

1: PharmaSim Case



The Allstar Brands Medicine Group

ALLSTAR BRANDS CORPORATION IS ONE OF THE LEADING MANUFACTURERS of packaged goods in the world. Since its founding in 1924, the company has acquired or merged with a number of smaller packaged goods companies.

The Allround Brand

The management team at the over-the-counter cold medicine (OCM) group of Allstar Brands just completed its third presentation in the past month to the Pharmaceuticals Division manager regarding the status of the Allround cold medication. It is apparent, from all the attention the team has received, that the Allround brand it manages is of strategic importance to the company. Unfortunately for the team and the company, the fourth quarter performance reports for Allround were not as positive as management expected. Therefore, the OCM team has been under the intense scrutiny of senior management.

Allstar Brands Corporation is one of the leading manufacturers of packaged goods in the world. Since its founding in 1924, the company has acquired or merged with a number of smaller packaged goods companies.

Overview

Allstar Brands' Allround product is a market leader in the over-the-counter (OTC) cold and allergy remedy market. The consistent success of the brand in terms of profitability and sales has made it a critical component of the Pharmaceuticals Division's long-term strategic plan. The division anticipates that the brand's cash flow in the coming periods will allow the company to pursue new opportunities in emerging markets.

However, the division manager responsible for Allround has become concerned with the competitive nature of the OTC cold remedy market. In the past three years, the industry has seen several product introductions as well as major increases in promotional and advertising expenditures. There is concern among senior management that this competitive activity will lead to declining market share and profitability for Allround. The brand has lost one full share point in the last year. Senior management expects that skillful marketing will prove pivotal to the long-term success of Allstar Brands.

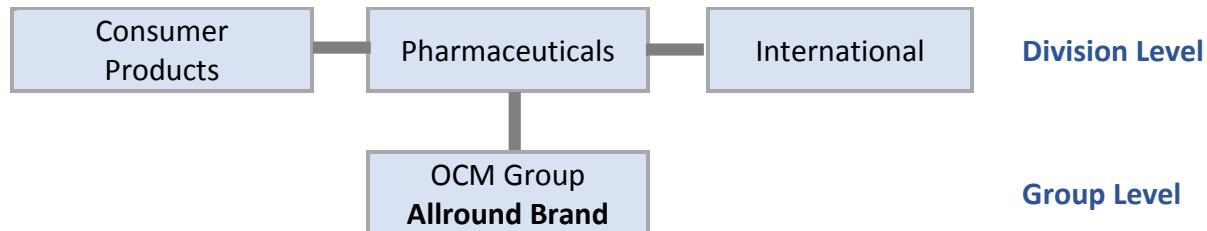
The Company

The company consists of three divisions: Consumer Products, International, and Pharmaceuticals. The Consumer Products Division handles a number of packaged goods, such as laundry detergent, shampoo, and bar soap. The International Division distributes Allstar products on a global basis and has a large presence in the European market. The Pharmaceuticals Division is responsible for the marketing and production of ethical and OTC medications. Ethical drugs are available through pharmacies with a physician's prescription, whereas OTC remedies are widely distributed without the need for a prescription.

The management of Allstar's Pharmaceuticals Division consists of a number of market related groups, one of these being the OCM group. This group is concerned primarily with the marketing activities of the Allround brand and any line extensions or new product introductions that might

fall under the same category. An overview of the corporate structure of Allstar Brands is presented in Exhibit 1.1.

Exhibit 1.1: Allstar Brands



The Brand Management Group at OCM

The marketing management group responsible for Allround consists of a brand manager, an assistant brand manager, and a brand assistant who is a recent business school graduate. They work together as a team on all of the marketing decisions related to the OTC cold and allergy remedy market. The three managers are concerned with developing the Allround marketing mix strategy each period, including any reformulation or line extension options. In addition, if Allstar's research department develops any promising new product ideas for the cold medicine market, this team will be responsible for the new product launch. Although all product and marketing decisions are made as a group, each member of the brand management group has a different role.

During the simulation, decision levels progress from brand assistant to brand manager.

