

Northern Michigan University

CASE: DRYBEST CORPORATION

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MARKET DATA

Baby Diaper Retail U.S. Market Size		
Year	Market Size (in Millions)	Percent Change
2014	\$ 3,880.00	-
2015	\$ 3,825.00	-1.418%
2016	\$ 3,855.00	0.784%
2017	\$ 3,930.00	1.946%

Figure 1.1 shows the Baby Diaper Market from 2014 to 2017 by Retail Dollar Sales in millions of dollars and the percent change associated.

Training Pants Retail U.S. Market Size		
Year	Market Size (in Millions)	Percent Change
2014	\$ 485.00	-
2015	\$ 510.00	5.155%
2016	\$ 540.00	5.882%
2017	\$ 595.00	10.185%

Figure 1.2 shows the Training Pants Market from 2014 to 2017 by Retail Dollar Sales in millions of dollars and the percent change associated.

The market size by revenue has increased from 2014 to 2017 for both baby diapers and training pants. The change year-to-year was much more sporadic when compare to the training pants market. Overall, the baby diaper market saw little to no increase over the past few years (1.28% more revenue in 2017 than 2014). The training pants market has seen more success. On average, the market increased at a rate of about 7.1% per year. Overall, the training pants market saw a high level of growth over the past few years (22.68% more revenue in 2017 than 2014).

CHANNELS OF DISTRIBUTION

Market Share as a Percentage by Distribution Channel			
Year	Grocery Stores	Mass Merchandisers	Drugstores
2014	60%	30%	10%
2015	57.07%*	33.133%*	9.733%*
2016	54.14%*	36.266%*	9.466%*
2017	51.2%	39.4%	9.2%

Figure 2.1 shows the market share (on a revenue basis) of baby diapers and training pants by channel of distribution from 2014 to 2017. DISCLAIMER: The * denotes an estimate based on a linear change from the year 2014 to 2017.

During the years 2014 to 2017 the market share of distribution by the main three channels has greatly changed. The Mass Merchandiser channel has seen fantastic growth at the expense of both the Grocery Store and Drugstore channels. The Grocery Store channel had the largest impact with a market share reduction of 8.8%.

The change in revenue generated by the Grocery Store channel has a significant impact on the sales for DryBest. The decrease in channel dominance creates a threat for DryBest. DryBest should consider expanding into either the Mass Merchandiser or Drugstore channels.

DOMESTIC AND INTERNATIONAL SALES

Company Sales History (in Millions of \$)			
Region	2015	2016	2017
Domestic	\$ 154.50	\$ 179.20	\$ 191.30
International	\$ 9.40	\$ 27.80	\$ 95.70
Percent of Sales (Domestic/International)	94.3% / 5.7%	86.6% / 13.4%	66.7% / 33.3%

Figure 3.1 shows the domestic and international dollar sales for DryBest from 2015 to 2017. **DISCLAIMER:** Domestic sales include the United States, Puerto Rico, and exports.

International sales for DryBest have seen immense improvements from 2015 to 2017. With over a 10-fold increase in international sales DryBest is experiencing fast growth. In addition to international sales success, DryBest has also experienced domestic sales growth with a 23.8% increase from 2015 to 2017. DryBest currently generated one-third of their revenue through international sales.

In regards to the domestic and international percentage of total sales: domestic sales are skewed higher than actual due to the inclusion of exports in domestic sales. Exports, although manufactured in the U.S., are sold internationally.

SWOT ANALYSIS

Strengths <ul style="list-style-type: none"> ❖ Third Largest Marketer in the U.S. ❖ Innovative Research and Development ❖ Large Manufacturing Capabilities in the U.S. and Latin America ❖ Exclusive Private-Label Supplier to Walmart in Latin America ❖ Similar Manufacturing Costs as Leading National Brand Manufacturer ❖ Relatively Low Selling Prices (40% Lower than Premium Brands). 	Weaknesses <ul style="list-style-type: none"> ❖ Lack of Brand Awareness (Regional Consolidation) ❖ Reliance on Promotional Marketing ❖ Lower Marketing Budget than Leading Competitors ❖ Increased Interest Expense (\$115 Million in Bonds in 2017)
Opportunities <ul style="list-style-type: none"> ❖ Expanding Product Lines ❖ Sesame Street License ❖ Continued International Expansion into Latin America and Pacific Rim ❖ Increase Access to Mass Merchandisers ❖ Target Low-Priced Grocery Stores 	Threats <ul style="list-style-type: none"> ❖ Shrinking Grocery Store Channel Revenue Sales ❖ Being “Me-Too’ed” by Large Competitors ❖ Aggressive Promotional Spending by Large Competitors ❖ Latin and South America Uncertainty ❖ Rise in Raw Material Costs

