different customer need and unique product positioning.

### INTRODUCTION

St. John is legendary among customers in stores that trade in \$1,000 women's suits, but not because the clothes set fashion trends. In boardrooms, ballrooms, and beyond, St. John has become the standard bearer among women who want classic style, unwavering high quality, and personal service. Many companies that have tried to copy the St. John strategy at a lower price have failed. St. John customers remain loyal and are the company's best source of marketing communications.

- What factors drive the St. John product position and price?
- Who is the St. John target customer (i.e., needs, demographics, and psychographics)?
- Why would low-cost competitors attempting to imitate St. John fail?

### LEARNING OBJECTIVES

- Demonstrate the importance of product positioning, alternative positioning strategies, and the positioning factors that need to be addressed in developing a successful product positioning strategy.
- Present the role of product line positioning and product line extension strategies.
- Demonstrate the importance of product innovation and new product sales, along with the process of developing a new product.

### HARVARD BUSINESS SCHOOL CASE MATERIALS

- **Dove: Evolution of a Brand—2008.** HBS Case No. 508047 (13 pages). This case examines the evolution of Dove from a functional brand to a brand with a point of view after Unilever designated it as an umbrella brand and expanded its portfolio to cover entries into a number of sectors beyond the original bath soap category. The development causes the brand team to take a fresh look at the clichés of the beauty industry. The result is the controversial Real Beauty campaign. As the campaign unfolds, Unilever learns to use the Internet, and particularly social network media like YouTube, to manage controversy.
- **Colgate-Palmolive—The Precision Toothbrush.** HBS Case No. 9-593-064. This excellent case study is built around the segmentation of the toothbrush market. The case includes market segmentation, segment strategies, product positioning, and branding. It is a comprehensive case that *Market-Based Management* makes use of in Chapters 7, 8, 9, and 10. The case could be used to discuss the entire marketing mix for the Colgate-Palmolive new product opportunity.
- **Marketing Antidepressants: Prozac and Paxil.** HBS Case No. 9-502-055 (29 pages). Contrasts the product positioning strategies for two well-known brands. This case also explores counter-positioning strategies used by competitors with similar products.

- **E\*Trade Securities Inc.** HBS Case No. M286. This is a mid-1990s case study of a deep discount brokerage business that experienced phenomenal growth by making extensive use of technology to achieve a cost advantage. A flood of new competitors displaced E\*Trade as the low-price leader. The real question becomes how E\*Trade should move forward—with a low-cost, price-leader strategy or a low-cost online service-based business with a discernable differentiation strategy.
- **Hart Schaffner & Marx—The Market for Separately Ticketed Suits.** HBS Case No. 9-592-134. Calls for a decision on whether Hart Schaffner & Marx, the nation's leading manufacturer of high-quality branded suits, should expand its product line by marketing suits that are separately ticketed (i.e., the coat, vest, and slacks would be sold from individual hangers and priced separately by the retailer rather than sold and priced as an ensemble). Serves as a vehicle for discussing product policy issues in the context of a fragmented, mature, and highly competitive industry. Related issues of channel management, pricing, and advertising also must be analyzed. Demands a skilled quantitative analysis of a complex break-even situation. *Teaching Note: 5-585-056.*
- **Procter & Gamble Co.—Lenor Refill Package.** HBS Case No. 9-592-016. The assistant brand manager for Lenor, P&G's fabric softener brand, prepares a presentation on the national launch of an environmentally friendly refill package. *Teaching Note: 5-593-010.*
- **Packaged Goods Company—Handy-Pak Introduction.** Teaching Note No. 5-595-022. The product manager and the market research director for a new line of snacking nuts are reviewing options concerning the upcoming rollout of the product. These options include changes in pricing, promotional plans, and sales force incentives intended to build support for the product across the various distribution and trade channels required for targeted sales goals. Teaching Purpose: A decision-oriented case, this material provides a good look at factors altering marketing and sales requirements for packaged-goods businesses, as well as a realignment of one business's market research activities in order to deal with these new requirements.
- **Performance Curves: Costs, Prices, and Value.** HBS Case No. 9-590-010 (33 pages). This case study presents the concept of cost-performance curves and demonstrates the concept's usefulness in product positioning and product line management. The reading also covers price-performance curves.

