interoffice memorandum

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**EXECUTIVE SUMMARY**

This memorandum defines the positioning recommendation of Paramount’s new non disposable razor and cartridge product. The positioning recommendation includes both brand name recommendations and marketing budget allocations. Taken into consideration is a comprehensive market analysis via the Porters 5 Forces framework and financial analysis.  A final positioning decision including a look into main objectives and alternatives is included.

**Decisions**

 What are the key decisions that have to be made by the focal decision maker?  Students often isolate/focus on relatively minor decisions; students will need to develop analysis so that a full decision scope is identified.

Positioning strategy for the new razor in the super premium market (Mainstream or Niche)

Brand Name for new product

Marketing and Promotion budget for Clean Edge

\*Need to recommend **product positioning,  brand name, and marketing budget allocations**

**Objectives**

Paramount's new product Clean Edge Razor is expected to achieve the following objectives post launch.

* Increase our existing 17.3% of the moderate market share to \_\_\_\_\_\_ by year \_\_\_
* Increase overall industry market share from 23.3% to \_\_\_ by year \_\_\_\_
* Allow for continued market leadership in the non disposable razor and cartridge moderate segment after Paramount Pro has reached its decline.

**Market Analysis using Porter’s 5 Forces**  What is known about the market size, growth, presence/evolution of market segments?  What markets for other products forms impinge upon the market being considered?

*Buyer Power*

Less razors sold in supermarkets than before

*Supplier Power*

Supplier power doesn't really matter because there are many suppliers that can make the product

*Threat of New Entrants*

The market for non disposable razors have been experiencing a growth rate of about 5% each year.  This growth rate is largely due to consistent innovations within the market and the introductions of new products.  As the market constantly changes and grows, the threat of new entrants is high. Already established new entrants, Radiance and Simpsons, have the potential to produce new products and take some of the market share in the non disposable razor and refill cartridge industry.  Although new, both Radiance and Simpsons have almost 9% market share in the non disposable razor market, something to watch. Of course, there is always the threat of new companies entering the market as well.  These new entrants could be any personal care positioned companies that chose to extend its product lines into the non disposable razor market.

*Threat of Substitutes*

Electric shaver users account for about 27% of the male market, specifically older consumers. Substitutes in the industry include disposable razors, depilatories, and any other substitute non disposable razor or cartridge refill currently in those markets. Substitutes to the new product are not limited to the current products in the market, any new innovations in the razor industry could potentially be substitute products.

*Industry Rivalry*

Paramount, Prince, and Benet & Klein have been the dominant companies in the non disposable and cartridge sectors of the industry, each being an intense competitor.  Paramount is the market leader for unit volume at 23.2% market share. Paramount is followed by Prince and Benet & Klein with 19.8% and 19.4% market share, respectively.

**Financial Analysis**

The table below is a indepth profit/loss pro forma that was derived from the financial forecasts in Exhibit 7 of the Clean Edge case. The table also accounts for the cannibalization costs per year for both strategies using the formula: Cannibalization = (Cannibalization %  x  Unit Sales  x  Unit Contribution Margin). As mentioned in the case the cannibalization rates are 35% for niche strategy and 60% for mainstream and the average contribution margins for products Avail and Pro are $1.76 for razors and $2.8 for cartridges. By multiplying these numbers with predicted unit sales for each strategy we can see which one makes more financial sense. Profit and Loss Pro Forma can be found in the Appendix **Exhibit 1.**

Projected loss due to cannibalization in Pro and Avail product lines is as follows. For the Niche strategy over the next two years  there will be an estimated 15,260,000 in sales cannibalization. While the mainstream strategy has an estimated 61,132,800 of cannibalized sales over the next two years, its first year sending the project into negative profit. After analysis of Clean Edge’s cannibalistic effects on Pro and Avail’s sales, it is evident that a niche positioning strategy will make the product more economically successful in the super-premium segment. Mainstream may lead to higher sales but the increased costs and lost sales from other company lines due to cannibalization lower all around profits. Paramount should position Clean Edge in the super premium segment with a niche strategy to add to their formidable product portfolio.

**Target Market**

With the R&D that went into the innovative design of Clean Edge, the target consumers for the product are the male involved user segment, which accounts for 67% of total non disposable razor users. These users are the best fit for the product as they will notice product differences and upgrades and are able to differentiate products to find the best fit. Unlike uninvolved users, this market is interested in the quality of the overall shaving experience and cosmetic appeal of products. Promoting the improved technology in Clean Edge is a perfect way to attract their patronage.

