

L'Oréal e-Strat Challenge Episode 6

Prima feel special, feel

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1. Performance Analysis, Period 1-5

1.1 Throughout these two and a half years, our company has evolved from two brands targeted at the lower and medium income families, to managing a portfolio of four successful brands for the whole spectrum. The results obtained after having managed Prima for five periods are shown below.

Financial Results:

	Values	Variation
ROI	74.40%	+50.70%
Retail Sales	443,646 K\$	+19.40%
Revenues	274,562 K\$	+18.80%
EBIT	56,810 K\$	+632.90%
Brand Contribution	76,059 K\$	+194.40%

Marketing Results: Market Share in Units: 37.5% Market Share in Value: 32.4%

Marketing Costs Variation +2.84% Club members variation: +183.4%

	Brand Perception		Brand Awareness	Best Competitor*	Brand Perception		Brand Awareness
	Average	Price	Average		Average	Price	Average
PAPAYA	3.2	1.8	75.40%	BANZAI	2.8	1.9	74%
PUZZLE	4.5	3.4	77.80%	BOREAL	3.5	3	75.00%
PERFECT	6.6	6.2	56.90%	VISION	6.4	5.7	80.30%
PALAZZO	5.2	3.9	52%	DESIRE	5.5	5.1	80.60%

Brand Perception: 1= "Low perceived value", 7= "High perceived value"

*Best competitor: highest selling brand on targeted segment, not owned by Prima.

Retail Sales and Revenues have increased, as have market shares (unit and value). Even though there has been an increase in both marketing and production expenses, the periods' EBIT has witnessed a sixfold increase; partly explained by the absence of inventory disposal and its associated costs. Prima's longest running brands have the highest brand perception in their segments, the newer brands have comparatively low figures, but have shown a growing tendency, mainly due to advertising investment.

1.2 Our managing team's aim is to transform Prima into a sophisticated, innovative beauty company, with leading brands for each segment. To achieve this position, formulas of old products were drastically improved setting prices accordingly. New products were launched, accompanied by adequate marketing and R&D expenditures, focused towards each prospective market's top choice criteria. In this spirit, Papaya's and Puzzle's formulas were improved twice; two new products were introduced: Perfect and Palazzo. Perfect's formula was improved and Palazzo's formula will be on the following period. Demand elasticity was continuously analyzed in order to determine whether or not prices should be lowered. Investments were chosen giving priority to actions with expected high ROI on the long run. Commerce through e-tailers and online boutiques has grown and we have put efforts in developing a strong position in the Internet. Several sites have been launched and their features have been improved, especially during the past year, reflected in the increase of club

members by 183.4%. All these changes have been in order to gain and maintain a leading position, reflected on the fact that we currently have the highest SPI, ESI and SSI among the five companies.

1.3 At the end of Period 5, the following is our view of Prima's position:

Strengths: Our company's main strength is the excellent quality of its products. All of Prima's brands have shown constant innovation throughout the five periods and will continue to do so, as shown in our long term plans. Three of our brands have the highest customer perception in their segments, as shown above. This translates into leadership in brand awareness and purchase intentions in our two longest running brands. The recently introduced brands (though not leaders yet) are showing constant increase in these attributes.

Weaknesses: Prima's two top selling products have seen a slight decrease in sales in the last periods and the recently introduced Perfect and Palazzo are not yet leaders. Furthermore, our unit costs are higher than our competitors' in most segments due to the use of more expensive formulas.

Opportunities: Internet sales are increasing. This is a clear opportunity for Prima to tap into this relatively new channel. In the long term, Prima's management sees a clear opportunity in expanding the current product line into related markets, such as non-facial creams or other cosmetics.

Threats: Rival brands are quickly learning about the market and are directing their own efforts towards exploiting their own strengths. Even though the market is currently expanding, it is very sensitive to both global and local economies which could suffer a certain recession, affecting us.