## MARKET-BASED STRATEGIC THINKING

### 1. How did Intel's branding strategy help the company grow and maintain a dominant market share?

As low-priced personal computers became part of the PC market in the late 1990s, Intel could have lowered the price of the Pentium to compete in this segment. Instead, Intel maintained the Pentium as a mid-priced product and introduced Celeron to address the low-priced position. At the higher end of the market, Intel introduced Xeon, giving Xeon a clear benefits advantage over Pentium while not confusing the product-price position of either. This branding and product line strategy allowed Intel to address customer needs in each segment and still maintain good margins in each segment. A one-product strategy across all three segments would have produced lower sales and lower profits.

### 2. How would you evaluate the product positioning of Black & Decker relative to Sears in terms of customer choice and customer value? See Figure 7-3.

At each level of voltage (from light duty to heavy duty), Black & Decker is priced considerably lower and in most cases has a much lower overall performance rating. Customers buying on price would most likely select a Black & Decker cordless drill at any power level. Customers buying on performance would be more likely to purchase Sears or DeWalt products, which are higher performance drills. Since Black & Decker owns DeWalt, the company has created a product line positioning strategy that serves both price and performance buyers at every power level.

### 3. How does Starbucks' product line positioning enhance both sales and profits?

By adding more products to its product line, Starbucks is attempting to grow the revenue per customer transaction (i.e., through sales of food, music, and gifts), attract customers to its locations at different times of day (iced drinks on summer afternoons), and draw new customers (non-coffee drinkers). Each of these objectives has the potential to increase margin per transaction or create a new source of sales and profits. Each location has a fixed cost associated with rent, labor, and operating overhead. Therefore, growing the revenue per location should translate into higher profits per store. Summed across the thousands of Starbucks locations, the strategy adds considerably to the overall profits of the company.

**4. How could a business with an attractive product position achieve a lower market share?**

As shown in Figure 7-5, market share is driven by the strength of a product's positioning and marketing effort. In fact, these two forces are multiplicative, as the figure shows. A business with an attractive product position, even a very attractive position, which is unable to communicate and deliver to target customers will not achieve much of a market share.

**5. Why did Samsung's repositioning strategy yield higher sales and higher profits?**

Samsung shifted its consumer electronics from a low-priced and low-margin position to a higher priced and higher margin position. The repositioning required major changes in product quality and brand image. The strategy also required new channel partners who were geared to sell higher quality, higher priced products. Samsung was able to make this move and still retain a good market share and product volume. With higher margins and roughly the same volume, the strategy translated into higher profits. It also allowed Samsung to compete on product performance and not price.

**6. How would a business use the eight dimensions of quality differentiation in developing a product and package differentiation strategy?**

If we look at the "total product" as both the product and its package, then a business could go down the list of the eight dimensions of quality presented in Figure 7-9 and determine where it derives its greatest differentiation advantage when compared to competing products. For example, how would a Lexus and a competing car compare on these eight dimensions of quality?

**7. How does a business such as McDonald's develop a positioning strategy around some aspect of service differentiation?**

Using the eight dimensions of service quality shown in Figure 7-10, we could argue that McDonald's has positioned itself with respect to service quality in the following ways:

- Reliability . . . . . The same menu and quality can be obtained consistently at any McDonald's restaurant.
- Assurance . . . . . Employees strive to be courteous to customers.
- Performance . . . . . McDonald's is consistently rated above competitors in delivering good, prompt service.
- Responsiveness . . . . A company culture focused on customers lets the customer be "right" even when the customer may be wrong.
- Extended Services . . Convenient hours, clean facilities, and prompt service all enhance ease of purchase.
- Empathy . . . . . Employees give individualized attention to each customer. In many markets, the demographics of the employees are matched with those of most customers.
- Appearance . . . . . People, facilities, and equipment are pleasing in appearance.
- Reputation . . . . . McDonald's has built a reputation for superior service.

**8. Why would a brand name such as Kodak, Disney, or Coca-Cola create customer value and provide a basis for product positioning and differentiation?**

Each of these brand names communicates a certain image and expected level of quality. Each name carries with it an implicit guarantee that is consistent with this image and an expectation of quality. As a result, these brand names provide an added degree of customer value that clearly positions and differentiates them from competing brands.

**9. Why would the occupancy of a Fairfield Inn increase by 15 percent when the Marriott name is added to the building?**

Without the Marriott name, the Fairfield Inn has no established image or expected level of quality and performance. With the name, target customers are given a certain assurance of what to expect with respect to the eight dimensions of service quality presented in Figure 7-10.

