UNIVERSITI SAINS MALAYSIA

Kolej Teknologi Pulau

Second Semester Examination
Academic Session 2007/2008
April 2008

External Degree Programme
Bachelor in Management (Honours)

AMP347E – Strategic Marketing
[Pemasaran Strategik]

Duration: 2 hours
[Masa: 2 jam]

Please check that this examination paper consists of **EIGHTEEN** pages of printed material before you begin the examination.

*[Sila pastikan bahawa kertas peperiksaan ini mengandungi **LAPAN BELAS** muka surat yang bercetak sebelum anda memulakan peperiksaan].*

Instructions: Answer **ALL** questions. You may answer a question either in Bahasa Malaysia or in English.

*[**Arahan**: Jawab **SEMUA** soalan. Anda dibenarkan menjawab soalan samada dalam Bahasa Malaysia atau Bahasa Inggeris].*

Question 1/Soalan 1 (30 marks/*markah*)

Read and analyze the case (in Appendix A, page 7-18). Answer the following questions:

Baca dan analisa kes (dalam Lampiran A, muka surat 7-18). Jawab soalan-soalan berikut:

(Reference/Rujukan: Kerin, Roger A, and Robert A Peterson (2007). Strategic Marketing Management: Cases and Comments, (11th Ed.), New York: Pearson Education.)

(a) What is the major problem/issue in the case?

Apakah masalah/isu utama dalam kes tersebut?

[3 marks/*markah*]

(b) List out three alternatives (3) to solve the above problem/issues.

Senaraikan tiga (3) alternatif untuk menyelesaikan masalah/isu di atas.

[3 marks/*markah*]

(c) List out four (4) main criteria to evaluate the proposed alternatives.

Senaraikan empat (4) kriteria utama yang boleh digunakan untuk menilai alternatif yang dicadangkan di atas.

[4 marks/*markah*]

(d) List out five (5) advantages and five (5) disadvantages of pursuing one of the alternatives.

Senaraikan lima (5) kelebihan dan lima (5) kelemahan dalam melaksanakan salah satu daripada alternatif di atas.

[5 marks/*markah*]

(e) Draw out the brand positioning map for Scope.

Lukiskan peta peletakan untuk jenama Scope.

[5 marks/*markah*]

(f) Briefly, what must be done by the company to pursue the following strategies for Scope?

Secara ringkas, apakah yang mesti dilakukan oleh syarikat untuk melaksanakan strategi-strategi berikut untuk Scope?

(i) Market penetration strategies.

Strategi penembusan pasaran.

[5 marks/*markah*]

(ii) Market development strategies.

Strategi pembangunan pasaran.

[5 marks/*markah*]

Question 2/*Soalan 2* (70 marks/*markah*)

The report on the following pages (page 4-6) shows the performance of an airline company. Study the reports and answer the following questions:

Laporan dalam muka surat berikut (muka surat 4-6) adalah laporan pencapaian sebuah syarikat penerbangan. Kaji laporan tersebut dan jawab soalan-soalan berikut:

(a) List down five (5) market indicators that can be used to measure the market performance of the airline company.

Senaraikan lima (5) petunjuk pasaran yang boleh digunakan untuk mengukur pencapaian pasaran syarikat penerbangan tersebut.

[2 marks/*markah*]

(b) List out the three (3) major determinants of the profitability of an airline company.

Senaraikan tiga (3) faktor utama yang menentukan keuntungan sebuah firma penerbangan.

[3 marks/*markah*]

(c) Briefly discuss the three (3) major profitability determinants above.

Bincangkan secara ringkas tiga (3) penentu utama keuntungan tersebut di atas.

[15 marks/*markah*]

(d) Write a brief three-year marketing plan for the airline company.

Secara ringkas, tuliskan satu rancangan pemasaran tiga-tahun untuk syarikat penerbangan tersebut.

[50 mark/markah]

Quarter 6 ASTANA INDUSTRY B Co.# 6

** INCOME STATEMENT **

Gross Revenue (Fare .29)		3270722
- Commissions		258835
- Refunds(Reliability= 0.925 %)		245304
+ Interest Income		0
Net Revenue		2766583
Expenses:		
Flight Operations	615744	
Fuel	558728	
Maintenance	533644	
Passenger Service	410495	
Cabin Service	0	
Insurance	94320	
Promotion & Advertising	6000	
Sales Force Cost	108000	
Add. Emp Compensation	0	
Quality and Training	1500	
Hiring/OJT Cost	75000	
Social Performance	0	
Market Research	31000	
Interest Exp(net)	59157	
Lease Payment	904000	
Administrative Exp	400000	
Depreciation	48750	
Other Expense	0	
Total Operating Exp	3846338	
Operating Profit/Loss		-1079755
+/- Other Profits/Losses		0
Cargo Profit/loss less Mkting		0
Profit Before Tax		-1079755
Less Income Tax		0
Net Profit After Tax		-1079755
Dividends Paid		0
Profits Retained		-1079755

