

[Quelch, J. & Beckham, H. HBS December 2009]

[pg. 1]

- August 8, 2007
- Anna Regnante, Domestic Brand Director for Reliance Baking Soda (RBS)
- RBS remained important and mature product in company (Stewart) portfolio

- Chris Dale, Managing Director for Household Products Division
- Regnante must develop 2008 budget P&L (profit and loss) statement resulting in 10% increase in profit (before SGA selling, general, administrative expenses, overhead, taxes) over 2007
- Division scheduled two new high priority product launches in 2008
 - Counting on incremental profits from established brands like RBS to fund marketing launch expenses for new products

Generating profit growth for old-fashioned, mainstay product? Making every penny count

Background

Four divisions:

- Household
- Beauty
- Foods
- International

- 2006: \$150M in net income, \$558M in profit (before SGA, overhead, and taxes) on \$1.8B **gross sales**.
 - Household (included RBS): **\$400M** of gross sales (28.57% of overall)
- Products in Household division (large product breadth)
 - Baking soda
 - Laundry detergent
 - Window cleaners
 - Drain cleaners
 - Toilet cleaners
 - Disinfectant wipes

Brand budgets for 2005 - 2007

Exhibit 1 RBS Brand Income Statement (\$000's)

	2005	2006	2007E
Gross Sales	\$ 42,400	\$ 54,125	\$ 55,051
Variable Manufacturing Costs	<u>\$ 20,258</u>	<u>\$ 25,354</u>	<u>\$ 25,325</u>
Gross Margin	\$ 22,142 52%	\$ 28,771 53%	\$ 29,726 54%
Advertising			
TV	\$ 2,862	\$ 4,453	\$ 3,815
Print	\$ 687	\$ 950	\$ 694
Internet	<u>\$ 76</u>	<u>\$ 238</u>	<u>\$ 248</u>
Total Advertising	\$ 3,625	\$ 5,641	\$ 4,757
PR/Media Production Costs	\$ 191	\$ 297	\$ 198
Consumer Promotion	\$ 424	\$ 1,080	\$ 551
Trade Promotion	<u>\$ 4,240</u>	<u>\$ 5,938</u>	<u>\$ 5,505</u>
Total Marketing Expenses	\$ 8,480	\$ 12,956	\$ 11,011
Profit before SG&A, Overhead, and taxes	\$ 13,662 32%	\$ 15,815 29%	\$ 18,715 34%

[pg. 2]

James Stewart Augusta discovered "miracle compound": NaHCO_3

- Started as leavening agent to make baked goods rise properly
 - Self-rising flour and instant cake mix made product importance to bakers decline (forcing the brand/product to pivot)
- Product was pivoted to wide range of uses
 - Household cleaner
 - Gritty texture - scoured **various surfaces**
 - **Disinfecting capabilities**
 - **Neutralized odors**
 - Laundry aid
 - Deodorizer
- RBS was clear market leader in BS category, capturing 70% market share
- Main competitors were private label brands; each retailer marketed their own private label brand, pricing it 30% below RBS
- RBS had lost 5% of share in the last decade
- Also competed with products outside of BS category; viewed as substitute for these products because its price per ounce was significantly higher
 - Specialized cleaners
 - Air freshners
 - Laundry detergents

2006 Consumer Survey

- RBS = excellent brand awareness and loyalty but LOW recall
- Consumer usage was relatively stable throughout the year

- Heavy users = women aged 35-55 using RBS as all-purpose cleaner/deodorizer
- Usage varied significantly household to household
 - One box kept in refrigerator
 - Every room for different purpose

Exhibit 3 Selected Results from a 2006 Consumer Survey

The survey was conducted with 750 female heads of households who had purchased baking soda in the last 12 months.^a

- Heavy users averaged five purchases of baking soda per year, light users averaged one purchase per year and occasional users purchased one box approximately every other year. 75% of heavy users bought 1 lb box or larger.
- 70% purchased RBS as opposed to the private label brand.
- When asked to name a brand of baking soda, 95% mentioned Reliance.
- 20% could recall being exposed to RBS advertising on the TV, radio, internet, or in print in the last 12 months.
- 40% used coupons when purchasing staple items such as baking soda.
- 80% strongly agreed with the statement "baking soda is inexpensive."
- 40% of heavy users and 50% of light users could not recall the price paid for their last baking soda purchase.
- 40% had more than one box of baking soda in their house.
- 50% used baking soda for more than one purpose (e.g., baking, deodorizing, or cleaning).
- The frequency of use of baking soda was stable throughout the year.