**10. Why would an extension of a product line to include a small number of related products contribute to higher levels of profitability?**

A product line extension of related products, if built around unmet customer needs, enables a business to offer a better solution to the customer consumption problem. This could be expected to translate into a higher level of customer satisfaction and retention. And, with a related product line, such as an improved detergent, a new soup, or a new breakfast cereal, the incremental cost of sales would be very small, since the sales force is already calling on retailers or end-user consumers. Both of these factors contribute to a greater sales volume and higher levels of profitability.

**11. Why would a business use an experiential brand name versus an evocative brand name?**

A business whose product offers an important experiential benefit would leverage the benefit in the brand name; the benefit would be communicated as part of the brand name. The Cleveland Launcher (a golfing driver) and Nike Air Jordan are experiential brand names that attempt to position the product with a certain experiential benefit. Evocative brand names such as Lexus (a feeling of status), Expedia (a feeling of speed), and Vista (a feeling of vast horizons) attempt to evoke positive associations between the products and the feeling their names convey.

**12. What are morphemes and how were they used in developing brand names such as InfoSeek, DuraFlame, and Compaq Computer?**

Morphemes are whole or part words that are combined to make a new word. InfoSeek is derived from "information" and "seek" or "seeking." DuraFlame is derived from "durable" (long lasting) and "flame." Compaq is derived from "computer" and "compact" (small). Devising a morpheme is a way to create a unique brand name that communicates a product's key benefits.

**13. What is the marketing logic that underlies Anheuser-Busch's product line and marketing strategy for the beer market?**

As illustrated in Figure 7-17, Anheuser-Busch has elected to unbundled its beer products and make each a stand-alone brand with a distinct product position. This is probably a good strategy given the closeness of the several segments of the beer market. In this way, A-B can distinctly position separate brands in each of the market's segments.

**14. What are the advantages of a product strategy involving a strong core brand with flanker brands? Under what conditions would this product line strategy fail?**

A strong core brand name can serve as an umbrella brand under which a business can add the flanker brands. This strategy has the advantage of communicating a well-known level of quality and creating a faster rate of brand awareness for the flanker brands, and it has the potential to increase retailer acceptance. The strategy would likely fail, however, if the flanker brands cannibalize the core brand or other flanker brands. Further, if the quality of the flanker brands is not up to the level of the quality of the core brand, the strategy would probably fail due to a low or average level of perceived quality for the flanker brands and, to make matters worse, the reputation of the core brand would be hurt.

**15. Why are vertical brand extensions less expensive than horizontal brand extensions?**

Vertical brand product line extensions are less expensive because they are modifications of the existing brand. For example, Gardenburger's Santa Fe burger has different seasonings than the Original Gardenburger. A horizontal brand extension, such as Gardenburger's Breakfast Sausage, requires a new product and taste, as well as different packaging and promotion.

**16. How does a well-known brand help in the marketing and profitability of a flanker brand?**

Flanker brands gain awareness at a lower marketing communications cost. The umbrella is well known. By attaching the umbrella brand name to the flanker brand, a company provides for a quick association with brand image, quality, and price point. Flanker brands are also given shelf space more readily by retailers because the core brand names are already well known. Because the flanker brand carries the price point of the umbrella brand, a business can realize the same margin as for its umbrella brand. Transportation and logistics expenses are shared with the umbrella brand when sold through the same channels, which also lowers cost.

**17. Why did Healthy Choice co-brand with Kellogg's to introduce a new breakfast cereal? How did Kellogg's also benefit?**

Kellogg's, while a well-known brand, did not have the image of a low-calorie breakfast cereal. Healthy Choice, while it had many low-calorie frozen food products, did not have a cereal product. Co-branding a product from Kellogg's with Healthy Choice instantly communicated to potential consumers a breakfast product that was low calorie (healthy). For either company, creating this set of associations by itself would have been a difficult and expensive marketing communications project.

**18. How might product line substitution effects have contributed to the sales of Intel Pentium microprocessors when the Xeon and Celeron brands were introduced?**

The higher price of the Xeon probably influenced many current customers to stay with the mid-priced Pentium when repurchasing, especially if they saw they could meet their performance needs with the Pentium. The lower priced Celeron may have motivated some Pentium customers to switch to Celeron, but probably most wanted to stay with at least the performance level to which they were accustomed. Undoubtedly, many current Pentium customers moved up to the Xeon, particularly those customers whose performance needs were increasing. Among new customers, Pentium sales may have declined, but any decline would surely have been more than offset by new-customer sales of the Celeron and Xeon.

