

# Case Study

## Band-Aid in China Market

Xiaoxuan (Sean) Ma  
M.S. Mathematical Finance  
Boston University Questrom School of Business  
15623670519 | [mxx@bu.edu](mailto:mxx@bu.edu) | [www.linkedin.com/in/xxmbu](http://www.linkedin.com/in/xxmbu)





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# Background

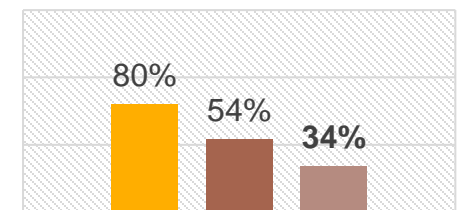
## Brand



- **Band-Aid** is a brand of adhesive bandages distributed by Johnson & Johnson. It entered China **more than 20 years ago** with a great brand foundation. Before 2008, consumers believed that Band-Aid had better gauze than its competitors. Therefore, its market share was always **the largest, above 40%**.
- In 2009, the rise of a competitor, **Brand Y**, brought a huge impact on Band-Aid. And there are many non-branded competitive products in the market.
- From 2012 to 2014, Band-Aid's sales fell, and its market share **fell by 7.6%**. It dropped to second place.

## Competitive Market

- In **the first and second-tier cities**, Band-Aid is very popular, but for **smaller cities**, Brand Y has obvious advantages.
- The pharmaceutical products of Brand Y have a national secret formula. Its sub-brand Tai X has developed equipment products and entered the market.
- Other local brands focus on equipment products. Shop assistants prefer to recommend them because of the high profits. Their regional expansion is obvious, and the packaging design and material are innovative.

