Northern Michigan University

CASE: DRYBEST PART II.

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Marketing Seminar MKT 435

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October 13, 2022

I.

a) Additional National Television Advertising Decision Thoughts

The decision to spend the additional national television advertising in 2018 was a wise decision. This is due to the fact that DryBest increased unaided brand awareness by 67%, this is a substantial increase since it will affect their long term growth. With the use of the advertising campaign DryBest was able to further penetrate the mass merchandise channel both domestically and internationally by initiating distribution through Walmart and Target. If DryBest did not launch the television advertising campaign, the company would experience a $2,035,512 loss. This is because the net income with the advertising campaign is $7,982,400 and without its $5,946,888, therefore the difference is $2,035,512 between launching and not launching the campaign. All of these factors exhibit the benefits and improvements the advertising campaign produced for DryBest.

b) DryBest Domestic Sales Increase in $ and %

Domestic sales increased from $191.3 million in 2017 to $213.7 million in 2018, as seen in Figure 1.1. Domestic sales for 2018 increased 11.71 percent, which is a $22.4 million increase. DryBest's branded domestic sales increased from $100.05 million in 2017 to $101.72 million in 2018. Branded domestic sales increased 1.67 percent, which is a $1.6712 million increase.

Sales (In Millions of $)	2017	2018	Change $	Change %
Domestic Sales	191.3	213.7	22.4	11.71%
Branded Domestic Sales	100.05	101.7212	1.6712	1.67%

*Figure 1.1 DryBest's Domestic Sales Increase (both in dollars and % increase) for 2017 and 2018. *The dollar amount is represented in millions of dollars.*

c) Domestic Sales Attributed to Television Expenditures

The additional national television advertising expenditures attributed $8,348,206.70, as seen in Figure 2.4, to the domestic sales increase experienced by DryBest.

Net Sales per Quarter from 2017-2018 in $ Thousands				
Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2017	$60,161	$72,551	$80,086	$74,212
2018	$78,592	$80,302	$85,841	$87,905
Difference	$18,431	$ 7,751	$ 5,755	$13,693*

*Figure 2.1 shows the difference in net sales by each Quarter from 2017 to 2018 (in thousands of dollars). *For the 4th Quarter of 2018, $5,097 of Quarter 4 revenue can be contributed to advertising campaign. The remaining $8,596 is attributed to the product launch of DryBest Germguard.*

**Predicted Decline of Net Income Growth Attributed to TV Advertising Campaign
for Quarter 4 of 2018**

	Percent Decline	Math
Q1	-	-
Q2	57.95%	1-(7,751/18,431)
Q3	25.75%	1-(5,755/7,751)
Q4	[11.442%]	(25.75%/57.95%)*25.75%

Figure 2.2 shows the predicted decline of net income from the prior Quarter that can be attributed to the advertising campaign. The 11.442% is the expected decrease of Q3 growth in net income from the year prior. In mathematical terms, $5,755 is multiplied by (1 - 0.11442) to find a predicted growth in Q4 net income over the prior year due to the advertising campaign and NOT Germguard. The Q4 net income growth attributed to the advertising campaign is calculated to be $5,096.5.

Quarters	Net Income Less Germguard (Q4 Only)	Percent Decline From Prior Quarter
Q1	$ 18,431	-
Q2	$ 7,751	57.95%
Q3	$ 5,755	25.75%
Q4	$ 5,096.5	[11.442%]
Total	$ 37,034	-

Figure 2.3 shows the percent decline of net income growth per Quarter with Q4 net income discluding the Germguard launch. Figure 2.4 will continue the total net income attributed to the advertising campaign by reducing market growth, international sales, and non-branded diapers, training pants, and all other product sales.

Revenue Attributed to the TV Advertising Campaign from Domestic Sales	
Sum of differences by quarter:	$37,034,000
% of Domestic Sales 2018:	64.30%
% of Diapers and training pants that make up Domestic Sales	47.60%
Total Net sales 2017	$287,010,000
Market Growth	3.40%
Expected growth due to the U.S. Diaper and training pant market share growth	($287,010,000 x .034) x .643 x .476 = $2,986,715.61
Revenue attributed to the TV Advertising Campaign:	($37,034,000 x .643 x .476) - $2,986,715.61 = $8,348,206.70

Figure 2.4 shows the revenue attributed to the advertising campaign based on the net income difference between the prior year's same Quarter. Other factors that increased net income include market growth and Germguard launch which both must be discluded.

d) Profitability Impact of National Television Advertising in 2018

The overall cost for the advertising campaign for 2018 was $10,383,000. The amount of revenue that was attributed to the advertising campaign was $8,348,200. There was a $2,034,800 loss for the advertising campaign but on the bright side, unaided brand awareness increased by 67%. The company suffered a 2.4% net income loss by launching the advertising campaign but if they *did not* launch the advertising campaign the company would suffer a 1.788% net income loss.

e) Long-Term Benefits of National Television Advertising

There are long term benefits to the ad campaign which are rooted in unaided brand awareness. unaided brand awareness directly links to higher brand equity. Unaided brand awareness produces better consumer recall. When thinking about diapers or training pants, consumers will associate these products to the DryBest brand. The more unaided brand awareness the more sales and market share for DryBest. There was a 67% increase from the prior year in unaided brand awareness.

f) Channel Penetration

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 3.1 shows the estimated market share percentage of each channel based on a linear trend established by the given shares in 2014 and 2017.