**Branding Strategy**

The strategy that Paramount choses is important as it will have noticeable effects on customer acceptance, cannibalization percentages, and advertising/promotion expenses required for its launch to be successful. In order to keep in line with its niche positioning strategy paramount must choose a brand that reinforces its new super premium product in the segment. Clean Edge by Paramount is recommended as the choice brand name. As the new technologically innovative product of Paramount, presenting it in this way will help to separate it from other Paramount products and promote it as a revolutionary high end product that will attract involved razor users.

**Promotion**

**Assumptions:**  As students reflect on their analysis, it is often critical to state the key assumptions upon which the strategy is based.

Premium market is fastest growing, 22 knew SKUs in 2008-2009 alone.  By time the new product is introduced it may be overshadowing by many other new products and innovations within the premium line.

Media expenditures continue to rise for the premium market, making long term costs to keep in the product relevant in the premium market potentially more expensive.

Neither Pro nor Avail had significant product innovations within the past  5 years. Pro is in its maturity stage of the product life cycle.  Introducing a new product in the moderate market segment may cannibalize Pro in the short run, however, in the long run, the new product will replace Pro and allow the company to grow its already established market share.

**Alternatives**

*Mainstream: Pros and Cons*

One of the advantages of position Clean Edge in mainstream is that the current “backbone” of the company, Paramount Pro is in the mature phase of the products lifestyle and is set to decline in the not so distant future. The idea behind introduction would be to maintain the current Pro customers by keeping them loyal with innovation in the product section and keeping them from defecting to other brands that have innovation in the mainstream product position.

The disadvantages of the mainstream positioning are very apparent. THe cannibalization of other products with the mainstream approach is 60%, compared to niche that is at 35%. There is a larger investment required to penetrate the market due to increase production and marketing costs. Finally the total profits from the first two years are $2,828,200 compared to niche that is at a looming $31,365,000.

*Niche: Pros and Cons*

The most advantages will be gained by positioning in a niche market. The Profit/Loss Pro Forma shows the drastic profit and cannibalization percent difference between that of mainstream. Furthermore targeting niche markets will give the company the ability to focus on one important marketing message, of promoting innovation in technology and skin care, instead of several to try and increase sales across consumer types. In addition to centralized marketing campaigns the niche position also lowers marketing and promotion costs to 15 million, as compared with 42 million in the first year. Finally as Paramount was not currently selling any products in the niche market it gives the company a chance to expand into a new, more specific segment, with a product that is properly priced for it. One of the only disadvantages is that the sales volume is smaller compared to the mainstream market.

**Action Plan:**  What is being recommended?  Lay out a broad strategy and identify specific action steps as well as a rough plan for implementation.   Consideration of investments/costs must be made.

**Appendix**

**Profit and Loss Pro Forma**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Niche Strategy** | | **Mainstream Strategy** | |
|  | 2011 | 2012 | 2011 | 2012 |
| **Sales Revenue** |  |  |  |  |
| Razor sales ($) | 9,090,000 | 13,636,000 | 25,839,000 | 31,320,000 |
| Cartridges sales ($) | 29,400,000 | 73,500,000 | 61,578,000 | 136,218,000 |
| Total Sales | 38,490,000 | 87,135,000 | 87,417,000 | 167,538,000 |
| **Cost of Goods Sold** |  |  |  |  |
| Razor | 5,000,000 | 7,500,000 | 15,642,000 | 18,960,000 |
| Cartridges | 9,720,000 | 24,300,000 | 22,176,000 | 49,056,000 |
| Total COGS | 14,720,000 | 31,800,000 | 37,818,000 | 68,016,000 |
| Gross Profit | 23,770,000 | 55,335,000 | 49,599,000 | 99,522,000 |
| **Operating Expenses** |  |  |  |  |
| Advertising | 7,000,000 | 7,000,000 | 19,000,000 | 17,000,000 |
| Consumer Promotions | 6,000,000 | 6,000,000 | 17,000,000 | 14,000,000 |
| Capacity Costs | 610,000 | 870,000 | 1,710,000 | 2,450,000 |
| Trade Promotions | 2,000,000 | 3,000,000 | 6,000,000 | 8,000,000 |
| Total Operating Expenses | 15,610,000 | 16,870,000 | 43,710,000 | 41,450,000 |
| Operating Profit | 8,160,000 | 38,465,000 | 5,889,000 | 58,072,000 |
| Profit as % of sales | 21.20% | 44% | 7% | 35% |
| Cannibalization % | 35% | 35% | 60% | 60% |
| **Cannibalization Costs** |  |  |  |  |
| Razors | 616,000 | 924,000 | 3,484,800 | 4,224,000 |
| Cartridges | 3,920,000 | 9,800,000 | 16,632,000 | 36,792,000 |
| Total Cannibalization | 4,536,000 | 10,724,000 | 20,116,800 | 41,016,000 |
| Profit after Cannibalization | 3,624,000 | 27,741,000 | (14,227,800) | 17,056,000 |

