Reliance Baking Soda Case

MBA 6210 - Section 070

Danny Moncada

CARLSON SCHOOL
OF MANAGEMENT
UNIVERSITY OF MINNESOTA

1. What are the strengths and weaknesses of the RBS Brand?

The strengths of the RBS brand are clear based on the results of the 2006 consumer survey they conducted with 750 female heads of households: *excellent* brand awareness and loyalty, with **95**% of participants mentioning Reliance when being asked to name a brand of baking soda [Quelch, J. & Beckham, H., pgs. 2, 7]. Heavy users of RBS viewed it as an all-purpose cleaner and deodorizer; this means RBS as a brand is effectively communicating a differentiated positioning statement [Avery, J. & Gupta, S., pg. 3] in the minds of their consumers. RBS's dominance in the marketplace deterred potential entrants/competitors from entering the marketplace, and while baking soda is a product category where many substitutes exist and buyer power is very strong (due to the low cost of switching from one brand to another) [Avery, K. & Steenburg, T., pg. 6], there was less competition for RBS in this space. This forced RBS's main competitors, retailers marketing their own private label brands of baking soda, to set their prices 30% lower than RBS [Quelch, J. & Beckham, H., pgs. 2] to have any hope of generating traction with consumers.

Baking soda as a product is very versatile; while it was first developed as a leavening agent for baking, its ability (from the gritty texture) to scour various surfaces, neutralize odors and act as a disinfectant lead it to be promoted as a household cleaner, laundry aid, and air freshener [Quelch, J. & Beckham, H., pgs. 2]. RBS was able to compete successfully against these specialized products because the price per ounce for baking soda is significantly lower, and when substitutes exist, consumers will easily shift their demand and buy from the firm selling the product at the lowest price [Avery, K. & Steenburg, T., pg. 6]. Consumers attach value to a product based on how it solves their problems [Avery, J. & Gupta, S., pg. 5], and RBS offered consumers a much cheaper alternative to clean various surfaces and keep their homes odor free.

On the hand, these same strengths of the RBS brand can be viewed as a weakness; because of its versatility, baking soda does not fit **one** specific need in the minds of consumers, and therefore can just as easily be replaced by specialized products and cheaper alternatives. The consumer survey also uncovered that RBS as a brand has low recall, with only 20% of survey participants being able to remember being exposed to RBS ads on TV, radio, internet, or print in the previous 12 months [Quelch,

J. & Beckham, H., pgs. 7]. This highlights that the RBS brand positioning is missing two critical components of a strong brand: being *distinctive* and being *durable*. Since RBS is used across so many different product categories, it does not live in a consumer's mind in one place, and lacks any significant points of difference [Avery, J. & Gupta, S., pg. 16] - so consumers won't have any ability to recall RBS specifically when comparing it with other products. The low recall also demonstrates that its brand position does not last over a prolonged period in the minds of consumers, which can be partially attributed to how infrequently it is purchased; even *heavy* users only averaged five purchases of baking soda per year. The final challenge for the brand is that baking soda is a product that is "...boring" and "...hasn't changed in almost 100 years." [Quelch, J. & Beckham, H., pg. 2]. It is not a product that is going to generate much interest or occupy much real estate in the minds of consumers.

2. Analyze the effectiveness of past RBS consumer and trade promotional events. Have the promotional strategies impacted sales volumes? What kind of return on investment is the company getting from trade promotions and consumer promotions?

To measure the effectiveness of RBS's consumer and trade promotional events and how they impacted sales, a marketing manager should start by reviewing RBS's income statement, *net incremental contribution to 2006 consumer promotions*, and *net incremental contribution associated with trade promotion reports* (See **Exhibit A, B, & C**). Gross sales of RBS in 2006 were ~$54M, a 28% increase from 2005; the **total** net incremental contribution from trade promotions was ~$1.35M. This meant that trade promotions contributed 2.56% towards RBS's gross sales. The **total** net incremental contribution for consumer promotions in 2006 was $198,162 which meant an additional 0.37% towards gross sales; this is miniscule when compared to the amount that trade promotions contributed for the same period.