Estimated U.S. Market Penetration by Channel (2017)				
	Grocery	Mass-Merchandiser	Drugstores	Total
Market Share	6.4%	0.083%	0.083%	3.3171%
Dollar Amount (In Millions of $)	$ 148.27	$ 1.48	$ 0.35	$ 150.10

Figure 3.2 shows the estimated U.S. Market Penetration by channel for the year 2017. The data and chart are derived from DryBest Part 1. Using the market share given for the grocery store channel, the remainder can be used to find the dollar amount generated by the Mass Merchandiser and Drug Store channels.

Estimated U.S. Market Penetration by Channel (2018)				
	Grocery	Mass-Merchandiser	Drugstores	Total
Channel Market Share	7.7%	1.982%	0.084%	9.7660%
Total Dollar Revenue of Channel (In Millions)	$2,258.48	$ 1,990.10	$ 418.01	$4,678.85
Dollar Amount (In Millions of $)	$ 173.90	$ 39.45	$ 0.35	$ 213.70
Market Penetration by Channel	77%	19.820%	0.84%	-

Figure 3.3 shows the estimated U.S. Market Penetration by channel for the year 2018. The grocery channel market share for DryBest (7.7%) and total market dollar revenue is given in the case ($4,678.85). The proportions derived in Figure 3.1 are used to determine the Total Dollar Revenue of Channel. The estimated market penetration is then found by following the same proportion of market share to market penetration given in the case for the grocery store channel (x10 the market share size).

II.

Advertising Expenditures Recommendation 2019

It is necessary for DryBest to have a national television advertising campaign, it is only a matter of increasing their spending, decreasing, or remaining the same. The recommendation for DryBest is to remain the same by continuing to put 10 million towards television campaigns. This year DryBest has increased brand awareness by 67% with their advertising. Within the year of 2019, brand awareness should continue to increase. As DryBest moves into pull strategies with Walmart and Target, they should relocate a portion of the money that was previously spent on promotion, such as coupons, to the television advertising campaign. Spending a consistent 10 million for the next year will assist in DryBest's position in the market. DryBest will most likely increase their market share in each channel. There will be a shift

in distribution as DryBest penetrates into more mass-merchants. Overall market share for DryBest will increase as their brand awareness increases as a result of the advertising campaign.

When estimating the potential growth by continuing a consistent advertising campaign multiple variables need to be considered. The overall market will continue to grow as shown in Figure 4.1 and 4.2. Another important factor will be the continued market share as a percentage for each channel; as the mass merchandiser channel is predicted to continue to grow while the grocery and drugstore channels continue their decline. The market shares of each channel is then estimated with unique considerations in mind. First, the grocery channel market share will be continued using a linear regression for the grocery store channel trend established between 2017 and 2018. The reason a linear regression is constituted is due to the unrealized purchases from the 2018 advertising campaign in addition to the 2019 campaign. Secondly, the mass merchandiser channel will experience at least a 100% increase in market share as two prominent mass merchandisers (Walmart and Target) are currently distribution testing DryBest products. Lastly, the drugstore channel is predicted to remain constant as the channel is shrinking while brand awareness is increasing.

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	$ 4,015.28	2.170%
2019	$ 4,049.10	0.842%

Figure 4.1 shows the estimated market size of the U.S. Disposable Baby Diaper retail market size for 2019 based on the growth trend established between 2014 through 2018 (0.842%).

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	$ 690.20	16.000%
2019	$ 741.50	7.433%

Figure 4.2 shows the estimated market size of the U.S. Training Pants retail market size for 2019 based on the growth trend established between 2014 through 2018 (0.842%).

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%
2019	45.34%	45.67%	8.67%

Figure 4.3 shows the estimated market share as a percentage of total retail dollar sales for each channel of distribution. The data is based on a linear regression of the difference between 2014 and 2017 market shares for each channel. The trend is then continued for the years 2018 and 2019.

Estimated U.S. Market Penetration by Channel (2019)				
	Grocery	Mass-Merchandiser	Drugstores	Total
Channel Market Share	9.3%	3.88%	0.084%	13.2293%
Total Dollar Revenue of Channel (In Millions)	$2,172.06	$ 2,187.87	$ 415.35	$4,790.60
Dollar Amount (In Millions of $)	$ 201.22	$ 84.91	$ 0.35	$ 286.48
Market Penetration by Channel	90%	38.8%	0.84%	-

Figure 4.4 shows the estimated market share and market distribution for each channel of distribution for the year 2019. The chart uses estimates derived from Figures 4.1, 4.2, and 4.3.