COMPETITIVE POSITIONING

Value-Priced Offerings at a Premium-Level of Quality: DryBest offers their products at a 40% discount when compared to premium-priced brands. The quality of the products is equal to the baby diapers and training pants include features such as great diaper fit, absorbency, and leakage control.

Innovative Research and Development: DryBest is one of the only Value-Priced baby diaper and training pants brand that utilized research and development. Through innovations such as using natural baking soda to address odor and Aloe Vera for skin care.

Nationally Recognized Brand (Goal): Although unachieved (due to regional consolidation of three other brands), DryBest plans to position themselves as a national value-priced brand with high credibility. The TV advertising campaign is being invested into to address positioning.

MARKETING STRATEGIES

Product:

- ❖ **High-Quality Diapers and Training Pants:** DryBest manufactures premium-quality products, but sells them at a fraction of the price when compared to leading brands. The products have many comparable characteristics such as diaper fit, absorbency, and leakage control.
- ❖ **Product Differentiation:** DryBest differentiates their products through innovation such as using baking soda to address odor, Aloe Vera for skin care, and novel antibacterial treatment. In addition, training pants have a one-piece design and fit to appear more like underwear.
- ❖ **Product-Line Expansion Through Acquisition:** DryBest acquired NewLund Laboratories to further expand their product line. NewLund manufactures a breakthrough laundry detergent technology that acts as an all-in-one laundry product for both cleaning and drying.

Price:

- ❖ **Value-Priced Offering:** DryBest is a value-priced offering that sells a premium quality product at lower prices. When compared to the leading premium brands, DryBest has about a 40% reduction in price for comparable items.

Distribution:

- ❖ **Primary Channel (Grocery Stores):** DryBest primarily uses the Grocery Store channel to distribute their products in the U.S. The channel coverage for DryBest consists of 66% of all grocery store market sales for these products. The company also has brokerage firms that work with in-house managers expedite expansion into grocery store chains and independent stores.
- ❖ **Expansion into Mass-Merchandisers:** Historically value-priced brands have trouble penetrating the Mass-Merchandiser channel. But with the introduction of national advertising and increased manufacturing capabilities DryBest may have the ability to further expand into the Mass-Merchandiser channel.

- ❖ **International Channels:** DryBest sells products in over 28 countries. Primarily focusing on Latin America, DryBest has an exclusive private-label partnership with Walmart and sells their branded products through Walmart as well. In addition, DryBest acquired the brand name of a Brazilian company called Brazilian Puppet to market in Brazil.
- ❖ **International and Domestic Outsourcing:** DryBest leases manufacturing, distribution, and administrative space in nine locations in the U.S. as well as in Brazil, Puerto Rico, Argentina, and Mexico.

Promotion:

- ❖ **Print Advertising:** Consists of \$3.219 million of the promotional budget. The advertisements were featured in parent-oriented magazines. DryBest also invests in large volumes of direct mail.
- ❖ **Coupons:** In conjunction with print advertising, DryBest regularly places promotional coupons in newspapers' food sections and Sunday newspaper free-standing inserts (FSIs). Several million coupons are created annually.
- ❖ **In-Store Promotions:** Promotional pricing in-store helps move the product off the shelves at a cost to the profit margins.
- ❖ **Sampling:** DryBest ships diaper samples to pediatricians, day-care centers, and pedestrians.
- ❖ **TV Advertising:** Starting in 2018 DryBest will invest \$10 million into TV advertising for the first two quarters. The goal of the campaign is to create national recognition of DryBest as a value-priced brand with premium quality.

MARKET SHARE

Domestic Market Share for Revenue by Manufacturer		
Manufacturer	Dollar Sales (In Millions)	Market Share (Revenue)
Procter And Gamble	\$ 1,877.88	41.5%
Kimberly-Clark	\$ 1,692.35	37.4%
Private-Label	\$ 728.53	16.1%
DryBest	\$ 150.10	3.32%
Others	\$ 76.15	1.683%
Total	\$ 4,525.00	100%

Figure 4.1 shows the market share in the United States for DryBest and the major competitors for the year 2017. The market consists of baby diapers and training pants. The market share was derived by using the dollar sales for each respective competitor(s).