2. Period 6 Forecast

Period	6	5
Volume Market Share	38.20%	37.40%
Value Market Share	35.80%	32.40%
Revenue K\$	312,600	274,562
EBIT K\$	62,000	56,810
SPI	2260	1952

The estimation of these values was based on the products' historical figures, their life cycle and evolution forecasted for each one of them. Each brand was analyzed individually, weighing aspects such as their own and their competitors' past revenues and retail sales. This analysis allowed us to project what could become of them in the short and long term, considering our actions. Regarding Papaya, its MSRP was lowered \$0.5, therefore, a boost in unit sales is expected. Puzzle has an improved formula, MSRP was increased slightly hoping to compensate partially for the increase in unit cost while not shocking customers. Perfect is showing a strong growing tendency characteristic of new, high-quality, successful products and its production cost will be lowered for Period 6. Finally, Palazzo will be marketed with an improved formula during the next period, making it appropriate to be inserted and targeted into the affluent families segment. In addition, we expect investments in web site development to attract a growing number of customers and will increase the number of club members. SPI was estimated using Multiple Regression, selecting these independent

variables: ESI, SSI, revenues, market shares, club members and profitability. They showed strong correlation with SPI resulting in a reliable estimation, forecasting an increase on our SPI of 16%.

3. Three Period Strategy

3.1 The market in which Prima participates has seen several changes in the years since we've been given control of the company. At the beginning, each of the five competing firms owned two brands, each targeted towards a clearly defined segment, often in adjacent segments and therefore aimed at a specific sector of the population: Vista and Diva concentrated in the higher end of the spectrum, while Bella and Prima fought over the low end, leaving Mirror.com almost on its own over the high end cyber market. Five periods later, we have a totally different landscape: firms have been crossing over to different segments with both new and radically improved products. Prima now has a four brand portfolio, covering almost every available segment. Our competitors have shown the same tendency, there are, in total, fifteen different products available.

Those who were not prepared for this change have suffered the consequences: Prima and Vista are the only companies which have seen an increase in the corporate market share (Prima went from 19.5% to 32.4%, Vista from 30.1% to 37.1% in value), Bella and Diva have not only seen a decrease in their market shares, but have also suffered a substantial decrease in sales and EBIT.

The main focus for the following three periods is to finally establish Prima as a leader in each one of the segments we are competing in. Our aim is to achieve better purchase intention percentages across the line, which will ultimately result in Prima being the leader in sales and customer fidelity. We intend to increase our R&D and marketing budget, and in the case of our most established products, the latter will be gradually biased towards trade marketing and promotions.

E-sales are not the only driving force behind our current and future web development plans, we believe club members are an integral part of developing corporate and brand fidelity. We will aggressively pursue this channel, eventually revamping our corporate portal and having state of the art sites for every product in our line up. A new brand, Pulp, will be launched during period 7, targeting the medium income families. This new product will have superior attributes (compared to Verity, the current leader in the segment) at a competitive price. The launch will be accompanied by an aggressive marketing campaign (both in advertisements and promotions) and all traditional distribution channels will be used, with an emphasis towards mass & discount stores. As far as electronic channels go, a specific web page, with e-commerce capabilities will be launched.

Papaya's sales have shown a slightly negative tendency over the last two periods (12037KU sold during period 5 vs. 13524KU in period 3), we attribute this change to the influx of new brands. In order to maintain, or even increase, its sales for the next three periods, we will gradually direct our marketing efforts towards promotion and trade marketing, other efforts towards that goal include launching a specific e-commerce capable web site and a low price strategy.

The launch of the new product, coupled with the expected increase in sales should be met with an increase in management times.

3.2 We expect an increase in the overall market share of approximately 3% per period, with an accompanying increase in total revenues of about 30K\$ (10%) per period.