The **brand assistant** has major input on decisions related to retail price, promotional allowances, consumer and trade promotional expenditures, advertising expenditures, and the number of direct and indirect sales force personnel committed to the Allround brand. The brand manager thought it would be best for the brand assistant to gain experience by understanding the basic marketing variables before becoming more involved in the detailed implementation of the marketing plan.

The **assistant brand manager** has input to the aforementioned issues but is also required to make more in-depth marketing decisions. For example, the assistant brand manager makes recommendations concerning the allocation of the sales force to retailers and across direct and indirect channels. This person is also concerned with the development of the pricing discount structure, as well as more of the specifics of promotional programs, including the advertising message, advertising agency, and trade and consumer promotions.

The **brand manager** is responsible for all aspects of the marketing decisions for the Allround brand. In addition to the decision areas above, the brand manager is responsible for more detailed aspects of the advertising message, including which competitor to position against, the

choice of target segments, and the details of how promotional allowances and promotions are allocated across various distribution channels.

In general, the brand management group is responsible for making effective marketing decisions in all marketing mix areas to maximize the long-term profitability of Allstar Brands' OTC cold and allergy remedy group.

Industry Overview

Allstar Brands competes with four other firms in the OTC cold and allergy market. These five firms offer a total of 10 brands in five different product categories (cold liquid, cough liquid, allergy capsule, cold capsule, and nasal spray) listed in Exhibit 1.2:

Exhibit 1.2: Company and Brand Summary		
Company Name	Sales \$ (millions)	Brands on the Market
Allstar Brands	355	Allround: 4-hr multi-symptom cold liquid
B&B Health Care	286	Believe: 4-hr allergy capsule
		Besthelp: 4-hr cold capsule
Curall Pharmaceuticals	199	Coughcure: 4-hr cough liquid
Driscoll Corporation	255	Defogg: 4-hr allergy capsule
		Dripstop: nasal cold spray
		Dryup: 4-hr multi-symptom cold capsule
Ethik Incorporated	396	Effective: nasal cold spray
		End: 4-hr cough liquid
		Extra: 12-hr cold capsule

The OTC Cold Remedy Market

Cold remedies are designed to address five basic symptoms: aches and fever, nasal congestion, chest congestion, runny nose, and cough. Although the cause is different, allergies share many of the same symptoms and are therefore often grouped with cold remedies. However, products formulated specifically for allergy relief medicines are available, and it is common in the industry to consider relief from allergy symptoms as a separate consumer need from virus and flu related illnesses. Chronic allergy sufferers tend to have different usage patterns and more concerns about side effects because of the duration of the symptoms.

Brand Formulations

Products vary in the ingredients they contain, their form, and the duration of relief. In general, various combinations of six basic types of ingredients are used to formulate OTC brands. Each ingredient targets one of the five basic symptoms or is used as a base for the other ingredients. The ingredients are:

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- **Analgesics:** Provide relief for aches and fever. Common analgesics are aspirin and acetaminophen (an aspirin substitute).
 - **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. (Some consumers view alcohol as a negative attribute.)

A brand can be made available in one of three forms: liquid, capsule, or spray. A consumer's choice with regard to form is usually based on personal preference, but some general differences are apparent. 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. According to a recent survey, most consumers find that capsule form is somewhat more convenient than liquid.

Two other basic considerations are duration of the product and possible side effects. Product duration is typically either 4-hour or 12-hour. The government regulates the amount of medication for various periods of relief, including the maximum for a 24-hour period without a prescription. The maximum dosage used in 4-hour formulations cannot be taken more than four times each day due to over-medication concerns. Twelve-hour formulations can contain twice the dosage as 4-hour formulations, or half the daily maximum medication. Nasal sprays are considered instant relief products because they act much faster than standard cold medicines, but their effectiveness wears off faster.

OTC side effects have become a greater consideration in recent times because of the emphasis on healthier lifestyles and concerns about performance under medication. Drowsiness due to antihistamines or alcohol is the most often mentioned negative side effect, especially when these products are used during the day. Other considerations include upset stomach, long-term effects of nasal spray, and excessive medication.

