

I. PROBLEM

this case study is a microcosm of the many concepts of marketing, many of them far removed from what appears to be a simple price-point problem. That price-point problem is stated in the beginning “a mold price for a projected toy can't be made for a budgeted price, thereby resulting in the need for a higher price. This was a strong point of departure for the Fisher-Price company, since few of its items had sold for more than \$5. Hence Fisher-Price must decide whether it should go ahead with the production the ATV Explorer for the launch of the ATV explorer in its 1971-72 line of products.

II. SITUATIONAL ANALYSIS

Strengths (Internal)

- >Fisher-Price is a leading toy manufacturer, producing a wide range of quality toys at moderate prices. It has a reputation for intrinsic play value, good value for money, ingenuity, strong construction and action.
- >Fisher-Price has relatively good market for specialty toys. It has grown substantially over recent years due to product and pricing strategy.
- >Fisher-Price is the best know brand for toys and has a larger market share (64.7%) than any other company and is the brand being brought most often (82.7%).
- >Fisher-Price ranks first in brand loyalty - it has a good brand loyalty (60.5%).
- >The company is a well-run organization and has acquired professional management expertise from diverse industries.
- >The number of children under six years of age, who plays with toys, is on the rise in the near foreseeable future.
- >Fisher-Price has an excellent sales history and it has increased every year during the last 10 years.
- >The core competence of the company includes very effective product testing and marketing programs to support its internal toy design capabilities.
- >A focused strategy is in place for advertisement and promotion of its differentiated range and group of products.
- >Aggressive marketing strategies to increase the market reach and improve sales.
- >Fisher-Price produced toys which were safe, durable and educational.
- >Fisher-price has been launching innovative new products
- >Fisher-Price has a sound financial condition.

Weaknesses (Internal)

- >High price of its products.
- >Low margin and profitability
- >The launch of ATV toys requires a high initial investment of \$161,000.
- >Selling the newly launched ATV in the discount store could erode brand value.

- >Lack of flexibility in the decision making process.
- >Too much dependence on US market with little or no presence overseas
- >Too much dependence on toy retailers for sales volume.
- >High fixed production markup on direct cost for all its toys.

Opportunities (External)

- >To take over, merge with, or form strategic alliances with other global retailers, focusing on specific markets such as Europe.
- >Open its own franchise to exploit market development. The company should reduce dependence on toy retailers.
- >Cost-cutting effort to reducing overhead and direct cost of manufacturing.

Threats (External)

- >Adverse economic condition.
- >Seasonal nature of the business.
- >Being a premier toy manufacturer, means that the company is the target of competition, locally and globally.
- >Increase in corporate tax structure, thereby reducing the company bottom line, reducing toy development activity.
- >Low-cost small manufacturers could penetrate the market by introducing cheap low quality products “ foreign manufacturer flooding the US market with cheap products.
- >Patents on toy design is difficult to enforce leading to copy-cat from low cost manufacturers
- >Intense Price competition, resulting in price deflation in some ranges.
- >Technological advancement gadgets including toys.
- >Adverse government regulatory controls

Main Considerations

The main considerations/concerns for Fisher-price are

- >The extent of investment on molds and tooling costs that Fisher-price should commit. A single mold is sufficient for producing 500000 ATV units only. Since Fisher-price does not have a definitive reading of the marketplace, the demand and prospect for ATV explorer, the investment is considered quite risky.
- >Due to the higher initial cost than expected, the proposed retail selling price for ATV toys would have to be \$18.50. This price is far more than earlier suggested retail price of \$12, which would make the investment marginal. With 43% of toys been brought usually from discount stores, such a high price may not sell well.
- >Make changes to the initial design to reduce the price of the ATV explorer by removing horn or plastic passenger or a secret compartment. This is against Fisher-price policy.
- >Offer ATV explorer as a single item which is not in line with Fisher-price advertising

policy.

-->Reduce the markup production margin on direct costs for ATV explorer “ however it would be a precedent for future products.

-->High priced toy product could hurt retailers and which could affect their relationship with the company for future products.

-->Adverse economic condition where people would not be able to pay the price for ATV explorer.

III. STRATEGIC ALTERNATIVE

Alternative 1“ Start production of its revised ATV explorer design (cheaper version as a single item)

Pros:

-->The initial investment requirement would be considerably reduced

-->This strategy would help reduce the price of the initial release of the ATV explorer

-->This will help Fisher-price to understand the market reaction for the product.

-->Fisher-price would be able to stay competitive because, its competitors are also introducing new products.

-->Since, 43% of the toys are brought from discount stores; Fisher-price would be able to stay competitive with reduced priced product.