** BALANCE SHEET **

Cash		1267531
Short-Term Investment		0
Accounts Receivable		1308289
Total Current Assets		2575820
Aircraft:		
Cost	2500000	
- Depreciation	1062500	
Net Aircraft	1437500	
Facilities-Net	70000	
Total Fixed Assets		1507500
Total Assets		4083320
Accounts Payable	1139276	
Short Term Loans	1520000	
Total Current Liab		2659276
Long Term Loans	602611	
Total Liabilities		3261887
Common Stock	3200000	
Retained Earnings	-2378567	
Total Equity		821433
Total Liab & Equity		4083320

** CASH FLOW ANALYSIS **

Beginning Cash		2247480	
Short Term Investment		0	
60% of Gross Revenue		1962433	
Accounts Receivable	+	1328980	
Stock Sold &Int Income	+	300000	
Loan Proceeds	+	0	
Oth Income & A/C Sale	+	0	
Cargo Income less Exp	+	0	
Total Cash Inflow			5838893
Commissions/Refunds	-	504139	
70% Of Oper Expense	-	2658311	
Accounts Payable	-	1045593	
Income Tax	-	0	
Total Loan Payments	-	363318	
Purchase S-T Invest	-	0	
Dividends	-	0	
Equipment Purchase	-	0	
Net Cash			1267531
Overdraft Loan			0
Ending Cash			1267531

OTHER DATA

Economic Index this Qtr	103
Total Aircraft/Seats	11/262
Total Passengers	57856
Miles Flown per day	9740
Maximum Mileage/day	19800
Avail Seat Miles	17104000
Rev Pass Miles	11852243
Pass Load Factor	0.693
Yield per Rev Pass Mi	0.276
Cost per Aval Seat Mi	0.254
Yield per Avail Seat Mi	0.191
Quality Index (0-100)	55
Total Salespersons	9
Total Employees	306
Employee Turnover(8.17 %)	25
Fuel:Spot Pr This Qtr	1.09
Fuel:Contract Next Qtr	1.07
Line of Credit	581560
Short Term Int Rate	12%
Shares Stock Outstnd	306517
Stock Price: Per Share	6.71
Earnings Per Share	-3.52

**

Page 2 Quarter 6 ** COMPANY INFORMATION ** INDUSTRY B COMPANY 6

*** FLEET STATUS REPORT ***

SERIAL NUMBER	A/C TYPE	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	QUARTERLY LEASE COST
1	A	700000	273500	426500	0
2	A	800000	334000	466000	0
3	A	1000000	455000	545000	0
4	A	0	0	0	80000
5	C	0	0	0	132000
6	C	0	0	0	132000
7	B	0	0	0	82000
8	C	0	0	0	132000
9	B	0	0	0	82000
10	C	0	0	0	132000
11	C	0	0	0	132000

*** MARKET RESEARCH STUDIES ***

Smith Econometrics Business Forecast for next 4 qtrs: 104 99 101 103
Emp. Comp Co 1 to 8 : 3/3 3/1 3/1 5/3 3/1 0/0 0/0 0/0
Golden & Associates report Avg Industry Quality & Training Budget 32859
Fare for Each Co: .51 .51 .51 .51 .49 .29 .35 .35
Cabin Service Codes for Co# 1 To 8 3 3 3 3 3 0 0 0
Market Research Study for Daily Seats Sold is on page 3 under Total Sold.
Average promotion budget: 5501 Average advertising budget: 6750
Avg Quality Score: 74
Salespersons Co# 1 to 8 : 20 13 12 1 0 9 0 0
Firms in the cargo business: Co # 1 2 3

*** NEWS MESSAGES TO YOUR FIRM INCLUDING INCIDENT FEEDBACK ***

Dividend adjusted/cancelled due to profits or negative retained earnings.
Your counter offer has been rejected by the major carrier. They require more control over their dual-designators than you are willing to give.
In a separate announcement, the major added 6 flights to your regional hub :-(
Employee turned baggage truck over. Damages of $1000 charged to Other Expense.
Are you training employees? Check your training budget.

*** INDUSTRY NEWS MESSAGES ***

Use Incident G next Quarter.
New construction in industrial parks should increase demand in type E mkts.

Stock Prices for Co's 1 thru 8 :
77.45 90.48 4.87 4.62 110.55 6.71 10.81 10.81

Total Aircraft/Total Seats for Each Co:
4/184 4/168 3/138 3/134 4/113 11/262 3/57 3/57

Current Ratio	Return on Sales	Return on Eqty	Return on Assets	Debt to Equity	Daily Seat Productivty	Yieldper ASM	Profit per Seat
.82	-.067	.493	-.016	4.228	4.22	.219	2148