DryBest has a domestic market share of 3.32% of the disposable baby diaper and training pants market. The dollar sales for DryBest was calculated by taking the domestic sales of branded baby diapers and training pants (52.3%) and multiplying that by total net sales for 2017. The leading competitors are the premium brands Procter and Gamble as well as Kimberly-Clark. Following them is the private-label provider, which primarily consists of two manufacturers: Paragon Trade Brands, Inc. and Arquest, Inc.

Some of the positives involved in having a smaller market share includes the ability to have more flexible decision making. For example, a small market share company can be more innovative with less risk since less product needs to be produced to create a new offering (and it's less expensive as well). Rebranding is also much easier as brand awareness is already low. The main downside of having a small market share is the reduction in revenue.

Achieving a large market share has many positives as well. Firstly (and most obvious) is the increase in revenue. Larger market share is equivalent to more revenue which allows for a high budget in marketing and R&D. National recognition is also very useful as brand loyalty follows. Some of the downsides of having a large market share is the high monitoring of competition. With consumer recognition comes competition recognition. When a new product or strategy is launched, it's likely to be copied quickly. In addition to having national recognition is the need to continue high advertising expenses to retain the recognition.

MOST IMPORTANT FACTS

1. In late 2017, senior executives at DryBest Corporation were discussing the merits of spending upwards of \$10 million on national television advertising in 2018 for its DryBest brand of disposable diapers.
 - The basis of the case study. The question of whether DryBest should invest \$10 million into a national advertising campaign. The goal in mind being the improvement of national brand awareness.
2. Disposable diapers and training pants are distributed principally through grocery stores, drugstores, and mass merchants.
 - The three main channels of distribution for baby diapers and training pants. The channels will be the subject of many ratio analysis in the case.
3. Grocery stores accounted for 51.2 percent of retail sales in 2017, compared with 60 percent in 2014. Mass merchants have increased their share of total diaper and training pants retail sales from 30 percent in 2014 to 39.4 percent in 2017. The drugstore share of diaper and training pants retail sales has declined from 10 percent in 2014 to 9.2 percent in 2017.
 - The changing market share of distribution among the channels is of great importance to DryBest, as distribution channels are the main source of selling for companies in the value-priced baby diaper and training pants market.
4. Manufacturers of disposable diapers and training pants are typically grouped into three general categories: (1) premium-priced branded manufacturers, (2) value-priced branded manufacturers, and (3) private-label manufacturers.
 - The three types of competitors of focus in the case study. An array of traditional marketing practices are associated with each.

5. In 2017, Procter & Gamble spent an estimated \$69.6 million in measured media advertising for its Pampers brand; Kimberly-Clark spent \$75.6 million in measured media advertising for its Huggies Brand.
 - The leading premium-quality brands published media advertising budget. Great for comparing the level of investment needed to compete and to determine the proportion of the media budget needed for print versus television advertising.
6. Kimberly-Clark and Procter & Gamble brands commanded an estimated 78.9 percent of total U.S. retail dollar sales of disposable diapers and training pants in 2017. Private-label accounted for 16.1%. Value-priced brands obtained 5% of total U.S. retail dollar sales.
 - The breakdown was used to determine the market share of competition as well as DryBest for the year 2017 in Figure 4.1.
7. The company's DryBest premium brand diapers and training pants account for 52.3 percent of total company and domestic net sales in 2017.
 - The statistic is used to determine the total dollar amount of revenue generated by domestic branded diapers and training pants in 2017. The resulting number is used for Figure 7.1.
8. Company Sales and Profit History Exhibit.
 - Used to determine many of the Figures used throughout the case. Shows the domestic and international growth of the company from 2015 to 2017. The Exhibit shows that international sales are growing at a tremendous rate.
9. Domestic sales include the United States, Puerto Rico, and exports from these manufacturing operations.
 - The most important aspect is that exports from manufacturing operations is included in domestic sales. The inclusion skews the domestic sales to be higher than it actually is and vice versa for international sales.
10. Exhibit 4. DryBest Corporation Abbreviated Income Statements: 2015 – 2017.
 - The income statements show the profitability of DryBest and the areas in which a plurality of the revenues are consumed.