**19. Frito-Lay introduced Stax to compete with Pringles in 2003. Assuming the company had excess production capacity, how would the profits of other chip products be affected by the success of Stax?**

Any business with excess production capacity can lower the average cost of all products made in that facility by introducing another brand made in the same production facility. A large portion of the cost of goods sold is manufacturing overhead (fixed expenses such as those associated with facilities, equipment, and utilities). This cost is allocated to all products made in the facility based on volume or time in production. The addition of Stax meant that Frito-Lay now had another product that could take on a portion of this overhead expense. An extension of a company's product line lowers the average cost for all products and improves the profitability of each.

**20. Under what conditions would the elimination of a flanker brand with a negative operating income result in lower overall operating income if eliminated?**

Flanker brands often share the manufacturing operations with the umbrella brand. The strategy is to add flanker brands to more fully utilize the production capacity of a manufacturing operation. This lowers the cost of making both the umbrella brand and the flanker brands that can be made at the same facility. Likewise, when a flanker brand is eliminated, even one with a negative operating income, the average cost of all other brands will increase because a business then has fewer brands to absorb allocations of manufacturing overhead. Thus, the removal of an unprofitable flanker brand could result in a reduction in a business's overall profits.

## **MARKETING PERFORMANCE TOOLS**

### **7.1 Brand Equity**

- A. Estimate the brand assets and brand liabilities for a brand you believe to be a strong brand.
- B. Estimate the brand assets and brand liabilities for a brand you believe to be a weak brand.
- C. Compute the brand equity for each and discuss how they may differ in profitability.

**Apple's iPod**

<b>Assets</b>							
Brand Assets	Rel. Imp.	Very Low 0	Below Average 25	About Average 50	Above Average 75	Very High 100	Brand Asset Score
Brand Awareness	20 %	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	20
Emotional Connectedness	20 %	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	15
Brand Loyalty	20 %	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	15
Brand/Line Extensions	20 %	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	15
Price Premium	20 %	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	15
<b>OVERALL BRAND ASSETS</b>	<b>100%</b>						<b>80</b>
<b>Liabilities</b>							
Brand Liabilities	Rel. Imp.	Very Low 0	Below Average 25	About Average 50	Above Average 75	Very High 100	Brand Liability Score
Customer Dissatisfaction	20 %	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	0
Product/Service Failures	20 %	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	5
Adverse Business Practices	20 %	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	0
Social/Environmental Problems	20 %	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	5
Negative Associations	20 %	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	0
<b>OVERALL BRAND LIABILITIES</b>	<b>100%</b>						<b>10</b>
<b>BRAND EQUITY (Overall Brand Assets - Overall Brand Liabilities)</b>							<b>70</b>

**ExxonMobil Gas Stations**

<b>Assets</b>							
Brand Assets	Rel. Imp.	Very Low 0	Below Average 25	About Average 50	Above Average 75	Very High 100	Brand Asset Score
Brand Awareness	20 %	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	15
Emotional Connectedness	20 %	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	0
Brand Loyalty	20 %	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	5
Brand/Line Extensions	20 %	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	0
Price Premium	20 %	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	10
<b>OVERALL BRAND ASSETS</b>	<b>100%</b>						<b>30</b>
<b>Liabilities</b>							
Brand Liabilities	Rel. Imp.	Very Low 0	Below Average 25	About Average 50	Above Average 75	Very High 100	Brand Liability Score
Customer Dissatisfaction	20 %	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	15
Product/Service Failures	20 %	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	10
Adverse Business Practices	20 %	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	5
Social/Environmental Problems	20 %	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	0
Negative Associations	20 %	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	0
<b>OVERALL BRAND LIABILITIES</b>	<b>100%</b>						<b>30</b>
<b>BRAND EQUITY (Overall Brand Assets - Overall Brand Liabilities)</b>							<b>0</b>

**Teaching Note:**

- A. I selected the Apple iPod for a strong brand. My estimates of brand assets and liabilities may differ from students' estimates, but they probably will be close. It is important to remind students that these are personal perceptions. Also, I did not change the relative importance ratings for the specific brand assets and liabilities. This would be a good discussion point. Are certain brand assets and brand liabilities more important than others?