...6/-

Page 3 Quarter 6 ** DAILY SALES by MARKET ** Co. # 6

Mk #	Est. Total Seats Sold	Note: Your firm will be in the left hand column with following format: FltsPerDay/SeatsPerDay/FareSale/SeatsSold. Competitors will be to the right with Format: Co#/FltsPerDay/SeatsPerDay/FareSale Competitor's sales will not be listed. Sales are rounded.				
1	39	3/57/0/39				
2	0					
3	0					
4	41	2/60/0/41				
5	0					
6	0					
7	0					
8	0					
9	0					
10	33	3/54/0/33*				
11	72	3/90/2/72*				
12	2		4/3/0/0			
13	0					
14	0					
15	44		4/4/136/0			
16	57		4/4/200/0			
17	456		1/1/184/2	2/4/168/2*	4/3/150/3	5/1/113/2
18	19		5/3/57/0			
19	0					
20	429		1/1/184/2	2/4/168/2#	5/2/226/2	
21	39	2/38/0/26	5/2/38/0			
22	54	3/57/0/38	5/1/68/2			
23	40	2/38/0/27	5/2/38/0			
24	65	2/68/1/46	5/3/57/0			
25	42	3/57/0/42				
26	32		3/2/92/0			
27	31		7/3/57/0			
28	32		3/2/92/0			
29	429		1/1/184/2	2/4/168/2#	5/2/226/2	
30	37		7/2/38/0	8/2/38/0		
31	52		7/3/57/0	8/3/57/0		
32	40		7/2/38/0	8/2/38/0		
33	57		7/3/57/0	8/3/57/0		
34	31		8/3/57/0			
35	32		3/2/92/0			

Note: # = first quarter in a new market * = 2nd quarter in a new market
Note: TOTAL SEATS SOLD column will have values if $8,000 Mkt Res was purchased.

CASE

Procter & Gamble, Inc.

Scope

As Gwen Hearst looked at the year-end report, she was pleased to see that Scope held a 32 percent share of the Canadian mouthwash market for 1990. She had been concerned about the inroads that Plax, a prebrushing rinse, had made in the market. Since its introduction in 1988, Plax had gained a 10 percent share of the product category and posed a threat to Scope. As Brand Manager, Hearst planned, developed, and directed the total marketing effort for Scope, Procter & Gamble's (P&G) brand in the mouthwash market. She was responsible for maximizing the market share, volume, and profitability of the brand.

Until the entry of Plax, brands in the mouthwash market were positioned around two major benefits: fresh breath and killing germs. Plax was positioned around a new benefit—as a "plaque fighter"—and indications were that other brands, such as Listerine, were going to promote this benefit. The challenge for Hearst was to develop a strategy that would ensure the continued profitability of Scope in the face of these competitive threats. Her specific task was to prepare a marketing plan for P&G's mouthwash business for the next three years. It was early February 1991, and she would be presenting the plan to senior management in March.

■ COMPANY BACKGROUND

Based on a philosophy of providing products of superior quality and value that best fill the needs of consumers, Procter & Gamble is one of the most successful consumer goods companies in the world. The company markets its brands in more than 140 countries and had net earnings of $1.6 billion in 1990. The Canadian subsidiary contributed $1.4 billion in sales and $100 million in net earnings in 1990. It was recognized as a leader in the Canadian packaged-goods industry, and its consumer brands led in most of the categories in which the company competed.

Between 1987 and 1990, worldwide sales of P&G had increased by $8 billion and net earnings by $1.3 billion. P&G executives attributed the company's success to a variety of factors, including the ability to develop truly innovative products to meet consumers' needs. Exhibit 1 on page 208 contains the statement of purpose and strategy of the Canadian subsidiary.

P&G Canada has five operating divisions, organized by product category. The divisions, and some of the major brands, are:

1. *Paper products*: Royale, Pampers, Luvs, Attends, Always
2. *Food and beverage*: Duncan Hines, Crisco, Pringles, Sunny Delight
3. *Beauty care*: Head & Shoulders, Pantene, Pert, Vidal Sassoon, Clearasil, Clarion, Cover Girl, Max Factor, Oil of Olay, Noxzema, Secret

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This case was prepared by Professors Gordon H. G. McDougall and Franklin Ramsoomair, of the Wilfrid Laurier University, as a basis for class discussion and is not designed to illustrate effective or ineffective handling of an administrative situation. Used with permission.

EXHIBIT 1

A Statement of Purpose and Strategy: Procter & Gamble, Canada

We will provide products of superior quality and value that best fill the needs of consumers.

We will achieve that purpose through an organization and a working environment which attracts the finest people, fully develops and challenges our individual talents; encourages our free and spirited collaboration to drive the business ahead; and maintains the Company's historic principles of integrity, and doing the right thing.

We will build a profitable business in Canada. We will apply P&G worldwide learning and resources to maximize our success rate. We will concentrate our resources on the most profitable categories and on unique, important Canadian market opportunities. We will also contribute to the development of outstanding people and innovative business ideas for worldwide company use.

We will reach our business goals and achieve optimum cost efficiencies through continuing innovation, strategic planning, and the continuous pursuit of excellence in everything we do.

We will continuously stay ahead of competition while aggressively defending our established profitable businesses against major competitive challenges despite short-term profit consequences.

Through the successful pursuit of our commitment, we expect our brands to achieve leadership share and profit positions and that, as a result, our business, our people, our shareholders, and the communities in which we live and work, will prosper.

Source: Company records.

4. *Health care*: Crest, Scope, Vicks, Pepto-Bismol, Metamucil
5. *Laundry and cleaning*: Tide, Cheer, Bounce, Bold, Oxydol, Joy, Cascade, Comet, Mr. Clean

Each division had its own Brand Management, Sales, Finance, Product Development and Operations line management groups and was evaluated as a profit center. Typically, within each division a Brand Manager was assigned to each brand (for example, Scope). Hearst was in the Health Care division and reported to the Associate Advertising Manager for oral care, who, in turn, reported to the General Manager of the division. After completing her business degree (B.B.A.) at a well-known Ontario business school in 1986, Hearst had joined P&G as a Brand Assistant. In 1987 she became the Assistant Brand Manager for Scope, and in 1988 she was promoted to Brand Manager. Hearst's rapid advancement at P&G reflected the confidence that her managers had in her abilities.