As can be seen in Exhibit 1.3, the Allround brand is a 4-hour liquid cold medicine that provides multi-symptom relief. It contains an analgesic, an antihistamine, a decongestant, a cough suppressant, and alcohol. Most consumers use this product for nighttime relief because of the strength of the medication and because the alcohol and antihistamine help the patient rest. Allround is viewed as one of the most effective brands on the market at reducing multiple cold symptoms. However, consumer groups and some physicians have attacked the multi-symptom "shot-gun" approach as providing excessive medication in many circumstances.

Exhibit 1.3: Current Brand Formulations							
	Anal- gesic	Anti- hist.	Decn- gest.	Cough Supp.	Expect.	Alco- hol	Description
Max Allow	1,000	4	60	30	200	20	(mg/4-hr dose)
Allround	1000	4	60	30	0	20	4-hr multi liquid
Believe	0	4	0	0	0	0	4-hr allergy capsule
Besthelp	0	4	60	0	0	0	4-hr cold capsule
Coughcure	0	0	30	30	0	10	4-hr cough liquid
Defogg	0	4	0	0	0	0	4-hr allergy capsule
Dripstop	0	0	60	0	0	0	cold spray
Dryup	1000	4	60	0	0	0	4-hr multi capsule
Effective	0	0	60	0	0	0	cold spray
End	0	0	0	0	200	10	4-hr cough liquid
Extra	0	0	120	0	0	0	12-hr cold capsule

Market Segmentation and the Market Survey

The trade typically segments the OTC cold and allergy market based on how the brands are labeled. The four standard product categories in the OTC market are cold, cough, allergy, and nasal spray. The brand management group often uses the information presented in Exhibit 1.4 as a basis for determining the brand's direct competition, but also realizes that the report fails to account for the cross-usage of brands (e.g., using a cold medicine to relieve allergy symptoms).

Exhibit 1.4: Market Share by Product Category					
	Cold	Cough	Allergy	Nasal	Total
Mfr. Sales (M\$)	879.7	366.4	126.1	119.1	1,491.2
Growth	6.6%	3.2%	5.9%	4.5%	5.1%
	%	%	%	%	%
Allround	40.4	0.0	0.0	0.0	23.8
Believe	0.0	0.0	50.7	0.0	4.3
Besthelp	25.2	0.0	0.0	0.0	14.9
Coughcure	0.0	54.3	0.0	0.0	13.3
Defogg	0.0	0.0	49.3	0.0	4.2
Dripstop	0.0	0.0	0.0	52.0	4.2
Dryup	14.9	0.0	0.0	0.0	8.8
Effective	0.0	0.0	0.0	48.0	3.8
End	0.0	45.7	0.0	0.0	11.2
Extra	19.5	0.0	0.0	0.0	11.5

A major marketing research firm offers a nationwide survey of OTC cold and allergy consumers. The market research firm claims that this survey provides a great deal more information on how consumers perceive and use cold and allergy products. The firm also suggests that demographic segmentation could reveal important information about the market. Survey data are provided with two segmentation options: illness (cold, cough, and allergy) and demographics (young singles, young families, mature families, empty nesters, and retired). The marketing research firm conducts this survey every period. (*A Sample Market Survey Questionnaire* concludes the case.)

Curious about possible new market insights, the OCM group obtained partial non-segmented results of the market survey on a "free to examine" trial basis. If the group finds the sample data informative, it may purchase the complete survey for \$100,000. The OTC cold and allergy market could then be analyzed based on any or all combinations of illness and demographics that the OCM group desires.

Survey Data

The consumer survey consists of the following reports: 1) market share based on consumer brand purchases; 2) purchase decision-making criteria used by consumers; 3) brand awareness, trial, and repurchase percentages; 4) brand satisfaction; 5) a comparison of intended versus actual purchases; 6) a comparison of brands based on consumers' perceptions of their ability to relieve symptoms; and 7) the tradeoff that consumers perceive between symptom relief and price. The sample data for awareness, trial, and repurchase are presented in Exhibit 1.5.

