

GCP Executive Summary

Giant Consumer Products' Frozen Foods Division is currently struggling, with sales volume, gross revenue, and marketing margin all more than 3% under plan. Despite the CEO's concerns regarding how a promotion can adversely affect manufacturers due to both consumer and retailer behaviors, the historical data proves that past national promotions can significantly increase sales volume. Therefore, we recommend a well-executed national promotion to help FFD recover from these losses and get closer to reaching their profitability goals.

This decision considers the performance of past Dinardo's promotions and the projected results of a Natural Meals promotion. Disregarding cannibalization and solely considering incremental revenue, a Dinardo's 32 promotion (\$6.9M) is expected to perform better than one from Natural Meals (\$6.7M) and Dinardo's 16 (\$5.8M). Additionally, D32 promotions outperform those for Natural Meals and D16 in terms of marketing margin change and ROMI. In the past, D32 promotions have been profitable, with a marketing margin of \$719K and an average ROMI of 19%, but D16 promotions have not been profitable, resulting in a -\$527K margin and a -12% ROMI. A Natural Meals promotion is projected to have a \$498K margin and a 12% ROMI. However, strong cannibalization occurs between D32 and D16 because they offer the same products, just in different sizes, and they attract similar price-conscious customers. D32 promotions have decreased D16 revenue by an average of \$8M and D16 promotions have decreased D32 revenue by \$3M. When these effects are included in the calculation of incremental revenue and marketing margin, both Dinardo's promotions are extremely unfavorable, resulting in significant revenue and profit losses, with negative ROMIs. D32 promotions have performed much worse than D16 promotions, decreasing FFD's overall profit by \$4.6M and resulting in a -124% ROMI, compared to \$2.5M and -58%. Based on this additional data, a Natural Meals promotion is clearly the best option to minimize FFD's losses, as it would result in increased sales volume, higher revenue, increased profit, and a positive ROMI. Additionally, the data shows that Natural Meals has the highest growth rate (15%) of the three product lines, meaning it has the most potential to financially support FFD in the future. However, regardless of which brand we promote, FFD still won't be able to fully reach its financial goals.

Beyond the financial metrics, there are strategic factors and behavioral-related issues worth considering. As discussed, cannibalization can be a major issue affecting the success of a promotion, however, the data shows no evidence that a cross-brand cannibalization threat exists between Dinardo's and Natural Meals. This is because these brands have very distinct product characteristics and target markets, with Dinardo's appealing to customers seeking reasonably priced, traditional entrees and Natural Meals aiming to please a more health-conscious market. Another issue is brand equity erosion, which is a particular concern when promoting a premium brand such as Natural Meals; unfortunately, promoting this line could impact the brand's high-quality image. To help mitigate this, we recommend asking retailers to offer product coupons to consumers, rather than simply instituting a widespread "price-off" deal. This is expected to shift consumers' mindsets, framing the promotion as an exciting offer rather than a general discount due to a perceived lack of quality or prestige. While consumer stockpiling during a promotion is often a concern, there is no evidence that this will be an issue for GCP. In general, it's not prevalent with frozen foods, due to limited freezer space. Also, historical data has shown no indication that sales have dropped after D32 or D16 promotions. On average, the month after a national promotion of D32 and D16 had higher sales (10% and 29% respectively) than the month before the promotion. We can assume that this will also be the case with a Natural Meals promotion.

Additionally, it's important to consider retailer behaviors that can affect the promotion. One concern is forward buying; especially considering the short timeframe of the promotion and the popularity of GCP's products, there is potential for retailers to buy more than necessary for the one-week promotion duration. Because of this, we recommend operating the promotion with a pay-for-performance model so that retailers are not compensated for any sales that occur after the promotion timeframe. This will also help alleviate the possibility of retailers continuing to sell Natural Meals products at a discount after the promotion, which could harm the brand's premium image. Another retailer-related concern is non-compliance with pass-through. However, since GCP's brands are so strong in the market, they have considerable influence and power over retailers. Because of this, we don't believe non-compliance with pass-through will be a large-scale issue with this promotion.

As discussed, a Natural Meals promotion is the best solution to help FFD meet their goals. Additionally, this promotion will benefit retailers and consumers as well, which we know is important to FFD executives. Retailers know that GCP promotions drive store traffic. This particular promotion will also allow retailers to further capitalize on Natural Meals' greater margins and its unique appeal to health-conscious consumers. Current Natural Meals customers will be excited to receive coupons and get their much-loved meals at a discounted price. The coupons may also enable other consumers, who usually aren't willing or able to purchase premium products, to try Natural Meals. Furthermore, promoting Natural Meals at this time can help GCP stay ahead of their main competitor, Daft, who is planning to introduce a similarly health-conscious brand early next year. This promotion will familiarize more customers with GCP's brand and will hopefully generate increased loyalty prior to the introduction of Daft's Healthy Options brand. With all of this in mind, this promotion decision proves to be a comprehensively beneficial, financially and strategically sound decision for Giant Consumer Products.

INSTRUCTIONS: Fill in the Yellow Cells

Exhibit 3 - Part 1

Average Monthly Volume for:		Dinardo 32	Dinardo 16
1	When that item is ON Promotion	10,460,942.67	6,210,220.36
2	When that item is NOT ON promotion	6,816,234.95	3,088,564.55
3	When NOTHING Is on Promotion	7,174,738.58	3,798,942.32
4	Incremental Volume from Promotion	3,286,204.09	2,411,278.04
5	Revenue Change from Promotion	6,901,028.59	5,787,067.30
6	Variable Cost Change from Promotion	2,425,218.62	2,006,690.97
7	Promotion Cost Change from Promotion	3,756,823.68	4,307,322.80
8	Marketing Margin Change From Promotion	718,986.29	(526,946.47)
	ROMI	19.14%	-12.23%

Exhibit 3 - Part 2

Average Monthly Volume for:		Dinardo 32	Dinardo 16
1	When the other Dinardo's item is ON Promotion	5,740,724.06	424,647.92
2	When NOTHING is ON promotion	7,174,738.58	3,798,942.32
3	Volume change from promtion of other item	(1,434,014.52)	(3,374,294.40)
4	Revenue change from promotion of other item	(3,011,430.50)	(8,098,306.56)
5	Variable cost change from promotion of other item	(1,058,302.72)	(2,808,123.32)
6	Promotion cost change from Promotion of other product	16,150.13	75,555.95
7	Marekting margin change from promotion of other product	(1,969,277.91)	(5,365,739.19)
	Total Brand Impact from Promotion on Top-Line Revenue		
8	Total Effect of D32 Promotion	(1,197,277.97)	
9	Total Effect of D16 Promotion		2,775,636.80
	Total Brand Impact from Promotion on Marketing Margins		
10	Total Effect of D32 Promotion	(4,646,752.90)	
11	Total Effect of D16 Promotion		(2,496,224.38)
	ROMI	-123.69%	-57.95%

Exhibit 3 - Part 3

		Natural
1	Average Monthly Incremental Volume from Natural	705,251.95
2	Average % Store Promotiong for Natural	7.6262
3	Average Monthly Incremental Volume/ Promo Point	92,477.44
4	Incremental Volume from 25% Promo Points	2,311,935.97
5	Revenue Change from Promotion (i.e, 25% promo)	6,704,614.32
6	Variable Cost Change from Promotion	2,080,742.38
7	Promotion Cost Change from Promotion	4,125,417.11
8	Marketing Margin Change from Promotion	498,454.84
9	ROMI (Return on Marketing Investment) (hint : line 8/ line 7)	12.08%