THE CANADIAN MOUTHWASH MARKET

Until 1987, on a unit basis the mouthwash market had grown an average of 3 percent per year for the previous 12 years. In 1987, it experienced a 26 percent increase with the introduction of new flavors such as peppermint. Since then, the growth rate had declined to a level of 5 percent in 1990 (Exhibit 2).

The mouthwash market was initially developed by Warner-Lambert with its pioneer brand Listerine. Positioned as a therapeutic germ-killing mouthwash that eliminated bad breath, it dominated the market until the entry of Scope in 1967. Scope, a green, mint-tasting mouthwash, was positioned as a great-tasting, mouth-refreshing brand that provided bad-breath protection. It was the first brand that offered both effective protection against bad breath and a better taste than other mouthwashes. Its advertising focused, in part, on a perceived weakness of Listerine—a medicine breath

EXHIBIT 2

Canadian Mouthwash Market

	1986	*1987*	*1988*	*1989*	*1990*
Total retail sales (millions)	$43.4	$54.6	$60.2	$65.4	$68.6
Total factory sales (millions)	$34.8	$43.5	$48.1	$52.2	$54.4
Total unit sales (thousands)[a]	863	1,088	1,197	1,294	1,358
(% change)	3	26	10	8	5
(% change—"breath only")[b]	3	26	0	3	5
Penetration (%)[c]	65	70	75	73	75
Usage (number of times per week)[d]	2.0	2.2	2.3	2.4	3.0

[a]One unit or statistical case equals 10 liters or 352 fluid ounces of mouthwash.

[b]Excludes Plax and other prebrushing rinses.

[c]Percentage of households having at least one brand in home.

[d]For each adult household member.

Source: Company records.

(for example, "Scope fights bad breath. Don't let the good taste fool you")—and in 1976, Scope became the market leader in Canada.

In 1977, Warner-Lambert launched Listermint mouthwash as a direct competitor to Scope. Like Scope, it was a green, mint-tasting mouthwash and positioned as a "good tasting mouthwash that fights bad breath." Within a year it had achieved a 12 percent market share, primarily at the expense of Listerine and smaller brands in the market.

In the 1970s, Merrell Dow, a large pharmaceutical firm, launched Cepacol, which was positioned very close to Listerine. It achieved and held approximately 14 percent of the market in the early 1980s.

During the 1980s, the major competitive changes in the Canadian mouthwash market were:

- Listerine, which had been marketed primarily on a "bad breath" strategy, began shifting its position and in 1988 introduced the claim "Fights plaque and helps prevent inflamed gums caused by plaque." In the United States, Listerine gained the American Dental Association seal for plaque but, as yet, did not have the seal in Canada.
- Listermint added fluoride during the early 1980s and added the Canadian Dental Association seal for preventing cavities in 1983. More recently, Listermint had downplayed fluoride and removed the seal.
- In early 1987, flavors were introduced by a number of brands including Scope, Listermint, and various store brands. This greatly expanded the market in 1987 but did not significantly change the market shares held by the major brands.
- Colgate Fluoride Rinse was launched in 1988. With the seal from the Canadian Dental Association for cavities, it claimed that "Colgate's new fluoride rinse fights cavities. And, it has a mild taste that encourages children to rinse longer and more often." Colgate's share peaked at 2 percent and then declined. There were rumors that Colgate was planning to discontinue the brand.
- In 1988, Merrell Dow entered a licensing agreement with Strategic Brands to market Cepacol in Canada. Strategic Brands, a Canadian firm that markets a variety of consumer household products, had focused its efforts on gaining greater distribution for Cepacol and promoting it on the basis of price.

...10/-

- In 1988, Plax was launched on a new and different platform. Its launch and immediate success caught many in the industry by surprise.

THE INTRODUCTION OF PLAX

Plax was launched in Canada in late 1988 on a platform quite different from the traditional mouthwashes. First, instead of the usual use occasion of "after brushing," it called itself a "prebrushing" rinse. The user rinses before brushing, and Plax's detergents are supposed to help loosen plaque to make brushing especially effective. Second, the product benefits were not breath-focused. Instead, it claimed that "Rinsing with Plax, then brushing normally, removes up to three times more plaque than just brushing alone."

Pfizer Inc., a pharmaceutical firm, launched Plax in Canada with a promotion campaign that was estimated to be close to $4 million. The campaign, which covered the last three months of 1988 and all of 1989, consisted of advertising estimated at $3 million and extensive sales promotions, including (1) trial-size display in three drugstore chains ($60,000), (2) co-op mail couponing to 2.5 million households ($160,000), (3) an instantly redeemable coupon offer ($110,000), (4) a professional mailer to drug and supermarket chains ($30,000), and (5) a number of price reductions ($640,000). Plax continued to support the brand with advertising expenditures of approximately $1.2 million in 1990. In 1990, Plax held a 10 percent share of the total market.