^a RBS purchasers were primarily female heads of households, though the product, once in the house, could be used by various family members.

Key RBS Marketing Mix Considerations

Distribution

- RBS had high distribution penetration;
 - 90% of grocery stores/mass merchandisers
 - 85% of warehouse clubs
 - 80% of drug stores stocking one size
 - Demand varied by channel
- Household maintained 150 person sales force for all products within division
 - Incentivized through quota system
 - Quarterly volume quotas for each salesperson
 - Most compensation came from meeting/exceeding sales targets
- "RBS needs a lot of push marketing to stimulate trade interest. Baking soda is not a natural traffic builder, it does not have high turnover, and it is **boring**. The product hasn't changed in almost 100 years. The only way I'm going to make my quotas is if we offer attractive incentives to the trade." - Randall Todd, senior account manager

Pricing

- RBS had raised manufacturers selling price three times in last five years (2004, 2006, 2007).
- From 2006 to 2007, increase of 13% instituted on all product sizes (partially due to 11% increase in raw material costs)

- This was one-time event and no increase in manufacturing cost per case was expected for 2008

Exhibit 6 2005-2007 Manufacturer's Selling Price vs. Variable Manufacturing Costs

Size	2005	2006	2007
Manufacturer's Price per case			
8 oz.	\$ 6.18	\$ 6.37	\$ 7.20
1 lb.	\$ 10.33	\$ 10.64	\$ 12.02
5 lb.	\$ 46.63	\$ 48.03	\$ 54.28
Variable Manufacturing Cost per case			
8 oz.	\$ 3.02	\$ 3.05	\$ 3.38
1 lb.	\$ 4.98	\$ 5.03	\$ 5.58
5 lb.	\$ 22.12	\$ 22.34	\$ 24.80

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Advertising

- Advertising had focused on revealing new uses for the product
- Goal of strategy was to move RBS out of the kitchen and into different areas (**repositioning of product**)
 - Pet care
 - Baby care
 - Pool care
 - Outdoor cleaning
 - Anywhere else product versatility could be exploited
- Stressed nontoxic benefits of product
- Tessa Simon, advertising manager - emphasize out-of-the-box uses for product
 - "Every day, new, specialized products are appearing on the shelves that can cannibalize the baking soda market."
 - "Plus, the 2006 trade and consumer promotions forced too much RBS product into the market." (**emphasize the availability of the product**)
 - "To stimulate consumption, we need more advertising that can suggest new ways of using RBS."

Consumer Promotion

- RBS had become a little more aggressive with consumer promotions in last years (had not been significant part of RBS marketing plan)
- 2006 consumer promotions (based on quarterly calendar)
 - 1. January: \$2 cash refund for purchase of RBS plus four additional Household Division brands
 - Ads in women's magazines, Sunday newspaper, company website, point-of-sales materials
 - 2. April: Set of coupons for five of Household Division brands included in 6M boxes of Laundry Detergent
 - 3. June: shrinkwrapped twin pack of 1 lb. boxes and \$1.00 cash refund inside of pack with proof of purchase from two boxes
 - "Keep one box in bathroom, one in the fridge"
 - 4. September: Two page advertising supplement in top four women's magazines

Commented [1]: strategy doesn't seem consistent; how are they tracking success here?

- Tips on how to clean house most efficiently and prepare for holiday guests
- \$1.50 cash refund for proof of purchase from each of three brands
- Sweepstakes card for kitchen appliance prize: "the perfect holiday feast"

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- 2007 consumer promotions were cut by Regnante's predecessor
 - 1. February: self-liquidating premium (items offered to consumer by mail with proof of purchase and cash sufficient to cover cost of item/shipping/handling; cash amount was 30-50% below what consumer would pay for item) was provided on labels of 5 lb. boxes
 - "Go Green" water bottle with retail value of \$15.00 (down to \$8.50 with one RBS proof of purchase)
 - 2. April: 30-cent coupon
 - 3. September: advertising supplement in two women's magazines and Sunday papers
 - Coupons for Stewart Household brands (20-cent RBS coupon)
 - Sweepstakes for \$75,000 home makeover
- 2008 decisions
 - How much to spend on consumer promotions?
 - Budget was cut in half; was this too thin
 - Should timing of consumer promotions overlap with trade promotion offers?
 - Consumer promotions coincided with trade promotions to provide extra incentive to stimulate consumer purchases
 - Might exacerbate price sensitivity and amplify demand fluctuations

Commented [2]: no product or brand consistency; what does a water bottle have to do with baking soda?

