Market Segmentation And Price Promotion Analysis

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Introduction

This study was conducted for Carman's Kitchen. The aim of this study was to assess and analyze the company's four distinct price promotion system and schemes. In this growing age of technology where information systems meet sales and marketing philosophies, new competitors in every field are emerging. The already established ones are trying to grow and expand their business. The particular case of Carman's Kitchen is a perfect example of this new era. Carman's kitchen is known brand in its field. Its not a giant company if we are going to compare with its competitors like Kellogg's but its known enough to capture 20% of market share in the country. The company wants to grow its market share and has therefore applied several analytical techniques in order to formulate the pathway which will lead to their desired objective. Methods used in the study are discussed in detail in this report.

Carmen's Kitchen manufactures five different cereal bars flavors. Their aim is to increase their sales by using efficient and effective pricing techniques. Their current Profit Margin is $3 on their $5 bar. They have introduced 4 different Price promotion techniques where they are specifically focusing on cost per store and price of the promotion. Strategy 1,2,3 & 4 offers 10%, 20%,10% & 20% reduction in prices of the product. Retailer cost per store remains the same in strategy 1 and 2. Strategy 3 results in additional cost of $300 for setting up the end aisle. Strategy 4 proposes a $1000 extra cost on catalogue.

The whole analysis comprises of three initial time periods which are 10,4 and 2 weeks respectively. The last ten weeks are used to evaluate the long-term sales and market value of the brand. After assessing and understanding all the information, strategy 4 showed positive results as it had more sales on average. Never the less, all the strategies had its ups and downs and its effects on sales. Each and every aspect of the strategies are discussed, revised and concluded in the further sections.

Methodology

Strategies involved in the study conducted by the marketing consultant for 26 weeks comprises data for category and brand average weekly values. Baselines sales are fixed & and are used to compare with the generated sales to calculate variation and success. There is a pre and post promotion period in the case study.

Difference between brand and promotional sales is called Incremental sales. It shows increased sales due to the result of particular strategy. Once the promotions are over, there is a dip in the sales which is also termed as post-promotional dip. It results in losses for the company.

Incremental gains our occurred and estimated by calculating and adding profit margin and incremental sales during the promotion period. Besides incremental gains, forgone contribution is only when there is a loss identified.

All gains come under Incremental gains which are earned during that period and losses which were identified during the period will considered as forgone contribution. Incremental sales and forgone contribution are two essential aspects which are fundamental for our strategy as they provide us true outcome. Both are crucial in calculating gains and forgone contribution.

Calculating Net Gain Is important as it is the deciding factor in determining the success or failure of a strategy.

Impact of a strategy in a long term depends upon various factors which in turn varies from customer to customer, flour plan and other features of the store. But in general terms, according to the rule of nature, there should be a positive effect on sales. There should be an increase in the number of loyal customers for the store.

Analysis and interpretation of data is discussed in the next section.

Analysis

Average Weekly Sales:
Four different stores were selected to perform four different strategies to implement. The outcomes are noted for each store differently. The initial step was to calculate the baseline sales which are going to compared at a later stage. Baseline sales were calculated using the initial 10 weeks data. The next four weeks were the promotional periods for each strategy on every store. Strategy 4 showed the best results among others where as strategy 1 resulted in least effect on sales. Strategy 2 and 3 resulted showed similar outcomes. In the post promotion period, it was noticeable that none of the strategies were useful enough as none of them reach the level of expected results during the promotion and pre promotion period. Never the less, only strategy 3 can be considered effective as based on this particular factor as none of the other strategies were helpful enough to even cross the base line values.

Weeks Per Period
All the strategies were conducted for a period of 26 weeks over four different stores in order to effectively and efficiently evaluate the results of the strategies. We can classify the whole study in different time frames. First period comprises of ten weeks in which Carmen's kitchen brand market was observed. Following was the promotion period for four weeks and twelve weeks period of post promotion observation. It was identified that there was a dip in sales for two weeks, named as post promotion dip. It occurred right after the promotion period. During the following ten weeks after the dip, long term weekly brand market share and category sales were under observation.

Selling Price & Margin
Carman's Kitchen bar has a cost of $5. Strategy 1 & 3 promotional cost is $4.5 and subsequently their contribution per unit is $0.50. strategies 2 & 4 contribution per unit is $1 because their promotional cost is $4. Stand margin was $3, which then reduced to $2.5(promotional margin) as the strategy involved 10% price reduction and similarly promotional margin will be $2 because of 20% less prices then usual.

Foregone Contribution & Incremental Gains
Forgone contribution tells us about the losses and contribution gain tells us about the gains which occurred during that particular period when a strategy was implemented. After analysis, it came out that strategy 1 had both gain and loss very low. Its nothing

wrong but it overrides our basic reason to conduct a study like this. On the contrary strategy 4 and 2 showed positive (high) growth with high losses as well. Decent gains and less loss occurred in strategy 3. Figures are presented in table below

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Forgone Contribution	-$1981	-$4449	-$2447	-$4782
Incremental Gain	$2216	$6398	$4986	$9471

Average gains can be seen in strategy 3 and strategy 1 shows less gain and loss. Strategy 2 and 4 shows good gains and subsequently huge losses as well. But after consideration, its worth the risk in strategy 2 and specially in strategy 4.

Net Effect of Strategy

For calculating net profit, we first need fixed charge/expense, which the store pays on a weekly basis. There is no fixed charge in 1st and 2nd strategy whereas there is a fixed charge of 1200 and 4000 for the whole study period in strategy 2 3rd and 4th. There weekly cost is $300 and $1000 respectively. Net Effect is calculated after summing up incremental gains, forgone contribution and post production loss. We deduct fixed cost of the store to get the net amount. 1st strategy shows losses. Strategy 2 and 3 shows positive results and strategy 4 shows the best results.

Conclusion / Recommendation

It was observed that incremental gains were the highest for strategy four. But due to their fixed cost of $1000 on a weekly basis for the store, the net gain of the strategy was hampered. Strategy 2 also showed positive result as their incremental sales and gains were high as well. Strategy comprises of no fixed store cost and promotion expense. It resulted in a net gain of 1394 approximately. Therefore, I can say that strategy 2 is the best strategy in comparison to others as it generated higher returns in short time.

Gain percentage, brand sales and profit was under consideration in the final phase of the study which lasted for ten weeks. Based on 16 th week analysis, strategy 2 was considered the best in short term but if we consider and think about long term sales, strategy 4 seems to be more reliable and effective. The risk is high, but the reward is equivalent as well. To prove that, if we look at brand profit for both strategies, strategy 4 comes out to be clear win at a gain of $1075 where as strategy 2 stands at $623. Therefore, I can say that if the retailer is looking for long term benefit, he should go for strategy 4 and if they are looking for shot term benefits, they should go for strategy 2.