The survey results on Brands Purchased, Purchase Intentions, and Satisfaction are based on units sold. Brand Awareness, Decision Criteria, Brand Perception, and Tradeoffs are based on survey population. This distinction reflects multiple purchases from one survey respondent (usage rates).

Exhibit 1.5: Market Survey—Brand Awareness, Trials, and Repurchase					
Brand	Brand Awareness	Brand Trials	Most Freq. Purchased	Conversion Ratio	Retention Ratio
	%	%	%	%	%
Allround	74.1 %	47.1 %	21.8 %	63.6 %	46.3 %
Believe	18.9 %	9.2 %	3.8 %	48.5 %	41.9 %
Besthelp	56.6 %	30.0 %	13.0 %	53.1 %	43.2 %
Coughcure	49.0 %	29.0 %	18.4 %	59.1 %	63.6 %
Defogg	24.1 %	13.0 %	4.1 %	53.9 %	31.8 %
Dripstop	20.2 %	11.3 %	3.6 %	56.1 %	31.4 %
Dryup	23.2 %	10.9 %	7.2 %	47.0 %	65.6 %
Effective	22.0 %	12.0 %	3.1 %	54.5 %	26.2 %
End	46.9 %	30.6 %	15.6 %	65.3 %	50.8 %
Extra	60.1 %	31.8 %	9.5 %	52.8 %	29.9 %

The OCM group found the data insightful. They were pleased that Allround had very high awareness. The survey measures the percent of those queried who mentioned the Allround brand without prompting, which is considered "unaided awareness." In addition, the Allround brand had the highest trial level and was the brand most frequently purchased. Allround's conversion ratio (the percentage of those aware of a brand who have tried it) is also high. The brand manager noted that the retention ratio (the percentage of those who have tried the brand who now purchase it most often) for Allround was lower than that for several other brands. The OCM group wondered if this might be a signal of future problems, but the brand assistant recalled that new brands and brands that fill very specific needs often have higher retention rates than brands that are mature or not highly targeted.

Other Marketing Research

In addition to the survey data, other information about the market is available. Market trade publications, similar to Exhibit 1.4, are free to the OCM group and provide data for industry outlook on population, market growth rate, inflation, wholesale/direct distribution, and symptoms reported by consumers. Other data concerning competition and distribution are available for a fee. These include a comparison of relevant operating statistics for each company; competitive estimates of sales force allocation, advertising expenditures, and message and promotional programs; and studies of distribution regarding share of channel sales, pricing, consumer shopping habits, average shelf space, and physician and pharmacist recommendations. Assistant Brand Manager and above can also conduct test markets which allow you to experiment with different combinations of price, advertising, and promotion. In some cases, Brand Managers may be able to use a new conjoint study to help with product decisions.

The OCM group believes that the Marketing Research studies contain useful information, but that they also need to examine the trade-off between the cost of these studies and the information for decision-making that these studies provide. They also need to recognize that all marketing research studies have some error in them.

Industry Competition

The OCM group monitors competitive activity in a number of areas, including pricing and promotional allowances, advertising, consumer and trade promotion, and sales force allocation.

Pricing and Promotional Allowances: It is industry practice for manufacturers to suggest retail prices to retailers, although retailers ultimately set the price to consumers. Manufacturers commonly offer volume discounts of 15-40 percent of the manufacturer's suggested retail price plus an

additional "promotional allowance" of 10-20 percent. Allowances are necessary to gain retail distribution, obtain desired shelf facings in retail outlets, and gain retailer support for a brand in advertisements and promotions undertaken by the retailer. Allowances are usually discussed with retailers in conjunction with price levels but are also considered to be a type of promotional expense. Thus, allowances appear on the income statement as a separate variable cost line item. Exhibit 1.6 displays the current pricing policies for the Allround brand.

Exhibit 1.6: Price / Volume Discount Schedule for Allround (\$)					
By Discount Schedule	Volume Discount	Price to Channel	Units Sold (M)	Dollars Sold (\$M)	% of Total Sales
Direct					
Suggested Retail: \$ 5.29					
<250	25 %	\$ 3.97	10.5	\$ 41.8	11.8 %
<2500	30 %	3.70	35.4	131.2	36.9 %
2500 +	35 %	3.44	15.1	51.9	14.6 %
Indirect / Wholesale	40 %	3.17	41.1	130.3	36.7 %

NOTE: This information is only available at the Assistant Brand Manager level and above in the simulation.