- B. ExxonMobil was selected as a weak brand. Again, personal perceptions are likely to vary, but as a group I would expect students would have a similar set of assessments. You could discuss why employees of ExxonMobil may have a different point of view.
- C. The brand equity score for the iPod is 70 based on its assets score of 80 and its liabilities score of 10. ExxonMobil had a zero brand equity score based on its lower brand assets score (30) and its higher brand liabilities score (30). The question of profitability is a good one. Both the iPod and ExxonMobil are highly profitable but for different reasons. The iPod is profitable because it is perceived by customers as a great product and because of tremendous customer franchise (an 87% market share). ExxonMobil is very profitable because it has a product in short supply and high demand. The ExxonMobil profits are vulnerable to decline when customers have more energy choices in fueling their transportation needs.

## 7.2 Product Line Substitution

- A. What is the profit impact if each of the switching probabilities were doubled?

Starting Data				
Area of Performance	Core Brand	Multigrain	Reduced Fat	Product Line
Primary Volume				
Primary Demand	50000000	10000000	20000000	80,000,000
Core Brand	32,500,000	5,000,000	12,500,000	
Multigrain	500,000	7,500,000	2,000,000	
Reduced Fat	2,000,000	1,000,000	17,000,000	
Net Volume	35,000,000	13,500,000	31,500,000	80,000,000
Price per Unit	\$ 1.95	\$ 1.95	\$ 1.95	\$1.95
Sales	\$68,250,000	\$26,325,000	\$61,425,000	\$156,000,000
Variable Cost per Unit	\$ 0.95	\$ 1.00	\$ 1.05	\$1.00
Margin Price per Unit	\$1.00	\$0.95	\$0.90	\$0.95
Total Contribution	\$35,000,000	\$12,825,000	\$28,350,000	\$76,175,000

Analysis				
Area of Performance	Core Brand	Multigrain	Reduced Fat	Product Line
Primary Volume				
Primary Demand	50000000	10000000	20000000	80,000,000
Core Brand	15,000,000	10,000,000	25,000,000	
Multigrain	1,000,000	5,000,000	4,000,000	
Reduced Fat	4,000,000	2,000,000	14,000,000	
Net Volume	20,000,000	17,000,000	43,000,000	80,000,000
Price per Unit	\$ 1.95	\$ 1.95	\$ 1.95	\$1.95
Sales	\$39,000,000	\$33,150,000	\$83,850,000	\$156,000,000
Variable Cost per Unit	\$ 0.95	\$ 1.00	\$ 1.05	\$1.01
Margin Price per Unit	\$1.00	\$0.95	\$0.90	\$0.94
Total Contribution	\$20,000,000	\$16,150,000	\$38,700,000	\$74,850,000

**Teaching Note:** As shown in the screen printout on the previous page, the total contribution drops from \$76.175 million to \$74.85 million when the switching probabilities between brands doubles. This is largely due to a higher level of switching from the core brand to the Reduced-Fat brand. The core brand has a higher margin (\$1) than the Reduced Fat brand (90 cents). As more volume is shifted from the core brand to the Reduced-Fat brand, profits decline to the same level of total volume sold.

Of course, without the Reduced-Fat brand, the overall total contribution drops to a much lower level (\$56.3 million). This can be evaluated by making the primary demand for flanker brand B equal to zero.

B. What is the profit impact if all the switching probabilities were equal to zero?

Analysis				
Area of Performance	Core Brand	Multigrain	Reduced Fat	Product Line
Primary Volume				
Primary Demand	50000000	10000000	20000000	80,000,000
Core Brand	50,000,000	0	0	
Multigrain	0	10,000,000	0	
Reduced Fat	0	0	20,000,000	
Net Volume	50,000,000	10,000,000	20,000,000	80,000,000
Price per Unit				
Price per Unit	\$ 1.95	\$ 1.95	\$ 1.95	\$1.95
Sales	\$97,500,000	\$19,500,000	\$39,000,000	\$156,000,000
Variable Cost per Unit				
Variable Cost per Unit	\$ 0.95	\$ 1.00	\$ 1.05	\$0.98
Margin Price per Unit	\$1.00	\$0.95	\$0.90	\$0.97
Total Contribution	\$50,000,000	\$9,500,000	\$18,000,000	\$77,500,000

**Teaching Note:** As shown above, the total contribution increases from \$76.175 million to \$77.5 million when the switching probabilities are zero. This is largely due to no switching from the core brand with a higher margin to flanker brands with lower margins. For the same overall volume sold, the business would be more profitable if there were no substitution effects among the three brands.