When Plax was launched in the United States, it claimed that using Plax "removed up to 300% more plaque than just brushing." This claim was challenged by mouthwash competitors and led to an investigation by the Better Business Bureau. The investigation found that the study on which Plax based its claim had panelists limit their toothbrushing to just 15 seconds—and didn't let them use toothpaste. A further study, where people were allowed to brush in their "usual manner" and with toothpaste, showed no overall difference in the level of plaque buildup between those using Plax and a control group that did not use Plax. Plax then revised its claim to "three times more plaque than just brushing alone." Information on plaque is contained in the Appendix.

THE CURRENT SITUATION

In preparing for the strategic plan, Gwen Hearst reviewed the available information for the mouthwash market and Scope. As shown in Exhibit 2, in 1990, 75 percent of Canadian households used one or more mouthwash brands, and, on average, usage was three times per week for each adult household member. Company market research revealed that users could be segmented on frequency of use; "heavy" users (once per day or more) comprised 40 percent of all users, "medium" users (two to six times a week) comprised 45 percent, and "light" users (less than once a week) comprised 15 percent. No information was available on the usage habits of prebrushing rinse users. Nonusers currently don't buy mouthwash because they either (1) don't believe they get bad breath, (2) believe that brushing their teeth is adequate, and/or (3) find alternatives like gums and mints more convenient. The most important reasons why consumers use mouthwash are:

Most Important Reason for Using a Mouthwash	**%**
It is part of my basic oral hygiene	40*
It gets rid of bad breath	40
It kills germs	30
It makes me feel more confident	20
To avoid offending others	25

*Multiple reasons allowed.

EXHIBIT 3

Consumer Perceptions of Brand Images

	All Users[a]					
Attributes	*Cepacol*	*Colgate*	*Listerine*	*Listermint*	*Plax*	*Scope*
Reduces bad breath	...	...	...	...	—	...
Kills germs	+	...	+	...	...	—
Removes plaque	...	...	...	...	+	—
Healthier teeth and gums	...	...	...	...	+	—
Good for preventing colds	...	...	+	...	...	...
Recommended by doctors/dentists	...	—	...	...	+	...
Cleans your mouth well	...	...	...	...	...	...

	Brand Users[b]					
Attributes	*Cepacol*	*Colgate*	*Listerine*	*Listermint*	*Plax*	*Scope*
Reduces bad breath	+	—	+	+	—	+
Kills germs	+	...	+	—	—	...
Removes plaque	—	+	+	—	+	—
Healthier teeth and gums	...	+	+	—	+	—
Good for preventing colds	+	—	+	—	—	—
Recommended by doctors/dentists	+	+	+	—	+	—

[a]Includes anyone who uses mouthwash. Respondents asked to rate all brands (even those they haven't used) on the attributes. A "+" means this brand scores *higher than average*. A "..." means this brand scored *about average*. A "—" means this brand scored *below average*. For example, Cepacol is perceived by those who use mouthwash as a brand that is good/better than most at "preventing germs."

[b]Includes only the users of that brand. For example, Cepacol is perceived by those whose "usual brand" is Cepacol as a brand that is good/better than most at "reducing bad breath."

Source: Company records.

EXHIBIT 4

Canadian Mouthwash Market Shares

	Units			*1990 Average*	
	1988	*1989*	*1990*	*Food*	*Drug*
Scope	33.0%	33.0%	32.3%	42.0%	27.0%
Listerine	15.2	16.1	16.6	12.0	19.0
Listermint	15.2	9.8	10.6	8.0	12.0
Cepacol	13.6	10.6	10.3	9.0	11.0
Colgate oral rinse	1.4	1.2	0.5	0.4	0.5
Plax	1.0	10.0	10.0	8.0	11.0
Store brands	16.0	15.4	16.0	18.0	15.0
Miscellaneous other	4.6	3.9	3.7	2.6	4.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Retail sales (000,000)	$60.2	$65.4	$68.6	$24.0	$44.6

Source: Company records.

During 1990, a survey was conducted of mouthwash users' images of the major brands in the market. Respondents were asked to rate the brands on a number of attributes, and the results show that Plax had achieved a strong image on the "removes plaque/healthier teeth and gums" attributes (Exhibit 3, page 211).

Market share data revealed there was a substantial difference in the share held by Scope in food stores, 42 percent (for example, supermarkets) versus drugstores, 27 percent (Exhibit 4, page 211). Approximately 65 percent of all mouthwash sales went through drugstores, while 35 percent went through food stores. Recently, wholesale clubs, such as Price Club and Costco, were accounting for a greater share of mouthwash sales.[1] Typically, these clubs carried Cepacol, Scope, Listerine, and Plax.

Competitive data were also collected for advertising expenditures and retail prices. As shown in Exhibit 5, total media spending of all brands in 1990 was $5 million, with

EXHIBIT 5

Competitive Market Data, 1990

Advertising Expenditures ($000s)

Scope	$1,700
Listerine	1,600
Plax	1,200
Listermint	330
Cepacol	170

Media Plans

	Number of Weeks on Air	*GRPs*[a]
Scope	35	325
Listerine	25	450
Plax	20	325

Retail Price Indices

	Food Stores	*Drugstores*
Scope	98	84
Listerine	129	97
Listermint	103	84
Colgate	123	119
Plax	170	141
Store brand	58	58
Cepacol	84	81
Total Market[b]	100	100

[a]GRP (Gross Rating Points) is a measurement of advertising impact derived by multiplying the number of persons exposed to an advertisement by the average number of exposures per person. The GRPs reported are monthly.