MEDIA ADVERTISING EXPENSE PER CAPITA

Media Advertising Expense Per Market Share Capita			
Company	Market Share	Media Advertising Expense	Expense Per Percentage Point
Kimberly-Clark	37.40%	\$ 75,600,000.00	\$ 2,021,390.37
Procter & Gamble	41.50%	\$ 69,600,000.00	\$ 1,677,108.43
DryBest	3.32%	\$ 3,219,000.00	\$ 969,578.31

Figure 5.1 shows the Media Advertising Expense for each high-quality competitor and DryBest for 2017. The table considers the Media Advertising Expense and Market share to find the expense per market share point.

These ratios show the effectiveness of media advertising. Theoretically, market share would increase with media advertising expense when engaging in effective advertising. With that in mind, the table shows that Procter & Gamble has more effective advertising as they spend less than Kimberly-Clark, yet P&G retains a higher market share.

As expected, DryBest has the lowest expense per market share capita as the value-priced brand historically uses promotional marketing to incentive purchases (as is traditional with value-priced brands). If promotional expenses were included, DryBest would have a more accurate comparison (and probably have a higher ratio than its competitors). In addition, the introduction of the TV advertising campaign will surely change the ratio.

If the \$10 million advertising campaign was included without increasing market share (which is very unlikely), the expense per percentage point would be \$3,125,059. If the expense per percentage point remained the same, the market share would increase to 13.63% of the United States market. Both estimates are inaccurate, with the actual market share and Expense Per Point landing somewhere between 3.32-13.63% and \$969,578.31-3,981,626.51 respectively.

BREAK-EVEN POINT FOR ADVERTISING CAMPAIGN

Break-Even Calculations	
Advertising Campaign	\$ 10,000,000.00
Gross Profit	37.8%*
Break-Even Revenue	\$ 26,455,026.46

Figure 6.1 shows the break-even point in terms of revenue generated when solely focusing on costs of goods sold.

DISCLAIMER: The actual break-even in terms of revenue would be slightly higher as general and administrative expenses would also have associated costs.

Estimated Market Penetration by Channel				
	Grocery	Mass-Merchandiser	Drugstores	Total
Market Penetration	6.4%	0.083%	0.083%	3.3171%
Dollar Amount (In Millions of \$)	\$ 148.27	\$ 1.48	\$ 0.35	\$ 150.10

Figure 7.1 shows the estimated market penetration by channel for the year 2017.

The estimates were drawn by taking the estimated dollar sales for DryBest branded diapers and training pants in Figure 4.1 and using the 6.4% estimate of the grocery channel penetration in the case study. The remaining net income was distributed to the Mass-Merchandiser (81.07%) and Drugstore (18.93%) channels based on their revenue differentials.

Market Share as a Percentage by Distribution Channel			
Year	Grocery Stores	Mass Merchandisers	Drugstores
2014	60%	30%	10%
2015	57.07%*	33.133%*	9.733%*
2016	54.14%*	36.266%*	9.466%*
2017	51.2%	39.4%	9.2%
2018	48.270%	42.534%	8.934%

Figure 7.2 shows the estimated market share of each channel for the year 2018 based on the linear trend of Figure 2.1.

Prediction: For the year 2018, DryBest should see a slight decrease or stagnation in grocery store penetration as the grocery store channel is shrinking at a fast rate (as shown in Figure 7.2). The only upside is that the national advertising campaign should increase brand awareness of grocery store shoppers. New sales are expected to be about the same than the loss in grocery store market share. The Mass-Merchandiser and Drugstore channel will see a large increase in market penetration as DryBest recently acquired distribution from selected Mass-Merchant and Drugstore chains.

Estimated Needed Market Penetration by Channel (2018)				
	Grocery	Mass-Merchandiser	Drugstores	Total
Market Penetration	6.788%	1.207%	1.223%	3.9018%
Dollar Amount (In Millions of \$)	\$ 148.27	\$ 23.34	\$ 4.94	\$ 176.56

Figure 7.4 shows the estimated market penetration by channel based on the estimates from Figure 7.2 in order to break-even with the advertising campaign in 2018 shown in Figure 6.1.

