The Fashion Channel
Case Study

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1 Introduction

1.1 The Problem Statement

The Fashion Channel, a cable television network is facing competition from its Competitors such as CNN and Lifetime because of its no target and old strategy which was never changed since its beginning . Women between 35 and 54 were its most avid viewers, according to annual demographic survey but TFC doesn't have much detailed information about its viewers others than the demographic survey.so, Dana Wheeler, senior vice president of marketing is given the task to **Develop an analysis of the segmentation options and to evaluate the Pros and Cons**.

TFC might need to drop the price for a unit of advertising next year by 10 % if urgent changes in its performance not made.

From viewer demographics, the Average Households rating of TFC is very low when compared to its competitors i.e CNN and Lifetime.

The TFC needs to change its Marketing strategies as it will provide more growth opportunities.

1.2 Segmentation Options:

After analyzing the data, Wheeler found it would be unwise target the Basic Cluster(all men) which is less likely to engage with TFC.Instead TFC should focus on premium customers**(women aged between 18-34)**. so, she found three segments that should be targeted.
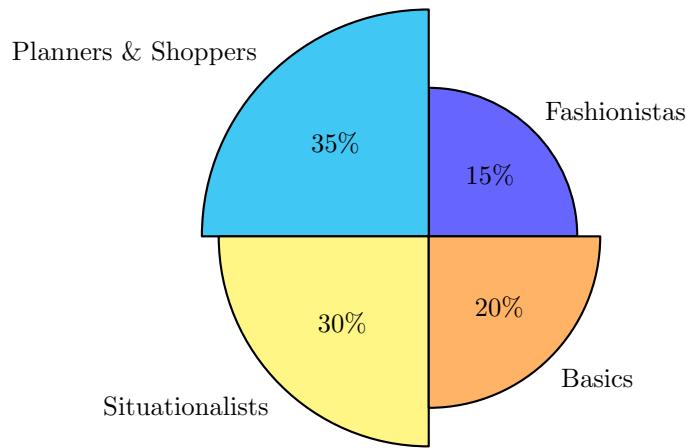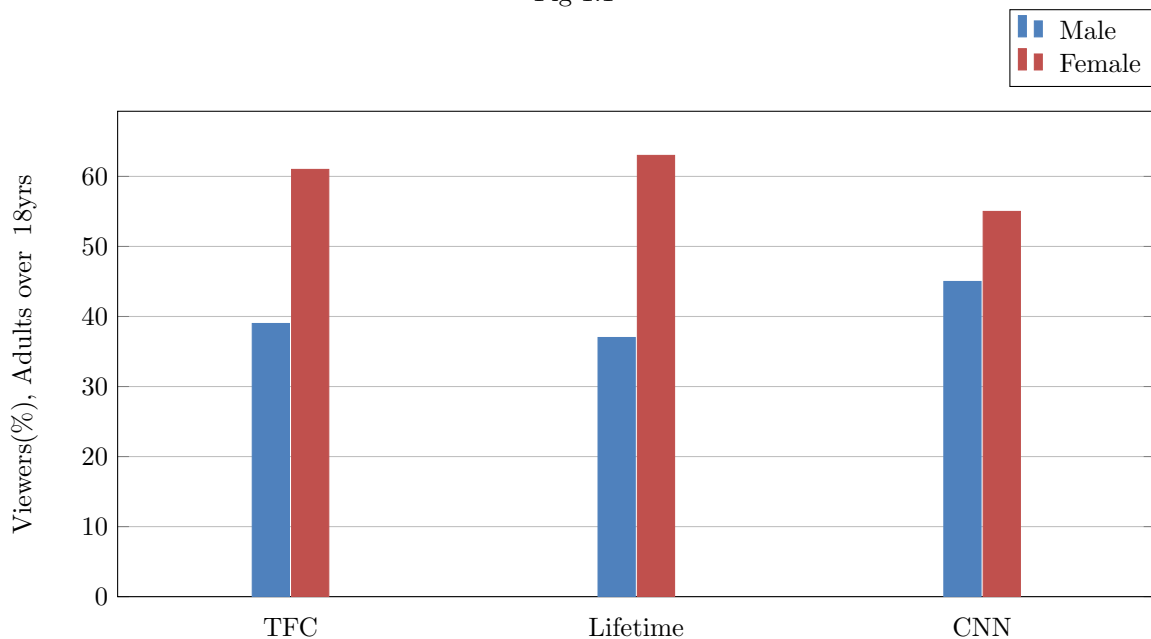