The manufacturer's suggested retail price (MSRP) for Allround is relatively high with volume discounts ranging from 25–40%, not including promotional allowances. However, the OCM group believes that Allround's sales have not suffered because of the higher price. In fact, the brand's effectiveness, high recognition, and level of loyalty have allowed it to maintain a price leadership role in the market. Exhibit 1.7 provides the MSRPs for all brands in the market.

Exhibit 1.7: Manufacturer's Suggested Retail Prices			
Allround	\$ 5.29	Dripstop	\$ 4.29
Believe	4.39	Dryup	5.09
Besthelp	4.89	Effective	4.39
Coughcure	5.49	End	5.29
Defogg	4.29	Extra	4.49

NOTE: A market research report showing the average retail price by channel is available for \$20,000.

Advertising

Advertising plays a major role in establishing brand awareness among consumers and in helping to shape consumers' perceptions of products. Last period, \$20 million dollars was spent on Allround's advertising campaign, primarily for commercials aired on network television. Competitive advertising budgets for last period ranged from \$1 million for the Effective brand to \$16 million for Coughcure.

There are four basic advertising message types that the OCM group considers potentially useful for Allround: a primary demand stimulation to focus the advertising message on increasing overall demand for OTC remedies while increasing Allround's unaided awareness; a benefits approach that states the symptomatic relief properties of Allround; a comparison approach that positions Allround against another brand; and a reminder advertising message to maintain consumer awareness and stimulate the repurchase of Allround. The advertising message used in any period can be a combination of these types and Allround used all of them to some extent last period in their campaigns. The advertising message can also target product use (cold, cough, and/or allergy) and demographics (young singles, young families, mature families, empty nesters, and/or retired). This targeting provides guidance to the advertising agency for creative aspects of the ad design and selection of specific media placements.

The OCM group must make three basic advertising decisions each period: the amount of dollars allocated to the advertising budget, the content of the advertising message, and the choice of an advertising agency.

The OCM group is considering the selection of a new advertising agency. Allround's current agency is Brewster, Maxwell, and Wheeler (BMW). This agency is known for its high quality work but charges a 15 percent commission on media placements. There is some concern that BMW costs too much and is having an adverse impact on Allround's profits. The OCM group has received solicitation from two other advertising agencies. Sully & Rodgers (S&R) has a reputation of providing mid-range quality work but charges only 10 percent on media placements. Lester Loebol & Company (LLC) charges only 5 percent on media placements, one-third as much as BMW, but its advertising campaigns are of significantly lower quality. It could be argued that, since the Allround name is well established, a decrease in the quality of advertising might not hurt the brand significantly. Potential cost savings could result in an increase in profits, but the group is concerned that lower quality advertising might cause irreparable damage to Allround's brand image.

Consumer and trade promotions are a significant part of marketing in the OTC cold and allergy remedy market.

Promotion

Trade promotions include promotional allowances and co-op advertising. Promotional allowances, also discussed in the pricing section, are an additional discount to the channel. Co-op advertising provides incentives to the channel to feature a specific brand in their own advertising. Money is made available to retailers to pay for a portion of the retailer's advertising when the relevant brand is promoted.

Allstar Brands spent significant amounts on consumer and trade promotions for the Allround brand last period. As was the case in advertising, the OCM group believes that Allround has more promotional support than any other brand on the market.

Consumer promotions include distribution of free trial size packages, coupons, and point-of-purchase displays. Trial sizes come in smaller packages and allow consumers to try a product before buying. Allround did not use trial size packaging last period but may consider this option in the future. As the name implies, trial size packaging usually contains a smaller dosage of medicine and is provided to potential consumers free of charge. This promotion can be used to attract potential consumers to the Allround brand.

Coupons distributed to consumers in special newspaper or magazine supplements offer additional discounts off the retail price when redeemed at the time of purchase. In the last period, a part of Allround's consumer promotion budget was spent on coupon support. This included money spent on printing, inserts, and mailings.