[b]An average weighted index of the retail prices of all mouthwash brands is calculated and indexed at 100 for both food stores and drugstores. Scope is priced slightly below this index in food stores and about 16 percent below in drugstores.

Source: Company records.

[1] Wholesale clubs were included in food store sales.

EXHIBIT 6

Canada–U.S. Market Share Comparison, 1989 (% Units)

Brands	*Canada*	*United States*
Scope	33.0	21.6
Listerine	16.1	28.7
Listermint	9.8	4.5
Cepacol	10.6	3.6
Plax	10.0	9.6

Source: Company records.

Scope, Listerine, and Plax accounting for 90 percent of all advertising. Retail prices were calculated based on a 750-ml bottle, both Listerine and Plax were priced at a higher level in food stores, and Plax was priced at a premium in drugstores.

Information on the U.S. market for 1989 was also available (see Exhibit 6). In contrast to Canada, Listerine held the dominant share in the U.S. market. Since early 1989, Listerine had been advertised heavily in the United States as "the only nonprescription mouthwash accepted by the American Dental Association for its significant help in preventing and reducing plaque and gingivitis." In clinical tests in the United States, Listerine significantly reduced plaque scores by roughly 20 to 35 percent, with a similar reduction in gingivitis. In Canada, the 1990 advertising campaign included the claim that Listerine has been clinically proven to "help prevent inflamed and irritated gums caused by plaque build-up." Listerine's formula relied on four essential oils—menthol, eucalyptol, thymol, and methyl salicylate—all derivatives of phenol, a powerful antiseptic.

Listerine had not received the consumer product seal given by the Canadian Dental Association (CDA) because the association was not convinced a mouthrinse could be of therapeutic value. The CDA was currently reviewing American tests for several products sold in Canada. In fact, any proposed changes to the formulation of mouthwashes or advertising claims could require approval from various regulatory agencies.

■ THE REGULATORY ENVIRONMENT

1. **Health Protection Branch:** This government body classifies products into "drug status" or "cosmetic status" based on both the product's action on bodily functions and its advertising claims. Drug products are those that affect a bodily function (for example, prevent cavities or prevent plaque buildup). For "drug status" products, all product formulations, packaging, copy, and advertising must be pre-cleared by the Health Protection Branch (HPB), with guidelines that are very stringent. Mouthwashes like Scope that claim to only prevent bad breath are considered as "cosmetic status." However, if any claims regarding inhibition of plaque formation are made the product reverts to "drug status," and all advertising is scrutinized.
2. **The Canadian Dental Association:** Will, upon request of the manufacturer, place its seal of recognition on products that have demonstrated efficacy against cavities or against plaque/gingivitis. However, those products with the seal of recognition must submit their packaging and advertising to the CDA for approval. The CDA and the American Dental Association (ADA) are two separate bodies

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and are independent of each other and don't always agree on issues. The CDA, for example, would not provide a "plaque/gingivitis" seal unless clinical studies demonstrating actual gum health improvements were done.

3. **Saccharin/Cyclamate sweeteners:** All mouthwashes contain an artificial sweetener. In Canada, cyclamate is used as the sweetener, as saccharin is considered a banned substance. In contrast, the United States uses saccharin because cyclamate is prohibited. Thus, despite the fact that many of the same brands compete in both Canada and the United States, the formula in each country is different.

■ THE THREE-YEAR PLAN

In preparing the three-year plan for Scope, a team had been formed within P&G to examine various options. The team included individuals from Product Development (PDD), Manufacturing, Sales, Market Research, Finance, Advertising, and Operations. Over the past year, the team had completed a variety of activities relating to Scope.

The key issue, in Hearst's mind, was how P&G should capitalize on the emerging market segment within the rinse category that focused more on "health-related benefits" than the traditional breath strategy of Scope. Specifically with the launch of Plax, the mouthwash market had segmented itself along the "breath-only" brands (like Scope) and those promising other benefits. Plax, in positioning itself as a prebrushing rinse, was not seen as, nor did it taste like, a "breath refreshment" mouthwash like Scope.

Gwen Hearst believed that a line extension positioned against Plax, a recent entry into the market, made the most sense. If the mouthwash market became more segmented, and if these other brands grew, her fear was that P&G would be left with a large share of a segment that focused only on "breath" and hence might decline. However, she also knew that there were questions regarding both the strategic and financial implications of such a proposal. In recent meetings, other ideas had been proposed, including "doing nothing" and looking at claims other than "breath" that might be used by Scope instead of adding a new product. Several team members questioned whether there was any real threat, as Plax was positioned very differently from Scope. As she considered the alternatives, Hearst reviewed the activities of the team and the issues that had been raised by various team members.