However, there is one significant caveat that needs to be mentioned - the analyst measuring trade promotion effectiveness did **not** separate the effect of *advertising spending* towards trade promotion net contribution [Quelch, J. & Beckham, H., pg. 5]. Without knowing how much of an effect this caused, it presents a challenge to a manager on how much to attribute this increase to trade promotions. In 2006, RBS spent 8% on consumer promotions while dedicating ~90% of the marketing budget on advertising and trade promotions. This helps explain why the impact to gross sales from

consumer promotions seems so minimal in comparison to trade promotions - RBS dedicated nine times more towards advertising and trade promotions than what they spent on consumer promotions!

To determine the return on investment (see **Exhibit D** for ROI calculation) of trade and consumer promotions, we need to revisit Exhibit B and C. In 2006 RBS spent an average of $360 per quarter on consumer promotions, which generated an average net incremental contribution of $49,518 per quarter; this meant the return on investment (ROI) (see **Exhibit D** for ROI calculation) was ~136% per quarter. At the same time, RBS spent an average of $1,979 per quarter on trade promotions, generating an average net incremental contribution of $270,059 per quarter, leading to an ROI of ~135% per quarter. What this shows is that despite spending almost five and half times more on trade promotions during 2006, consumer promotions were still able to generate a similar return on investment.

3. Compare the merits of push vs pull strategy for the marketing of a low involvement (low price) grocery item in a mature market.

A senior account manager for several major grocery chains reflected on RBS as a product, saying that "RBS needs a lot of **push** marketing to stimulate trade interest." and in order for him to make his quotas, he had to "...offer attractive incentives to the trade". [Quelch, J. & Beckham, H., pgs. 2] A push strategy motivates distribution channel partners to sell the product to consumers, and companies will offer retailers trade promotion fees to push products to consumers by placing them in prominent locations in the store, and thereby *pushing* the product down the distribution channel through the top [Avery, J & Teixeira, T.S., pg. 15]. There are several reasons why this strategy is effective and still relevant today. The first is that today's consumers have grown up in a retail environment where discounts and storewide sales are the norm, not the exception [Avery, J & Teixeira, T.S., pg. 26], leaving retailers with thin margins, forcing them to pressure manufacturers of the goods they sell to assume part of the cost to promote products in-store. Another reason a push strategy is important because *half* of purchase decisions are made in store with most purchases that are completed at brick-and-mortar stores starting with in-store research [Avery, J & Teixeira, T.S., pg. 26]. For a product like RBS, most customers are already willing or likely to buy it for whatever purpose they

are looking to use it for, so promoting a price discount was beneficial for grocery managers wanting to increase foot traffic in their stores [Quelch, J. & Beckham, H., pgs. 4].

However, a push strategy does not come without drawbacks for the company selling the product. RBS can only *hope* that the temporary discounts being offered (e.g. 5% off the invoice price if a retailer demonstrated proof of a featured ad) were being passed on to the end customer - but they did not have direct control over how retailers were managing inventory or how they were pricing the product [Quelch, J. & Beckham, H., pgs. 4]. Without a way of knowing if retailers were keeping the discounts for themselves, RBS ran the risk of discounting their product while consumers were not seeing or receiving the benefits themselves. The other thing to note is that Regnante was surprised that over **73**% of their shipments were sold to trade on promotion - were these discounts that necessary? RBS had a legitimate concern that retailers were overbuying during promotion periods and RBS was leaving a significant amount of money on the table [Quelch, J. & Beckham, H., pgs. 5].

A push strategy is designed to build demand with end consumers so that it drives them to bring the product to the point of sale; the goal is for a consumer to go to the retailer and request the product from the manufacturer, *pulling* the product through the distribution channel from the bottom up [Avery, J & Teixeira, T.S., pg. 15]. This is an important tactic because having a consumer consciously want a product is oftentimes the deciding factor in a purchase decision, especially in the case of baking soda which gets purchased very infrequently. Some examples of effective methods for a low-cost item like baking soda are interactive product displays, floor signage, or an end-of-aisle display designed to grab a consumer's attention and spurring them into making a purchase of RBS [Avery, J & Teixeira, T.S., pg. 26].