Figure 7.4 makes a few assumptions:

1. The total dollar sales will remain unchanged for the baby diaper and training pants market in 2018.
2. The break-even dollar amount will be split between Mass-Merchandiser (82.64%) and Drugstore (17.36%) channels based on their channel market shares estimates for 2018.

ESTIMATED ACTUAL MARKET PENETRATION

Baby Diaper Retail U.S. Market Size		
Year	Market Size (in Millions)	Percent Change
2014	\$ 3,880.00	-
2015	\$ 3,825.00	-1.418%
2016	\$ 3,855.00	0.784%
2017	\$ 3,930.00	1.946%
2018	\$ 3,946.67	0.424%

Training Pants Retail U.S. Market Size		
Year	Market Size (in Millions)	Percent Change
2014	\$ 485.00	-
2015	\$ 510.00	5.155%
2016	\$ 540.00	5.882%
2017	\$ 595.00	10.185%
2018	\$ 631.67	6.162%

Figures 8.1 and 8.2 continue the trend on a linear basis from Figures 1.1 and 1.2 from the beginning of the case study.

The baby diaper and training pants market is estimated to have a combined value of \$4,578.34 million dollars. The estimates of channel dominance from Figure 7.2 will be used as well.

DISCLAIMER: The market would most likely have less growth in the training pants market, but estimates of increased market penetration will remain conservative to reflect that. Estimates of market penetration should be seen as a goal rather than an inevitability.

Company Sales History (in Millions of \$)				
Region	2015	2016	2017	2018
Domestic	\$ 154.50	\$ 179.20	\$ 191.30	209.7
International	\$ 9.40	\$ 27.80	\$ 95.70	138.85
Percent of Sales (Domestic/International)	94.3% / 5.7%	86.6% / 13.4%	66.7% / 33.3%	60.2% / 39.8%

Figure 8.3 shows the predicted revenues of the international and domestic branches of the company. The predictions were made on a linear bases, similar to Figures 8.1 and 8.2.

The domestic and international revenues will be used as a basis for the amount of revenue expected to be produced by the Grocery Store channel only. The estimated market share of all of the channels in Figure 7.2 will be used as well.

Estimated Actual Market Penetration by Channel (2018)				
	Grocery	Mass-Merchandiser	Drugstores	Total
Market Penetration	7.354%	2.0%	2.0%	6.4619%
Dollar Amount (In Millions of \$)	\$ 162.53	\$ 38.95	\$ 81.81	\$ 283.28

Figure 8.4 shows the estimated actual market penetration by channel for 2018. The calculations and assumptions are given below.

The Grocery Store channel penetration was calculated by finding the estimated revenue for DryBest's domestic branch for 2018 (\$209.7 million) and multiplying that by the same fraction of domestic revenue provided by the grocery channel in 2017 (77.51% of sales was attributed to the Grocery Store channel). The projection results in \$162.52 million in revenue. The projected baby diaper and training pants market from Figure 8.1 and 8.2 will be used in conjunction with the estimated market share in 2018 found in Figure 7.2 to find the predicted size of the grocery store channel in 2018 (\$2,209.96 million).

The remaining channels used the same formula to find the projected channel sizes of each. To find the revenue generated by each channel for DryBest, a simple 2% projection was used. Again, the goal of the projection isn't to be extremely accurate, but to develop an expectation of performance.

RECOMMENDATION FOR DRYBEST AD CAMPAIGN

There are a variety of concerns with the \$10 million advertising campaign budget. The concerns are listed below:

1. The Selling, General, and Administrative expenses are already 31.3% of the net sales.
2. The income statement shows a profit margin of only 0.6% (which is actually inaccurate, as the gross profit was calculated as being 1% too high. The actual profit margin for 2017 was -0.4%).
3. The traditional marketing tactics of a value-priced brand is the rely on promotion rather than advertisement and R&D.
4. The leading premium-quality brands invest about 75% of their media advertising budget into television and only 25% into print media.

With these four main concerns in mind, DryBest should reconsider their advertising proposal. The high allotment is needed, as DryBest is positioning itself as a premium-quality brand, but at value-priced prices. The need to advertise is high, as the leading competitors have immense consumer recognition. The assumption is that DryBest needs to use traditional marketing practices held by both premium and value-priced brands. The \$10 million television budget seems to be a necessary amount to invest, but the majority of the budget should be siphoned from the promotional marketing budget, since the use of coupons needs to be reduced to support Mass-Merchandiser adoption and to save the bottom line.