Product Development

In product tests on Scope, PDD had demonstrated that Scope reduced plaque better than brushing alone because of antibacterial ingredients contained in Scope. However, as yet P&G did not have a clinical database to convince the HPB to allow Scope to extend these claims into the prevention of inflamed gums (as Listerine does).

PDD had recently developed a new prebrushing rinse product that performed as well as Plax but did not work any better than Plax against plaque reduction. In fact, in its testing of Plax itself, PDD was actually unable to replicate the plaque reduction claim made by Pfizer that "rinsing with Plax, then brushing normally removes up to three times more plaque than brushing alone." The key benefit of P&G's prebrushing rinse was that it did taste better than Plax. Other than that, it had similar aesthetic qualities to Plax—qualities that made its "in-mouth" experience quite different from that of Scope.

The Product Development people in particular were concerned about Hearst's idea of launching a line extension because it was a product that was only equal in efficacy to Plax and to placebo rinses for plaque reduction. Traditionally, P&G had only launched products that focused on unmet consumer needs—typically superior performing products. However, Gwen had pointed out, because the new product offered

similar efficacy at a better taste, this was similar to the situation when Scope was originally launched. Some PDD members were also concerned that if they couldn't replicate Plax's clinical results with P&G's stringent test methodology, and if the product possibly didn't provide any greater benefit than rinsing with any liquid, then P&G's image and credibility with dental professionals might be impacted. There was debate on this issue, as others felt that as long as the product did encourage better oral hygiene, it did provide a benefit. As further support they noted that many professionals did recommend Plax. Overall, PDD's preference was to not launch a new product but, instead, to add plaque-reduction claims to Scope. The basic argument was that it was better to protect the business that P&G was already in than to launch a completely new entity. If a line extension was pursued, a product test costing $20,000 would be required.

Sales

The sales people had seen the inroads Plax had been making in the marketplace and believed that Scope should respond quickly. They had one key concern. As stock-keeping units (SKUs) had begun to proliferate in many categories, the retail industry had become much more stringent regarding what it would accept. Now, to be listed on store shelves, a brand must be seen as different enough (or unique) from the competition to build incremental purchases—otherwise retailers argued that category sales volume would simply be spread over more units. When this happened, a retail outlet's profitability was reduced because inventory costs were higher, but no additional sales revenue was generated. When a new brand was viewed as not generating more sales, retailers might still list the brand by replacing units within the existing line (for example, drop shelf facings of Scope), or the manufacturer could pay approximately $50,000 per stock-keeping unit in listing fees to add the new brand.

Market Research

Market Research (MR) had worked extensively with Hearst to test the options with consumers. Its work to date had shown:

1. A plaque reassurance on current Scope (that is, "Now Scope fights plaque") did not seem to increase competitive users' desire to purchase Scope. This meant that it was unlikely to generate additional volume, but it could prevent current users from switching.

   MR also cautioned that adding "reassurances" to a product often takes time before the consumer accepts the idea and then acts on it. The issue in Hearst's mind was whether the reassurance would ever be enough. At best it might stabilize the business, she thought, but would it grow behind such a claim?

2. A "Better-Tasting Prebrushing Dental Rinse" product did research well among Plax users, but did not increase purchase intent among people not currently using a dental rinse. MR's estimate was that a brand launched on this positioning would likely result in approximately a 6.5 percent share of the total mouthwash and "rinse" market on an ongoing basis. Historically, it has taken approximately two years to get to the ongoing level. However, there was no way for them to accurately assess potential Scope cannibalization. "Use your judgment," they had said. However, they cautioned that although it was a product for a different usage occasion, it was unlikely to be 100 percent incremental business. Hearst's best rough guess was that this product might cannibalize somewhere between 2 and 9 percent of Scope's sales. An unresolved issue was the product's name—if it were launched, should it be under the Scope name or not? One fear was that if

the Scope name was used it would either "turn off" loyal users who saw Scope as a breath refreshment product or confuse them.

MR had questioned Hearst as to whether she had really looked at all angles to meet her objective. Because much of this work had been done quickly, they wondered whether there weren't some other benefits Scope could talk about that would interest consumers and hence achieve the same objective. They suggested that Hearst look at other alternatives beyond just "a plaque reassurance on Scope" or a "line extension positioned as a 'Better-Tasting Prebrushing Rinse.'"

Finance

The point of view from Finance was mixed. On the one hand, Plax commanded a higher dollar price/liter and so it made sense that a new rinse might be a profitable option. On the other hand, they were concerned about the capital costs and the marketing costs that might be involved to launch a line extension. One option would be to source the product from a U.S. plant where the necessary equipment already existed. If the product was obtained from the U.S., delivery costs would increase by $1 per unit. Scope's current marketing and financial picture is shown in Exhibits 7 and 8 and an estimate of Plax's financial picture is provided in Exhibit 9.