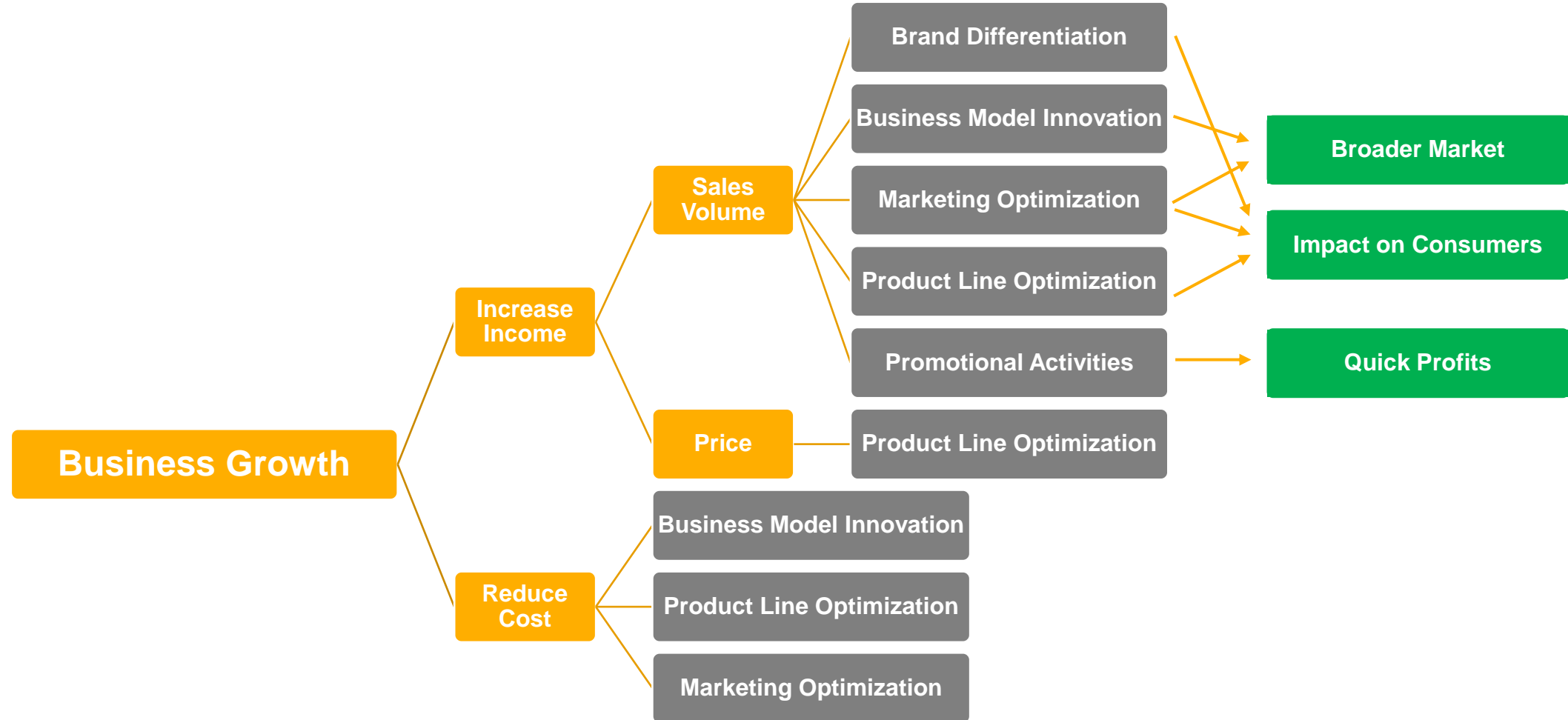


Terminal Profit Margin

- Other Local Brand
- Brand Y
- Band-Aid

# Project Objectives

- Find ways to promote Band-Aid's business growth from the following aspects.



# Brand Differentiation

## Home Health Care Authority



&

- Band-Aid's parent brand, Johnson & Johnson, develops medical devices, pharmaceutical, and consumer packaged goods. It is one of the world's **most valuable** companies. Band-Aid's is the **most well-known bandage** company in the world.
- Band-Aid should continue to emphasize this brand image. Compared with local brands, it is more **authoritative**. When the price is close, most consumers will choose the more famous brand.
- J&J's products cover many aspects of home life, emphasizing **love and family**. Band-Aid can continue this culture. Compared with Brand Y, it is **warmer and more humanized**.

## Stylish

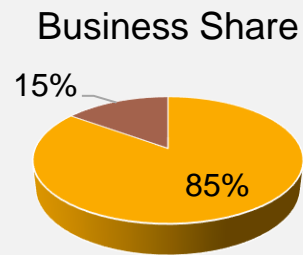


- In 1951, the first decorative Band-Aid was introduced. It aimed to attract children with cartoon images. Band-Aid can continue **collaborating with fashion brands and artists** to attract the **young generation, females, and children**. It is good for long-term development to be loved by such consumers.
- Compared with developing new technologies, the cost of printing foundation is lower, and Band-Aid has mastered it.
- Compared with the traditional image of Brand Y, it is **more creative and stylish**.

# Business Model Innovation

## Current Business Model

- Band-Aid owns **pharmaceutical products** and **equipment products**; they are sold in **pharmaceutical channels** and **consumer goods channels** separately.



### Pharmaceutical channels

Mainly through the distribution of primary dealers, the business share of primary retailers is very small.

### Consumer goods channels

Mainly through J&J's 250 consumer goods dealers and important national retailers (Carrefour, Wal-Mart, etc.). Retailers' business share is about 50%.

### Retailers

- Most of them don't pay attention to the bandages because they only account for about **0.3%** of the business.
- More than 60% of them adopt **passive sales strategy**.
- They prefer to sell products with higher profit margins(**80%**).
- The shop assistants are lack of knowledge of bandages.

### Dealers

- They pay less attention to bandages, which account for about **0.05%** of the total business.
- VCM project has a positive effect.
- Some of them are willing to expand the product coverage in the terminal with more profits and incentives.

# Business Model Innovation

## Improvement Methods

1

**According to different regions, give different profits to dealers and retailers.**

- For the first and second-tier big cities, give dealers and retailers the regular profits, and for small cities with insufficient coverage, give them higher profits.
- 

2

**Simplify distribution channels**

- Stop cooperating with poorly-performed dealers, strengthen competition, transfer profits, and reduce the cost of sales. Retain large-scale and well-performed dealers, improve their profit margin, encourage them to expand coverage, and give bonus to dealers with high order volume. Keep doing the VCM program. Put them in charge of small retailers.
  - Strengthen cooperation with large retailers, provide them higher profits, improve the training of staff. So that they can better promote products to consumers in physical stores.
- 

3

**Create e-commerce channels**

- For pharmaceutical channels, some large retailers have online shops. Ask them to sell Band-Aid products online.
- For consumer goods channels, use Johnson & Johnson's official online shops. Like Tmall (Popular all over the country) and Pinduoduo (widely used in small cities). Direct-sales channels have higher profits, can provide better service, and also have the marketing function.

# Product Line Optimization

## Current Situation

### Consumers:

100 pieces are too many.  
5 RMB stuff, just take it  
and go.



### Retailers:

We prefer to sell small  
packs, because of the  
convenient management  
and the higher unit price.



### Price:

**1 RMB for 4 pieces**

The price has not been raised in  
20 years. Band-Aid did not make  
the value of a big brand.



### Long product line:

**13 SKUs**

- It's hard for consumers and shop assistants to distinguish.
- Each pharmacy only distributes **2.6 SKUs** on average.



## Short-term

### Products

Reduce the production of large packs and unpopular SKUs, transfer production resources to small packs and popular SKUs.