Fig 1.1

Fig 1.2

Segmentation Scenarios	Pros	Cons
• **Appeal to a cross segment of Fashionalists, Planners & shoppers, and Situationalists**	• Potential customer base of 80% (as shown in Fig 1.1) • Cost effective as TFC would not need to develop different marketing campaigns • Compared to 2007 base, it will generate $40mn in terms of net income (i.e. $94.4-$54.6 from table 1.3.2.	• Ad sales forecasted at 10% drop in Cost per month (i.e from $2 to $1.8) • less effective in differentiating TFC from its competitors. • not targeting a specific cluster of segment.
• **Focus more on the Fashionalists**	• most valuable customers from demographic perspective(women aged 18-34) • differentiate TFC from competitors as more targeted marketing is possible. • Compared to 2007 base, it will generate $96.8mn more in terms of net income (i.e. $151-$54.6 from table 1.3.2.	• more risky option as it comprise of small segment of customers(i.e.15%) • extra investment of $15mn/yr in new programming would be required in order to attract and retain the interest of this segment. • customer awareness would not change further decreasing the ratings.
• **Targeting two segments- the Fashionistas and the Shoppers/Planners**	• large segment of consumer base(i.e. 50%) • similar needs are easy to cater • compared to 2007 base, it will generate $115mn more in terms of net income (i.e. $168.8-$54.6 from table 1.3.2.	• Investing in new programming costing additional $20 million. • Negative customer perception due to high pricing initially. • Targeting only half of 50% of U.S. TV households.

1.3 Expected financial outcome of each scenario:

Ad Revenue Calculator	Current	2007 Base	Scenario 1	Scenario 2	Scenerio 3
TV HH	110,000,000	110,000,000	110,000,000	110,000,000	110,000,000
Average Rating	1.0%	1.0%	1.2%	0.8%	1.2%
Average Viewers(Thousand)	1100	1100	1320	880	1320
Average CPM	$2.00	$1.80	$1.80	$3.50	$2.50
Average Revenue/Ad Minute	$2,200	$1,980	$2,376	$3,080	$3,300
Ad Minutes/Week	2016	2016	2016	2016	2016
weeks/Year	52	52	52	52	52
Ad Revenue/Year	$230,630,400	$207,567,360	$249,080,832	$322,882,560	$345,945,600
Incremental Programming Expense		$0	$0	$15,000,000	$20,000,000

* Revenue/Thousand Viewers** calculated by multiplying Average Viewers by Average CPM

Table 1.3.1

Financials	2006 Actual	2007 Base	Scenario 1	Scenario 2	Scenario 3	Assumptions
Revenue:						
Ad Sales	$230,630,400	$207,567,360	$249,080,832	$322,822,560	$345,945,600	
Affiliate Fees	$80,000,000	$81,600,000	$ 81,600,000	$81,600,000	$81,600,000	$Grows 2%/yr with population
Total revenue	$310,630,400	$289,167,360	$330,680,832	$404,482,560	$427,545,600	
Expenses:						
Cost of Operations	$70,000,000	$72,100,000	$72,100,000	$72,100,000	$72,000,000	Grows 3%/yr with inflation
Cost of Programming	$55,000,000	$55,000,000	$55,000,000	$70,000,000	$75,000,000	
Ad Sales Commissions	$6,918,912	$6,227,021	$7,472,425	$9,686,477	$10,378,368	3% of ad sales revenue
Marketing & Advertising	$45,000,000	$60,000,000	$60,000,000	$60,000,000	$60,000,000	Increased spending of $15M
SGA	$40,000,000	$41,200,000	$41,200,000	$41,200,000	$41,200,000	Growing with inflation 3%
Total Expense:	$216,918,912	$234,527,021	$235,772,425	$252,986,477	$258,678,368	
Net Income (Expenses-Revenue)	$93,711,488	$54,640,339	$94,908,407	$151,496,083	$168,867,232	
Margin	30%	**19%**	**29%**	**37%**	**39%**	

Table 1.3.2

1.4 Possible solutions:

1. **T**arget Fashionalists and Shoppers/Planners:

   - Profitability is highest(i.e. 39%)
   - Focus on Fashion special occasions and comfortable clothing (popular among customers).

2. Adopting the segmentation approach after considering all pros and cons

   - Opting out Strategy 1 and 2.