EXHIBIT 7

Scope Historical Financials

Year	*1988*		*1989*		*1990*	
Total market size (Units) (000)	1,197		1,294		1,358	
Scope market share	33.0%		33.0%		32.4%	
Scope volume (Units) (000)	395		427		440	
	$(000)	$/Unit	$(000)	$/Unit	$(000)	$/Unit
Sales	16,767	42.45	17,847	41.80	18,150	41.25
COGS	10,738	27.18	11,316	26.50	11,409	25.93
Gross margin	6,029	15.27	7,299	15.30	6,741	15.32

Scope Marketing Plan Inputs

Scope "Going" Marketing Spending

Year	*1990*	*1989*	*1988*
Advertising (000)	$1,700	—	—
Promotion (000)	1,460	—	—
Total (000)	$3,160	$3,733	$2,697

Marketing Input Costs

Advertising:		(See Exhibit 5)
Promotion:	Samples	(Including Distribution): $0.45/piece
	Mailed couponing	$10.00 per 1,000 for printing distribution
		$0.17 handling per redeemed coupon (beyond face value) redemption rates: 10% to 15%
	In-store promotion	$200/store (fixed)
		$0.17 handling per redeemed coupon (beyond face value) redemption rates: 85% +

Source: Company records.

EXHIBIT 8

Scope 1990 Financials

	$(000)	*$/Unit*
Net sales[a]	18,150	41.25
Ingredients	3,590	8.16
Packaging	2,244	5.10
Manufacturing[b]	3,080	7.00
Delivery	1,373	3.12
Miscellaneous[c]	1,122	2.55
Cost of goods sold	11,409	25.93
Gross margin	6,741	15.32

[a]Net sales = P&G revenues.

[b]Manufacturing: 50 percent of manufacturing cost is fixed of which $200,000 is depreciation; 20 percent of manufacturing cost is labor.

[c]Miscellaneous: 75 percent of miscellaneous cost is fixed. General office overhead is $1,366,000. Taxes are 40 percent. Currently the plant operates on a five-day one-shift operation. P&G's weighted average cost of capital is 12 percent. Total units sold in 1990 were 440,000.

Source: Company records.

Purchasing

The Purchasing Manager had reviewed the formula for the line extension and had estimated that the ingredients cost would increase by $2.55 per unit due to the addition of new ingredients. But, because one of the ingredients was very new, Finance felt that the actual ingredient change might vary by ± 50%. Packaging costs would be $0.30 per unit higher owing to the fact that the setup charges would be spread over a smaller base.

Advertising Agency

The Advertising Agency felt that making any new claims for Scope was a huge strategic shift for the brand. They favored a line extension. Scope's strategy had always been "breath refreshment and good tasting" focused, and they saw the plaque claims as very different, with potentially significant strategic implications. The one time they had

EXHIBIT 9

Plax Financial Estimates ($/Unit)

Net Sales	65.09
COGS	
Ingredients	6.50
Packaging	8.30
Manufacturing	6.50
Delivery	3.00
Miscellaneous	1.06
Total	25.36

Notes: General overhead costs estimated at $5.88/unit.

Source: P&G estimates.

focused advertising only on taste and didn't reinforce breath efficacy, share fell. They were concerned that the current Scope consumer could be confused if plaque or any "nonbreath" claims were added and that Scope could actually lose market share if this occurred. They also pointed out that trying to communicate two different ideas in one commercial was very difficult. They believed the line extension was a completely different product from Scope with a different benefit and use occasion. In their minds, a line extension would need to be supported on a going basis separately from Scope.

■ WHAT TO RECOMMEND?

Hearst knew the business team had thought long and hard about the issue. She knew that management was depending on the Scope business team to come up with the right long-term plan for P&G—even if that meant not introducing the new product. However, she felt there was too much risk associated with P&G's long-term position in oral rinses if nothing was done. There was no easy answer—and compounding the exigencies of the situation was the fact that the business team had differing points of view. She was faced with the dilemma of providing recommendations about Scope, but also needed to ensure that there was alignment and commitment from the business team, or Senior Management would be unlikely to agree to the proposal.

■ APPENDIX

Plaque

Plaque is a soft, sticky film that coats teeth within hours of brushing and may eventually harden into tartar. To curb gum disease—which over 90 percent of Canadians suffer at some time—plaque must be curbed. Research has shown that, without brushing, within 24 hours a film (plaque) starts to spread over teeth and gums and, over days, becomes a sticky, gelatinous mat, which the plaque bacteria spin from sugars and starches. As the plaque grows it becomes home to yet more bacteria—dozens of strains. A mature plaque is about 75 percent bacteria; the remainder consists of organic solids from saliva, water, and other cells shed from soft oral tissues.

As plaque bacteria digest food, they also manufacture irritating malodorous byproducts, all of which can harm a tooth's supporting tissues as they seep into the crevice below the gum line. Within 10 to 21 days, depending on the person, signs of gingivitis—the mildest gum disease—first appear, gums deepen in color, swell, and lose their normally tight, arching contour around teeth. Such gingivitis is entirely reversible. It can disappear within a week after regular brushing and flossing are resumed. But when plaque isn't kept under control, gingivitis can be the first step down toward periodontitis, the more advanced gum disease in which bone and other structures that support the teeth become damaged. Teeth can loosen and fall out—or require extraction.

The traditional and still best approach to plaque control is careful and thorough brushing and flossing to scrub teeth clean of plaque. Indeed, the antiplaque claims that toothpastes carry are usually based on the product's ability to clean teeth mechanically, with brushing. Toothpastes contain abrasives, detergent, and foaming agents, all of which help the brush do its work.