Commented [3]: Price Sensitivity

Determine how price-sensitive a customer is. It increases in following circumstances:
 When end user bears the cost (and not third party)
 When cost of item represents substantial percentage of customer total expense
 When buyer is not end user buy sells end product in competitive market.
 When buyers judge quality without using price as indicator.
 When customer can shop around and assess relative performance/price of alternatives (today it is easier than ever Google Shopping, Honey, etc)
 When there is no urgency to make decision
 When buyer can switch from one supplier to another for no additional cost (January 2014 T-Mobile offered up \$350 per line for termination fees for customers switching from a different provider)

Trade Promotion

- Offered variety of trade promotions, including:
 - Discounts off invoice prices for cases ordered during promotion period (i.e. 5% off invoice)
 - Free cases with minimum order (buy 10 cases, get 2 free)
 - Performance discount incentives for providing verifiable merchandising/advertising support (e.g. 5% off invoice with evidence of featured trade ad)
- RBS hoped these discounts would get passed on consumer to stimulate sales (vs. building up trade inventory)
 - RBS had no direct control over how the trade managed its inventory or priced the product - this is the BIG drawback to this strategy; no way to know if companies are passing savings to customers or just keeping it for themselves!
- Promotion events made RBS more attractive to trade
 - "RBS is something most of my customers will buy and if I can promote with a price discount or trade ad, then my store benefits from increased traffic and I'm happy." - grocery chain procurement manager

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Table A Trade Advertising Support for RBS vs. Competing Products

	A Ads		B Ads		C Ads		Total
	#	%	#	%	#	%	#
Baking Soda							
RBS	0	0%	4	9%	42	91%	46
Private Label	0	0%	1	11%	8	89%	9
Specialized Cleaner Competitors							
Dynamo	2	2%	52	50%	50	48%	104
Sparkle	1	1%	27	37%	45	62%	73
WOW Cleanser	0	0%	12	16%	62	84%	74

Note: Ads were grouped by size. For example, C Ads were the smallest at less than 1 inch wide, B Ads were about 1 inch to 3 inches, and A Ads were the largest at greater than 3 inches.

Regnante thoughts about trade promotions:

- Surprised to learn that over 73% of factory shipments were sold to trade on promotion
 - Are all these discounts necessary?
- Trade is overbuying during promotion periods and forgoing more consistent, regular-priced purchases
- **Overloading trade during promotion leaves money on the table**
- Not getting adequate advertising and merchandising support for RBS in exchange for trade promotions (here's the opportunity to do better)
- Consider more performance-based promotions

Additional Research

- Reporting breaking down incremental contribution by product size and promotional period, based on computer models estimating normal monthly factory shipments using RBS historical data and proprietary database of market information.
- Model included negative impact from lost sales at full price, before, after, and during each promotion event
- Analyst did not separate in model the effect of advertising spending
 - Each estimate of net incremental contribution included effect of promotion spending but **also any effects to advertising spending** (re-do this analysis and split this out)
- Brooke Drury, lead consultant
 - "Trade promotion events have almost always produced attractive results for RBS."
 - "Only two events in last six years resulted in loss for the company"
 - "2006, \$1.35M in incremental contribution was captured"
 - "Formula seems to be working very well. Would advised against any reallocation of trade promotion funds."

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- Consider the different options for delivering 10% profit increase before SGA, overhead, taxes
 - 1. Determine if predecessor's consumer/trade promotion strategies were effective and price increase would have any bottom-line benefits
 - 2. Decide if changes needed to be made to current levels of marketing expenditures for advertising, consumer promotion, trade promotion
 - 3. Consider long-term strategic implications of plan

- Could not forsake future viability of brand for short-term gains

P & L Statement to develop

Exhibit 10 Regnante's Template for Developing a 2008 P&L Budget

	2005	2006	2007E	2008
Manufacturer's Price Per Case				
8 oz.	\$ 6.18	\$ 6.37	\$ 7.20	
1 lb.	\$ 10.33	\$ 10.64	\$ 12.02	
5 lb.	\$ 46.63	\$ 48.03	\$ 54.28	
Factory Shipments (in 000's of cases)				
8 oz.	640	793	714	
1 lb.	1,099	1,362	1,226	
5 lb.	581	720	648	
Variable Manufacturing Cost Per Case				
8 oz.	\$ 3.02	\$ 3.05	\$ 3.38	
1 lb.	\$ 4.98	\$ 5.03	\$ 5.58	
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	32%	29%	34%	%