One of the biggest challenges for a product like RBS, given that it is a low involvement item (light users averaged **one** purchase per year [Quelch, J. & Beckham, H., pgs. 7]), is that it does not have *buyer stickiness* [Dolan, R. pg. 40] - consumers can and will easily switch between one supplier of baking soda depending on how savvy and price sensitive they are. In addition, baking soda belongs to a product category that isn't exciting, and most consumers are unlikely to find it personally relevant or have higher level knowledge about it. This presents a challenge for RBS because consumers will be less likely to actively engage with marketing communications about RBS [Avery, J & Teixeira, T.S., pg. 15].

For this reason, RBS should pursue a *hybrid* promotion strategy combining both push and pull tactics [Avery, J & Teixeira, T.S., pg. 15], and analyze both buyer power and supplier power in their market to correct any glaring weaknesses they have with their current strategy for RBS [Avery, K. & Steenburg, T., pg. 7].

4. What is your recommendation for how Regnante can achieve her 2008 profit target? What changes should be made to make consumer and trade promotion more effective?

Regnante should work towards balancing consumer and trade promotions more efficiently - an effective marketing strategy seeks to maximize the exposure to potential consumers through as many avenues as possible. This will drive more general awareness of the brand and the product. Discounting the product so heavily and so often has a detrimental effect for RBS, because they are making their suppliers used to getting the product at a cheap discounted rate, and not able to track this back to their gross sales.

As a marketing manager in Regnante's position, the largest changes I would make would be to RBS's consumer promotions which were haphazard and disorganized; here are a few examples of consumer promotions RBS attempted [Quelch, J. & Beckham, H., pg. 4]:

- January 2006: A $2 cash refund for purchase of RBS plus four additional Household division brands
- June 2006: A shrink-wrapped twin pack of 1 lb. boxes and $1.00 cash refund inside the pack with proof of purchase from two 1 lb. boxes
- February 2007: A "Go Green" water bottle with retail value of $15.00 down to $8.50 with one RBS proof of purchase
- September 2007: A sweepstakes for a $75,000 home makeover

These consumer promotions lack a compelling narrative or story line; there is nothing about any of these promotions being offered that tie them together and answer the all-important question for their target market: "*Why* should I buy?" [Avery, J & Teixeira, T.S., pg. 16]. A great way to build a descriptive narrative for RBS would be to follow in the footsteps of Clayton Christensen, who identified several "jobs" that a milkshake does for morning commuters on their way to work, including providing a satisfying "liquid" meal, and adding an element of playfulness while breaking up the monotony of the drive to work [Avery, J. & Gupta, S., pg. 11]. RBS could develop a similar marketing narrative for

baking soda, and suggest new ways of using RBS to stimulate consumption [Quelch, J. & Beckham, H., pg. 3], like:

- Using baking soda as a cheaper alternative to kitty litter (**pet** care)
- Using baking soda as a cheaper alternative to increase a pool's alkalinity (**pool** care)
- Using baking soda as a cheaper alternative for power washing patios (**outdoor** care)
- Using baking soda to alleviate diaper rash (**baby** care)

RBS can continue to tout the versatility of the product while moving RBS out of the kitchen and into new areas, helping them effectively reposition the product in consumers' minds.

With the guideline provided from the case, and a general assumption that the price per case, the number of shipments, and variable manufacturing cost per case will be a flat 10% across the board (since Regnante's profit target is a **10%** increase for 2008), the completed template for the 2008 P&L Budget might look like this:

Regnante 2008 P&L Budget					
	2005	**2006**	**2007E**	**2008**	***General Notes***
Manufacturer's Price Per Case					
8 oz.	$ 6.18	$ 6.37	$ 7.20	$ 7.92	**Assuming a 10% increase in price per case**
1 lb.	$ 10.33	$ 10.64	$ 12.02	$ 13.22	
5 lb.	$ 46.63	$ 48.03	$ 54.28	$ 59.71	
Factory Shipments (in 000's of cases)					
8 oz.	640	793	714	785	**Assuming a 10% increase in shipments**
1 lb.	1,099	1,362	1,226	1349	
5 lb.	581	720	648	713	
Variable Manufacturing Cost Per Case					
8 oz.	$ 3.02	$ 3.05	$ 3.38	$ 3.72	**Assuming a 10% increase in manufacturing costs**
1 lb.	$ 4.98	$ 5.03	$ 5.58	$ 6.14	
5 lb.	$ 22.12	$ 22.34	$ 24.80	$ 27.28	
Gross Sales	$ 42,400	$ 54,125	$ 55,051	$ 66,611	
Variable Manufacturing Cost	$ 20,258	$ 25,354	$ 25,325	$ 30,643	
Gross Margin	$ 22,142	$ 28,770	$ 29,726	$ 35,968	
	52%	53%	54%	54%	
Advertising					
TV	$ 2,862	$ 4,453	$ 3,815	$ 4,197	
Print	$ 687	$ 950	$ 694	$ 763	
Internet	$ 76	$ 238	$ 248	$ 273	
Total Advertising	$ 3,625	$ 5,641	$ 4,757	$ 5,233	
PR/Media Production Costs	$ 191	$ 297	$ 198	$ 218	
Consumer Promotion	$ 424	$ 1,080	$ 551	**$ 1,606**	**Increase spend in consumer promotion by 66%**
Trade Promotion	$ 4,240	$ 5,938	$ 5,505	**$ 4,400**	**Reduce spend in trade promotion by 25%**
Total Marketing Expenses	$ 8,480	$ 12,956	$ 11,011	$ 11,457	
Profit before SG&A, Overhead and taxes	$ 13,662	$ 15,814	$ 18,715	**$ 24,512**	**Target increase is 10% from previous year**
(Profit Margin)	32%	29%	34%	**37%**	

The largest change I would make from Regnante's predecessors' marketing strategy would be to reduce the spend in trade promotion by 25%, and instead reallocate some of those funds into consumer promotions instead (her predecessor had sliced the consumer promotion budget in half, leading to this imbalance [Quelch, J. & Beckham, H., pg. 4]). I agree with Regnante's observation that overloading trade during promotions leaves money on the table for RBS, and they may not be receiving adequate advertising and merchandising support for RBS in exchange for their trade promotions [Quelch, J. & Beckham, H., pg. 7]. Jaded consumers are paying less attention to advertising [Avery, J. & Gupta, S., pg. 35], so RBS will need to compete more aggressively in this space by providing consumers a greater incentive to go out and buy their product.

Appendix

Exhibit A

RBS Brand Income Statement ($000's)	2005	2006	2007E
Gross Sales	$ 42,400	$ 54,125	$ 55,051
% change yr. over yr.	-	28%	2%
Consumer Promotion	$ 424	$ 1,080	$ 551
% of total marketing spend	5%	8%	5%
		Avg. Spend	**6%**
Trade Promotion	$ 4,240	$ 5,938	$ 5,505
% of total marketing spend	50%	46%	50%
		Avg. Spend	**49%**
Advertising Spend	$ 3,625	$ 5,641	$ 4,757
% of total marketing spend	43%	44%	43%
		Avg. Spend	**43%**
Total Marketing Expenses	$ 8,480	$ 12,956	$ 11,011
% change yr. over yr.	-	53%	-15%
		Avg. Spend	$ 10,816
		2007 data is through Q2	

Exhibit B

Exhibit 7 RBS Costs and Net Incremental Contribution of 2006 Consumer Promotions

1. January: ALLOCATED Cost to RBS $ 398,580
Total Net Incremental Contribution $ 63,852

	Circulation (Millions)	Response	Number of Responses	Cost Per Response	Total Cost (Five Brands)
Sunday Supplement	39.00	0.7%	273,000	$ 5.37	$ 1,860,437
Magazines	18.85	0.2%	37,700		
Point of Purchase Materials	3.575	1.0%	35,750		
Riser Cards					$ 84,753
Shelf Talkers					$ 47,710

2. April: ALLOCATED Cost to RBS $ 174,643
Total Net Incremental Contribution $ 22,785

	Face Value	Circulation (Millions)	Redemption Rate	Number of Redemptions	Cost Per Redemption	Total Cost (RBS Only)
Coupon Redemption	$ 0.30	6.05	4.0%	242,000	$ 0.50	$ 121,000
Coupon Artwork/Printing						$ 43,865
Package Flagging and Coupon Insertion						$ 9,778

3. June: Cost to RSB $ 253,390
Total Net Incremental Contribution $ 50,615

	Circulation/ Number of Twin Packs	Response	Number of Responses	Cost Per Response	Total Cost (RBS Only)
Refund Offer	1,638,000	7%	114,660	$ 1.78	$ 204,095
Special Packaging					$ 49,295