3.3 We firmly believe that faithful customers are the only way to achieve lasting success as a company. In this respect, our chances for long term success are excellent. Our current line up consists of the leaders in the lower income families and singles segments, the second best selling cream in the high earners market and finally a brand which has had a very impressive launch, giving positive results in its second period in the market. All of our products have leading or above average attributes and constantly increasing brand awareness and purchase intentions from customers. This situation makes us feel optimistic about the future of our company, but we will need not to forget how we reached our current standing: Quality, Value and Marketing.

3.4 Our long term vision is very clearly defined: To be the leading brand in all the different segments, aligning the attributes and pricing of each of our products to each targeted segment. Our hope is that each customer feels that the Prima product they use was specially designed for them.

4 Key learning points

4.1 We found the following learning points most valuable: the complexity of the cosmetic market and its dynamics, the process of selecting and processing data towards making informed decisions and the importance of having a defined long term vision and aligning our limited resources in the realization of it. As far as the cosmetic market goes, we were not at all familiar with it, its segmentation and the dynamics with which it evolves. The depth of the simulation provided us with a glimpse of many of the most important variables present in the real world and the way they interact. The simulation gave us the chance to choose between different sources of information; we were presented with an important amount of data with which to base each decision. The process of selecting and analyzing the simulation data in order to obtain valuable information was indeed a very important learning tool both individually and as a team. We feel backing up decisions with relevant information is of fundamental importance in the business world, and the e-Strat simulation reinforced that opinion. Finally, we would like to highlight the importance of a well planned strategic long term vision. One interesting similarity we found between the competition and real life is that corporations need to show results in both the short term (in order to make the several cuts in the simulation or keep our jobs in real life) and the long term; a company cannot survive in this world without solid planning ahead. One of the most challenging tasks we faced was merging both of these needs in every decision set we submitted.

4.2 The cosmetics market is one in which marketing has a clear influence, excellent products can fail if marketed at the wrong time or towards the wrong customers, whereas average products can

achieve incredible success if correctly marketed. Nonetheless, at our company we believe that a product with outstanding quality is the basis for success in the long term. We have seen constant innovation throughout the 5 periods of the simulation, this means that the attributes of every single product will tend to approach the theoretical optimum and at that time, the customers' shopping experience and the image of the company as a whole will begin to have a great influence in sales. Building a faithful customer base is the first step towards being prepared for the future, where every sale will be a very pleasant and personal experience, where consumers will demand more and more attention to detail (and not only in product attributes).

As far as the market as a whole goes, the current global tendency is towards taking care of one's own body and fitness and that is a scenario where the cosmetic market fits perfectly, in both male and female customers. Of course, being a luxury product, the market can be very sensitive to the state of the economy. On this note, in the year 2001 our own country has suffered a serious economic crisis which brought forth a deep recession. We have seen products that were commonplace in every household a few years ago suddenly become rare luxury items.

4.3

Prima feel special, feel

is not just another slogan designed to attract consumers, it is our vision to understand and anticipate individual needs and aspirations. We believe that every human being is special, and that's why we strive to achieve a product specially tailored for each segment. Because people need to feel special, they need to feel Prima.

5. Personal key learning points

Amongst the many things we learned after taking part in the e-Strat Challenge 6, we would like to remark the following two: Strategy and Teamwork.

To begin with, the need for a logic and coherent, well planned Strategic long term vision was central when immersed in a highly competitive and dynamic market as the one we played in this challenge. Improvements and modifications in pricing, production volume and capacity, R&D, marketing, advertising and brand positioning among other management decisions couldn't be made overnight. Solid planning combined with strategic vision were essential in order to succeed.

Teamwork implies learning how to confront different ideas and opinions in a constructive manner, towards a group consent. We learned that even though dialogues and debates took long, the outcome was a combination and organization of different ideas which allowed a new vision of the problem, better than the original individual visions. In this manner, it not only helped us to make group decisions, but also allowed us to comprehend our individual talents and our working methods, increasing our team potential. To sum up, the effort was certainly not in vain. Not only did we learn a lot, we also had a lot of fun while doing so.