### Pricing

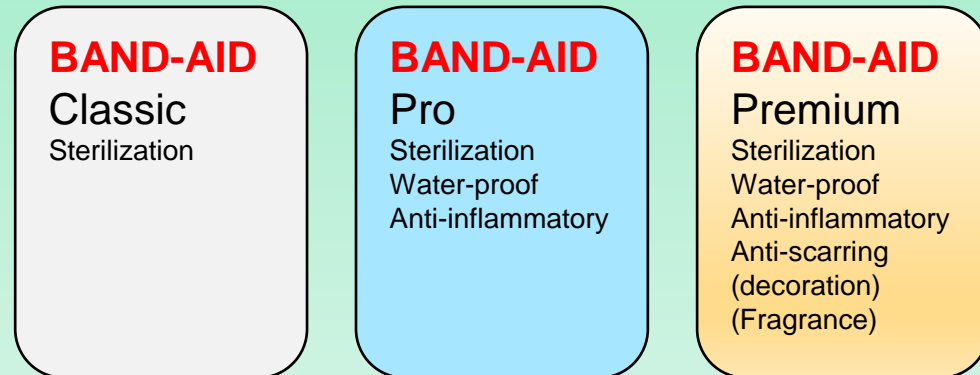
Raise the prices of some products at each level to test the sensitivity to price of different consumers.



# Product Line Optimization

## Long-term

Integrate different functions to form **three product levels** of low, medium and high. **Cancel the large pack** of some products. **Reduce the number of SKUs**. This helps to reduce production and management costs. And Consumers can choose more easily.



Classic products are for most consumers (Including small cities), other levels meet different needs, and premium products help shape brand image and value.

**The retail prices** are set based on consumers and competing products. Band-Aids needs qualitative research of consumers' purchase intention and quantitative research of price elasticity.

For example, if consumers are not highly price-sensitive, Band-Aid can try to raise the price per piece.

	Band-Aid		Brand Y
Retail Price (RMB)	2	<	2.3
Quantity (Piece)	4		5
Average Price	0.5	>	0.46

**The supply prices** to dealers and retailers at all levels are determined based on the retail prices and **profit demands**.

For example:

	Retail	Retailer	Dealer
Margin		50%	30%
Price (RMB)	3	$3 \times (1 - 50\%) = 1.5$	$1.5 \times (1 - 30\%) = 1.05$

# Marketing Optimization

- With **limited brand investment (8%)** and **advertising funds**, Band-Aid needs to choose the **most effective channels**.

## Above the line

- With the development of online social media, the number of users is increasing rapidly. In 2020, China's internet users will reach **1.08 billion**. In addition to young people, there are users of **all ages**.
- Band-Aid can investigate the user characteristics and advertising costs of each platform. Switch from traditional TV advertising to **new media advertising**.



Wechat



Taobao



Toutiao



Douyin



Bilibili



TikTok



Weibo

## Below the line

- Modify product packaging and highlight brand identity. Under the premise of legality, design **concise and clear slogans** to introduce product functions.
- Use **customized shelves** for displaying Band-Aid's products. Bandage is one of the few OTC products with impulsive buying behavior. Place the decorated shelves near the **cashiers**.



# Promotional Activities for Quick Profits

- In the Business Model Innovation part, we mentioned creating **direct sales channels** by using Johnson & Johnson's official **online shops**. Without the participation of dealers and retailers, **all the profits directly go to Band-Aid**. And promotional activities can also be carried out more effectively.



## Discount for the large packs

Retailers don't like the large packs. For consumers with the habit of preparing medicine, lower prices may attract them. High sales volume brings quick profits.



## Bundle the small packs with other products

Band-Aid and J&J's have other health care products. Bundle the small-pack bandages with other popular products to increase the sales volume.

# Summary

- Highlight Band-Aid's differences by 'Home Health Care Authority' and 'Stylish'.
- Business model can be improved by treating dealers and retailers differently, simplifying distribution channels, and creating e-commerce channels.
- To optimize the product line, Band-Aid should form three product levels, cancel the large pack of some products, and reduce the number of SKUs. The retail prices should be set based on consumers and competing products. The supply prices should be set based on the retail prices and profit demands.
- With limited brand investment, Band-Aid can switch from traditional TV advertising to new media advertising, modify product packaging, and place the decorated shelves near the cashiers.
- To make quick profits, Band-Aid should utilize the direct sales channels and promotional activities.
- Products can be distributed to a wider market through business model improvement and online advertising.
- The new packaging, decorated shelves, recommendation from shop assistants, and the new product line will affect consumers' purchasing behavior in the stores.



THANKS

Xiaoxuan (Sean) Ma  
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