4. September: ALLOCATED Cost to RBS $ 253,390
Total Net Incremental Contribution $ 60,820

	Circulation (Millions)	Response	Number of Responses	Cost Per Response	Total Cost (Three Brands)
Top 4 Women's Magazines	21.0	0.5%	105,000	$ 2.64	$ 588,720
Point-of Purchase Materials	5.9	2%	118,000		
Riser Cards					$ 46,932
Shelf Talkers					$ 24,153
Sweepstakes prizes, judging, handling					$ 100,365

Note: Cost Per Redemption/Response Includes face value of coupon or refund plus handling charges

Exhibit C

Exhibit 9 Estimate of Trade Participation/Net Incremental Contribution (loss) Associated with RBS Trade Promotions 2002–2007YTD

Year	Duration	Sales Days Promoted	Estimated Trade Participation 8 oz. Box	1 lb. Box	5 lb. Box	Incremental Contribution (or loss by Size) 8 oz. Box	1 lb. Box	5 lb. Box	Total Net Incremental Contribution (or loss)
2002	9/01-10/15	29		75%	60%	$ -	$ 86,620	$ 169,089	$ 255,709
2003	1/02-2/13	31	65%	70%	55%	$ 164,846	$ 102,767	$ 91,342	$ 358,955
	5/01-6/30	43	70%	75%		$ 60,914	$ 170,671	$ -	$ 231,585
	9/04-11/2	46	65%	70%	55%	$ 190,984	$ 151,456	$ 169,732	$ 512,172
2004	2/01-3/15	29		75%	60%	$ ★ -	$ ★ 65,913	$ 141,704	$ 207,617
	5/01-6/14	31	55%	70%		$ ★ 28,036	$ ★ 62,816	$ ★ -	$ 90,853
	8/01-9/13	31	55%	70%	55%	$ 65,100	$ (39,351)	$ 61,710	$ 87,460
	11/01-12/13	28			70%	$ ★ -	$ -	$ ★137,377	$ 137,377
2005	1/02-2/14	31	55%	75%		$ (215,953)	$ 55,161	$ -	$ (160,792)
	3/10-4/18	32		85%	75%	$ -	$ 95,067	$ 117,200	$ 212,267
	6/02-6/27	21	75%			$ (43,690)	$ -	$ -	$ (43,690)
	9/02-9/30	21		75%		$ -	$ 65,894	$ -	$ 65,894
	11/03-12/12	27			70%	$ -	$ -	$ 70,320	$ 70,320
2006	1/05-2/27	41	80%	95%	80%	$ ★ 79,162	$ ★ 382,236	$ ★ 158,165	$ 619,562
	4/05-4/30	21			80%	$ -	$ -	$ 59,117	$ 59,117
	5/14-6/25	38	85%			$ 215,729	$ -	$ -	$ 215,729
	8/02-9/24	43	70%	85%	75%	$ 142,344	$ 244,810	$ 99,067	$ 486,221
	10/04-12/13	50	90%		85%	$ (94,968)	$ -	$ 64,637	$ (30,331)
2007 YTD	1/03-2/25	40		85%		$ ★ -	$ ★ 298,195	$ ★ -	$ 298,195
	4/04-4/29	20	90%		85%	$ 123,941	$ -	$ 239,431	$ 363,372
	5/02-5/27	21		90%		$ -	$ 26,626	$ -	$ 26,626
	6/06-6/24	22	85%			$ 77,126	$ -	$ -	$ 77,126
2002-2007	Average	32	72%	78%	70%	$ 36,071	$ 80,404	$ 71,768	$ 188,243

Note: To be read, trade promotion running from 9/1/02 - 10/15/02, generated a net incremental contribution of $86,620 on sales of the 1 lb. box size, with total net incremental contribution of $255,709
★ Indicates a list price increase on the designated size occurred simultaneously with the promotion

Exhibit D

Return on investment: Net financial value that firm receives from marketing investment divided by the cost of the marketing program.

$$\text{ROI} = \frac{(\text{incremental profits gained} - \text{cost of the marketing investment})}{\text{cost of the marketing investment}}$$

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