A good discussion at this point could center on two or three brands that have low switching probabilities, such as prescription drugs, and two or three brands that have high switching probabilities, such as new coffee products.

### 7.3 Product Line Scale

A. How will the profits change if the Reduced-Fat product is discontinued?



Area of Performance	Core Brand	Multigrain	Reduced Fat	Product Line
Primary Volume				
Primary Demand	50000000	10000000	20000000	80,000,000
Core Brand	32,500,000	5,000,000	12,500,000	
Multigrain	500,000	7,500,000	2,000,000	
Reduced Fat	2,000,000	1,000,000	17,000,000	
Net Volume	35,000,000	13,500,000	31,500,000	80,000,000
Price per Unit	\$ 1.95	\$ 1.95	\$ 1.95	\$1.95
Sales	\$ 68250000	\$ 26325000	\$ 61425000	\$156,000,000
Variable Cost per Unit	\$ 0.95	\$ 1.00	\$ 1.05	\$1.00
Margin per Unit	\$1.00	\$0.95	\$0.90	\$0.95
Total Contribution	35,000,000	12,825,000	28,350,000	76,175,000
Manufacturing Overhead	\$17,500,000	\$6,750,000	\$15,750,000	\$ 40000000
Gross Profit	\$17,500,000	\$6,075,000	\$12,600,000	\$36,175,000
Fixed Marketing Expenses	\$4,375,000	\$1,687,500	\$3,937,500	\$ 10000000
Variable Brand Expenses	\$ 3412500	\$ 789750	\$ 1842750	\$6,045,000
Total Marketing Expenses	\$7,787,500	\$2,477,250	\$5,780,250	\$16,045,000
Net Marketing Contribution	\$9,712,500	\$3,597,750	\$6,819,750	\$20,130,000

Area of Performance	Core Brand	Multigrain	Reduced Fat	Product Line
Primary Volume				
Primary Demand	50000000	10000000		60,000,000
Core Brand	45,000,000	5,000,000	0	
Multigrain	500,000	9,500,000	0	
Reduced Fat	0	0	0	
Net Volume	45,500,000	14,500,000	0	60,000,000
Price per Unit	\$ 1.95	\$ 1.95	\$ 1.95	\$1.95
Sales	\$ 68250000	\$ 26325000	\$ 61425000	\$117,000,000
Variable Cost per Unit	\$ 0.95	\$ 1.00	\$ 1.05	\$0.96
Margin per Unit	\$1.00	\$0.95	\$0.90	\$0.95
Total Contribution	45,500,000	13,775,000	0	59,275,000
Manufacturing Overhead	\$30,333,333	\$9,666,667	\$0	\$ 40000000
Gross Profit	\$15,166,667	\$4,108,333	\$0	\$19,275,000
Fixed Marketing Expenses	\$7,583,333	\$2,416,667	\$0	\$ 10000000
Variable Brand Expenses	\$ 3412500	\$ 789750	\$	\$4,202,250
Total Marketing Expenses	\$10,995,833	\$3,206,417	\$0	\$14,202,250
Net Marketing Contribution	\$4,170,833	\$901,917	\$0	\$5,072,750

**Teaching Note:** Performing this analysis requires changing the primary demand for the Reduced-Fat brand to zero and changing the Reduced-Fat switching probabilities to zero. All the switching is now only between the core brand and the Multigrain brand. We also have to remove the variable brand expense for this brand, as this money would no longer be spent.

When this is done, we can see the dramatic decrease in profits, as the screen printout shows. The net marketing contribution drops from \$20.1 million to \$5.1 million. The drop is largely due to the manufacturing overhead. The manufacturing overhead expenses of \$40 million must now be allocated to only two brands with 60 million units instead of three brands with 80 million units of production. In addition, the fixed marketing expenses of \$10 million must also now be covered by just the two remaining brands.

This is a good time to discuss which marketing expenses would be fixed (e.g., manager salaries, marketing professionals, market research) and which would be included in variable brand expenses (e.g., brand manager, brand advertising, brand customer support).