Point-of-purchase vehicles are special displays, such as retail sale racks, on-shelf advertisements, or end-of-aisle displays that promote a brand to the consumer in the retail store. The OCM group believes that these displays promote brand switching when the consumer is purchasing OTC products. Point-of-purchase money is paid to the retailer, but the promotion targets the end consumer. The brand manager may allocate these funds across retail channels depending on such factors as shopping habits and channel needs. Exhibit 1.8 is a summary of last period's promotional activity for the Allround brand.

Exhibit 1.8: Promotional Activity for the Allround Brand (in \$000s)	
Promo Allowances	\$ 60,400 (17.0%)
Co-op Advert	1,400
Point of Purchase	1,400
Trial Size	0
Coupons	4,200 (\$0.50 / ea.)

The OCM group not only allocates money for each of these promotional activities but also determines the promotional effort across all retail outlets within the various distribution channels.

Sales Force

The support of a manufacturer's sales force is critical to the success of a brand in the OTC cold and allergy market. Part of the sales force sells directly to retail outlets. This direct sales force is responsible for maintaining relationships with current retailers and for developing new retail accounts. The direct sales force also presents trade promotions, allowances, and new product introductions to retailers.

Manufacturers also maintain an indirect sales force, which includes wholesalers, merchandisers, and detailers, designed to sell into and support the indirect distribution system.

Wholesalers sell OTC brands to smaller, independent retailers that are not reached by the direct sales force of the manufacturer. 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.

The OCM group determines the total size of the sales force, including the proportion of direct and indirect support. The brand manager allocates the direct sales force to each type of retail outlet and the indirect sales force to its three components (wholesalers, merchandisers, and detailers). The group must also be concerned with sales force hiring and training costs. The latter is critical to the pharmaceuticals business, even in OTC drugs.

Exhibit 1.9: Allround - Sales Force Allocation			
Direct	# SF	Indirect	# SF
Independent Drugstores	6	Wholesalers	15
Chain Drugstores	28	Merchandisers	8
Grocery Stores	43	Detailers	10
Convenience Stores	3	Sub-Total (Indirect)	33
Mass Merchandisers	14		
Sub-Total (Direct)	94	Total Sales Force	127

Channel Choices

As noted above, Allround uses both direct and indirect channels of distribution. Generally, direct sales target larger urban and suburban stores, as well as chain retail accounts. Wholesalers typically serve smaller retail outlets and more rural areas, where the revenues generated for Allround do not support the cost of maintaining a salesperson. Wholesalers carry many product lines and therefore have a broader revenue base for supporting the cost of their sales force.

OTC cold and allergy remedies are sold at retail in independent and chain drugstores, full-line grocery stores, convenience stores (or small roadside markets, such as 7-11), and mass merchandisers (such as Kmart).

Gaining the support of the channel is an important part of a brand's success, and shelf space allocation and placement can have a significant effect on brand sales. The OCM group paid for a study of average shelf space in retail channels and found that Allround did not receive the best placement in all channels. The group wondered why Allround did not consistently receive the best placement, since the brand typically generated higher volume than any other OTC medication. Due to this concern, they asked their sales force to query retailers about shelf space allocation among brands. The results from this informal survey showed that retailers considered four basic factors regarding shelf space allocation: product turnover (number of units sold in a given period of time), promotional allowances, sales force support, and co-op advertising

allowances. In general, large grocery stores, mass merchandisers, and chain drugstores were more apt to focus on turnover and allowances, whereas independent drugstores paid greater attention to sales force support. The OCM group hoped that this information might prove useful in determining how to allocate their resources across distribution channels.

Internal Product Development

The OCM group has important product development and management decisions to make over the next decade and must work closely with the product research and development (R&D) area within Allstar Brands. R&D can provide three major types of product development for the Allround brand group: reformulation of the ingredients in Allround; line extensions of the basic Allround brand; and development of a new brand. New brand options may include ingredients currently available by prescription only should government regulations change. These proprietary prescription only medications may offer Allstar Brands competitive advantages in the OTC market.