Cons:

-->If the strategy fails, the initial investment would be lost as sunk cost.

-->The strategy may affect the company brand appeal

-->This strategy is against Fisher-Price policy of never sacrificing quality in toys.

-->This strategy may have an adverse effect on brand appeal and loyalty.

Alternative 2: “Start production of its original ATV explorer design as a single item

Pros:

-->This strategy is consistent with Fisher-Price policy that price points should not be a major point in toy introduction.

-->This strategy will help Fisher-Price maintain its brand appeal with its customers.

Cons:

-->High initial investment requirement will be required.

-->Fisher-Price may lose its competitive edge with the high priced ATV explorer.

-->The chances of success are not guaranteed as had been with the earlier launch of Fisher-Price Circus.

-->The production cost would be high

Alternative 3: “Start production of its original ATV explorer as a line of toys

Pros:

-->This strategy is consistent with Fisher-Price corporate advertising policy.

-->This strategy will help Fisher-Price maintain its brand appeal with its customers.

-->Fisher-Price has a long history where product offering as line of toys had gained wide popularity and success

Cons:

-->High initial investment requirement will be required.

-->The chances of success are not guaranteed.

-->The advertising and marketing cost would be high

Alternative 4: “Staggered production of the various versions of ATV explorer

Pros:

-->The initial investment requirement would be considerably reduced

-->This will help Fisher to stagger the investments required for mold and tooling for the ATV explorer

-->This strategy would help understand Fisher-Price to understand the market before starting the production for the release of the upgraded version.

-->Fisher-price would be able to stay competitive with the initial release because, its competitors are also introducing new products.

-->Customers recognize value of Fisher-Price toy products.

Cons:

-->If the strategy fails, the initial investment would be lost as sunk cost.

-->Concerns on relations with trade because of high price

Alternative 5 “Drop the production and hence the launch of the ATV explorer

IV. RECOMMENDATIONS

In my opinion Fisher-price should follow the staggered production of the various versions of ATV explorer (alternative 4), based on the following considerations.

-->This strategy would allow Fisher-Price to stagger the investments requirement for mold and tooling.

-->This strategy would allow Fisher-Price to better understand the response to the initial release before starting the production of the ATV explorer as line of toys. Since the planned advertising budget is \$1,000,000 for the year, Fisher-Price would be able to market the initial release effectively and once the toys get a market hold, the production of the upgraded version may be started.

-->Since the toy business is seasonal “with November-December sales to customers accounting for almost 60% “the initial release would allow Fisher-Price to compete effectively. Hence the production for the cheaper version of the ATV explorer should be started to meet the Christmas rush.

-->Fisher-Price has very good brand recognition (64.7%) “the customers would recognize the value and pay for the new toy with higher price after the initial release.

-->Fisher-Price has 60.5% brand loyalty with customers “Fisher-Price name coupled with the attractive design and engineering of the toy would assure reasonable sales even at higher price. The initial release is only intended to allow the low priced single ATV explorer with revised design (cheap version) to be brought into line with the competitive riding toys before the upgraded version is introduced.

-->Public opinions have demonstrated that people are ready to spend money on toys (54.9%), price of ATV explorer should not be a barrier for success.

-->The full version of the ATV explorer enjoyed substantial success in the nursery school and high level of repeat usage.

-->The proposed ATV explorer TV story is an attractive marketing and advertisement concept and has a good chance of success.

-->Fisher-Price has a sound financial condition and therefore can afford the financial risk of the initiating the production of the ATV explorer.

-->Fisher-Price offering such as Creative Coaster or Family farm, even with price above the \$5 barrier, met with considerable success, because of its reputability, fine track record and attractive design. The same market reaction may be expected for the initial release of ATV explorer.

In order for the company to grow, Fisher-Price should consider starting the production of the ATV explorer to meet the Christmas rush of the following year. Due to the sound financial condition of the company, it can definitely afford the risk to go into production of the ATV explorer to keep the competitive edge. Since Fisher-Price has good brand recognition, it would be beneficial for the company to launch ATV explorer. As indicated above, Fisher-Price should launch the cheap version of the ATV explorer to understand the market reaction before introducing the upgraded version as a toy line.

Staggered product launch normally provides maximum impact and profit for the company. It allows the company to segment the existing market into various groups based on their level of product purchases based on differentiated offering. There have been numerous instances in the corporate world, where this strategy has benefited the company bottom line and enhanced brand recognition. It would also provide Fisher-Price to develop investment strategy (in molds and tooling) judiciously and breakeven earlier.

Final Price was \$18.98