B. How will the profits change if only the Multigrain product is discontinued?

Area of Performance	Core Brand	Multigrain	Reduced Fat	Product Line
Primary Volume				
Primary Demand	50000000		20000000	70,000,000
Core Brand	37,500,000	0	12,500,000	
Multigrain	0	0	0	
Reduced Fat	2,000,000	0	18,000,000	
Net Volume	39,500,000	0	30,500,000	70,000,000
Price per Unit	\$ 1.95	\$ 1.95	\$ 1.95	\$1.95
Sales	\$ 68250000	\$ 26325000	\$ 61425000	\$136,500,000
Variable Cost per Unit	\$ 0.95	\$ 1.00	\$ 1.05	\$0.99
Margin per Unit	\$1.00	\$0.95	\$0.90	\$0.95
Total Contribution	39,500,000	0	27,450,000	66,950,000
Manufacturing Overhead	\$22,571,429	\$0	\$17,428,571	\$ 40000000
Gross Profit	\$16,928,571	\$0	\$10,021,429	\$26,950,000
Fixed Marketing Expenses	\$5,642,857	\$0	\$4,357,143	\$ 10000000
Variable Brand Expenses	\$ 3412500	\$	\$ 1842750	\$5,255,250
Total Marketing Expenses	\$9,055,357	\$0	\$6,199,893	\$15,255,250
Net Marketing Contribution	\$7,873,214	\$0	\$3,821,536	\$11,694,750

**Teaching Note:** Performing this analysis requires changing the primary demand for the Multigrain brand to zero and changing the Multigrain switching probabilities to zero. All the switching is now only between the core brand and the Reduced-Fat brand. We also have to remove the variable expense for this brand, as this money would no longer be spent.

When this is done we can see the decrease in profits from \$20.3 million to \$11.7 million in total net marketing contribution. Again, this is largely due to the manufacturing overhead of \$40 million. This fixed expense now has to be allocated to two brands with 70 million units instead of three brands with 80 million units of production. In addition, the fixed marketing expenses of \$10 million must now be covered by just the two remaining brands.

C. What does the price of the Reduced-Fat product need to be in order to achieve the same overall profit that would result by eliminating this product from the product line?

Area of Performance	Core Brand	Multigrain	Reduced Fat	Product Line
<b>Primary Volume</b>				
Primary Demand	50000000	10000000	20000000	80,000,000
Core Brand	32,500,000	5,000,000	12,500,000	
Multigrain	500,000	7,500,000	2,000,000	
Reduced Fat	2,000,000	1,000,000	17,000,000	
Net Volume	35,000,000	13,500,000	31,500,000	80,000,000
<b>Price per Unit</b>				
Price per Unit	\$ 1.95	\$ 1.95	\$ 1.41	\$1.74
Sales	\$ 68250000	\$ 26325000	\$ 61425000	\$138,990,000
<b>Variable Cost per Unit</b>				
Variable Cost per Unit	\$ 0.95	\$ 1.00	\$ 1.05	\$1.00
Margin per Unit	\$1.00	\$0.95	\$0.36	\$0.95
Total Contribution	35,000,000	12,825,000	11,340,000	59,165,000
<b>Manufacturing Overhead</b>				
Manufacturing Overhead	\$17,500,000	\$6,750,000	\$15,750,000	\$ 40000000
Gross Profit	\$17,500,000	\$6,075,000	-\$4,410,000	\$19,165,000
<b>Fixed Marketing Expenses</b>				
Fixed Marketing Expenses	\$4,910,425	\$1,894,021	\$3,195,554	\$ 10000000
<b>Variable Brand Expenses</b>				
Variable Brand Expenses	\$ 3412500	\$ 789750	\$ 1842750	\$6,045,000
Total Marketing Expenses	\$8,322,925	\$2,683,771	\$5,038,304	\$16,045,000
Net Marketing Contribution	\$9,177,075	\$3,391,229	-\$9,448,304	\$3,120,000

**Teaching Note:** As shown in the screen printout above, when the price of the Reduced-Fat brand is lowered to \$1.41 per package, the overall net marketing contribution drops to a level approximately equal to the net marketing contribution obtained if this brand were eliminated from the product line. At this price, the Reduced-Fat brand produces a positive total contribution but, after accounting for manufacturing overhead and marketing expenses, the impact is the same as not having this brand in the product line.