After lengthy discussion, the OCM group and R&D agreed that the following schedule would frame the group's product development decisions. After the given period of time, these product alternatives will not be available to the OCM group because R&D will be busy with other projects. They simply will not have the time to work on these projects outside of this schedule.

Product Development Schedule

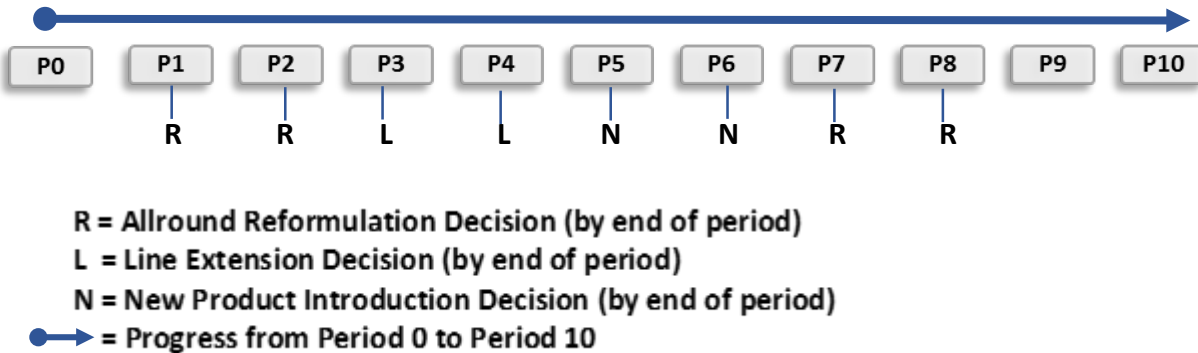
Two **reformulations** of the Allround brand will be available from R&D in Period 1 or 2. The two options under consideration are dropping the alcohol or replacing the cough suppressant with an expectorant. If used, the reformulation would replace the current product configuration. The OCM group must decide by the end of Period 1 or 2 between these two reformulations (for introduction in the market the following period). The opportunity to decide to reformulate will not be available to the OCM group after Period 2.

Three potential **line extensions** will be available from R&D in Period 3 or 4. The three options under consideration are a 4-hour cold liquid for children, a 12-hour multi-symptom capsule, or a 4-hour cough liquid. If introduced, the line extension will provide a new stock-keeping unit (SKU) in addition to Allround, but also take advantage of Allround's awareness. The OCM group must decide by the end of Period 3 or 4 from among these three choices (for introduction in the market the following period). The opportunity to decide on a line extension will not be available to the OCM group after Period 4.

Three **new product** formulations will be available from R&D in Period 5 or 6. The three options under consideration are a 4-hour allergy capsule, a cold spray, or one of the line extensions not previously chosen (to be determined by R&D). The allergy medication is based on a unique, non-drowsy product that is currently available by prescription only. However, the company is planning to submit the product for government approval. The OCM group must decide by the end of Period 5 or 6 from among these three new product choices (for introduction in the market the following period). The opportunity to launch a new product line will not be available to the OCM group after Period 6.

R&D will be available in Periods 7 and 8 to **reformulate** Allround. The OCM group must decide by the end of Period 7 and/or by the end of Period 8 (for introduction into the market the following period) whether or not to reformulate Allround.

Allround Reformulation, Line Extension, and New Product Introduction Timeline



Note: Decisions on reformulations, line extensions, and new product introductions must be made by the end of a given period (before advancing the simulation) for introduction at the beginning of the following period.

Financial Situation

An income statement is presented in Exhibit 1.10. Allround is a successful and profitable brand with sales of \$355.3 million at the manufacturer's level last period. The gross margin was \$172.3 million, and the margin after advertising and promotional expenses was \$145.3 million. The margin after all marketing expenditures, including sales force and administrative costs, was \$129.5 million. The Allround brand also carries its share of fixed costs, including the plant where Allround is produced and a share of corporate overhead charges. The OCM group knew that if demand warranted, the plant would be expanded and fixed costs would increase based on the increase in capacity. These fixed cost charges currently were \$62.4 million, leaving a net income of \$67.2 million. Senior management of Allstar Brands expects the OCM group to make even greater contributions in the future.

The OCM group has received a budget to make marketing decisions for the Allround brand. The marketing budget must cover all sales force, advertising, and consumer and trade promotion expenditures. In addition, any marketing research purchased is a budget expense. Promotion allowance, however, is treated as a price discount and is not charged against the budget. Each year, the marketing budget is adjusted up or down based on sales and net contribution performance. If a line extension or new product is introduced, the group will receive additional budget funds to help with the launch. Unused budget will not be carried forward to the next year, and budget deficits are not permitted. The brand management group must determine the best

way to allocate the available funds, and can use the marketing efficiency index (ratio of net income divided by marketing expenditures) to track performance.

Exhibit 1.10: OCM Group Income Statement			
	\$ (M)	\$ (M)	%
Manufacturer Sales	355.3		100.0
Promotional Allowance	60.4		17.0
Cost of Goods Sold	122.6		34.5
Gross Margin		172.3	48.5
Consumer & Trade Promotions	7.0		2.0
Advertising	20.0		5.6
Sales Force	6.0		1.7
Administrative	9.8		2.7
Total Marketing Expenses		42.8	12.0
Contr. after Marketing		129.5	36.5
Fixed Costs		62.4	17.6
Net Income		67.2	18.9

The Marketing Task

The task of the Allround brand management team is to maintain long-term profitability and market share in an increasingly competitive and changing environment. With great enthusiasm, the OCM group sets out to do the job. Each member has separate assignments, but all are concerned with the performance of the Allround brand and any new brands that might be forthcoming. It will be necessary to use the information presented in the exhibits and possibly other marketing research studies to assess Allround's situation. After completing its analysis of the situation, the group will then make decisions in the areas of product choice, distribution, promotion, and pricing. The group must keep in mind that all decisions are interrelated and must be considered in context. It will repeat this process over the coming 10 periods as it attempts to establish AllStar Brands as the leader in both profitability and market share in OTC cold medication.

Sample Market Survey Questionnaire

This market survey questionnaire was designed to be asked to consumers at the point of purchase (drugstore, grocery store, convenience store).

Market Survey Questionnaire			
PURCHASE INFORMATION			
1. Did you purchase any cold medicine?		YES	NO
— If you answered "NO" above, go to question 5 —			
2. Which brand of cold medicine did you purchase?	_____		
3. Which brand of cold medicine did you intend to buy?	_____		
SATISFACTION			
4. Overall, are you satisfied with the product you just purchased?		YES	NO
5. Which brands of cold medicine have you heard of?	Allround	Besthelp	Believe
	Coldcure	Coughcure	Dripstop
	Defogg	Effective	Extra
	End	Other	
6. Which brands of cold medicine have you tried?	Allround	Besthelp	Believe
	Coldcure	Coughcure	Dripstop
	Defogg	Effective	Extra
	End	Other	
7. Which brand of cold medicine do you purchase most frequently?	Allround	Besthelp	Believe
	Coldcure	Coughcure	Dripstop
	Defogg	Effective	Extra
	End	Other	

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DECISION CRITERIA							
8. Please rank the following product attributes in order of importance in your decision to purchase cold medicine:							
_____	Product Effectiveness						
_____	Side Effects						
_____	Price						
_____	Form						
_____	Duration						
BRAND PERCEPTIONS / TRADEOFFS							
9. Of the brands you mentioned having heard of (from question 5), how effective would you rate the _____ brand of cold medicine in relieving the following symptoms:							
	< Not At All Effective			Extremely Effective >			
Aches	1	2	3	4	5		
Nasal Congestion	1	2	3	4	5		
Chest	1	2	3	4	5		
Runny Nose	1	2	3	4	5		
Cough	1	2	3	4	5		
Allergy	1	2	3	4	5		
10. What is your perception of the price of _____ brand?	Inexpensive		Affordable		Expensive		
	Price	1	2	3	4	5	
SEGMENT INFORMATION							
11. Age: _____							
12. Household Size: _____							
13. What illness are you suffering from?	Cold		Cough		Allergy		