Marketing

Marketing functions vary widely depending on the industry and company. In general, the department drums up interest in the company's products or services through a mix of activities. These can include advertising, public relations and good old-fashioned salesmanship. Your Marketing Department is concerned with the remaining P's (beyond R&D's product): price, place and promotion. Your Marketing Department is also in charge of sales forecasting.

Pricing Sensors

The first decision the Marketing department must make is to price each product. For starters, it's necessary to know that every segment has a $10.00 price range. Customers prefer products–the ideal–towards the bottom of the range. Price ranges in all segments drop $0.50 per year. For example, if in Round 0, Traditional customers expect a Price between $20.00 and $30.00, then in Round 1, the Traditional price range will be $19.50- $29.50; Round 2, $19.00-$29.00, etc. This puts pressure on companies to improve their cost structures.

Segment Price expectations correlate with the segment's position on the Perceptual Map, so Low Tech customers demand a lower product Price than High Tech customers. Segments that demand higher performance and smaller sizes are willing to pay higher Prices. To review, appeal falls to zero when Prices go $5.00 above or below the expected price range. Price drives the product's contribution to profit margin. Dropping the Price increases appeal but reduces profit per unit.

Promotion and Sales Budgets

Promotion and Sales budgets affect Customer Awareness and Accessibility. They also affect the Customer Survey Score.

Promotion

Each product's promotion budget determines its level of Awareness. A product's Awareness percentage reflects the number of customers who know about the product. An Awareness of 50% indicates half of the potential customers know it exists. From one year to the next, a third of those who knew about a product forget about it.

Last Year's Awareness - (33% × Last Year's Awareness) = Starting Awareness

If a product ended last year with an Awareness of 50%, this year it will start with an Awareness of approximately 33%. This year's Promotion Budget would build from a starting Awareness of approximately 33%.

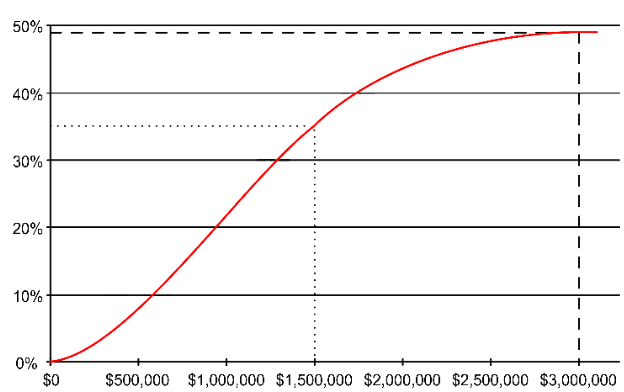
Starting Awareness + Additional Awareness from Figure 4.2 = New Awareness

Figure 2.5 indicates a $1,500,000 Promotion Budget would add 36% to the starting Awareness, for a total Awareness of 69% (33 + 36 = 69).

Figure 2.5 indicates a $3,000,000 budget would add just under 50% to the starting Awareness, roughly 14% more than the $1,500,000 expenditure (33 + 50 = 83). This is because further expenditures tend to reach customers who already know about the product. Once your product achieves 100% Awareness, you can scale back the product's Promotion Budget to around $1,400,000. This will maintain 100% Awareness year after year.

New products are newsworthy events. The buzz creates 25% Awareness at no cost. The 25% is added to any additional Awareness you create with your Promotion Budget.

Figure 2.5



Promotion Budget: Increases in promotion budgets have diminishing returns. The first $1,500,000 buys 36% awareness; spending another $1,500,000 (for a total of $3,000,000) buys just under 50%. The second $1,500,000 buys less than 14% more awareness.

Sales

Each product's Sales Budget contributes to segment Accessibility. A segment's Accessibility percentage indicates the number of customers who can easily interact with your company via salespeople, customer support, delivery, etc. Like Awareness, if your Sales Budgets drop to zero, you lose one third of your

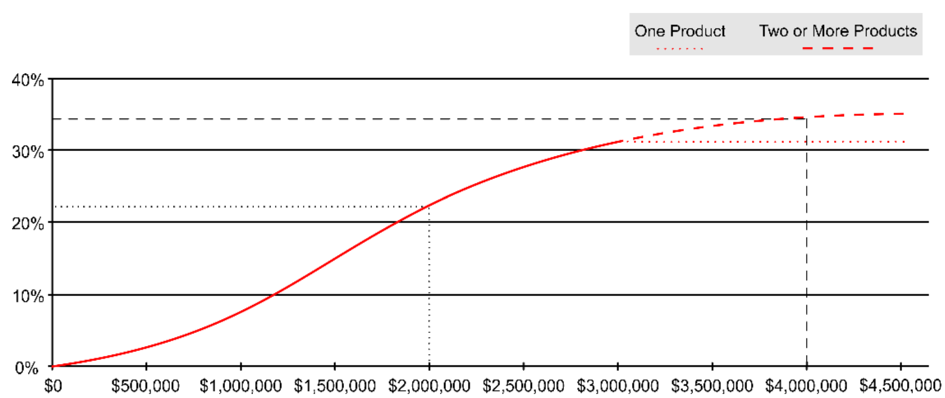
Accessibility each year. Unlike Awareness, Accessibility applies to the segment, not the product. If your product exits a segment, it leaves the old Accessibility behind. When it enters a different segment, it gets that segment's Accessibility.

If you have two or more products that meet a segment's fine cut criteria, the Sales Budget for each product contributes to that segment's Accessibility. The more products you have in the segment's circle, the stronger your distribution channels, support systems, etc. This is because each product's Sales Budget contributes to the segment's Accessibility.

If you have one product in a segment, there is no additional benefit to spending more than $3,000,000. If you have two or more products in a segment, there is no additional benefit to spending more than a $4,500,000 split between the products, for example, two products with sales budgets of $2,250,000 each (see Figure 2.6).

Achieving 100% Accessibility is difficult. You must have two or more products in the segment's fine cut. Once 100% is reached, you can scale back the combined budgets to around $3,500,000 to maintain 100%.

Figure 2.6



Sales Budget: For budgets above $3,000,000, the dotted red line indicates there is no additional benefit for companies that have only one product in a segment; the dashed red line indicates returns for companies with two or more products in a segment. Increases in sales budgets have diminishing returns. The first $2,000,000 buys 22% accessibility. For companies with two or more products in a segment, spending $4,000,000 buys just under 35%. The second $2,000,000 buys less than 13% additional accessibility.

Awareness and Accessibility

Think of Awareness and Accessibility as "before" and "after" the sale. The Promotion Budget drives Awareness, which persuades the customer to look at your product. The Sales Budget drives Accessibility, which governs everything during and after the sale. The Promotion Budget is spent on advertising and public relations. The Sales Budget is spent on distribution, order entry, customer service, etc. Awareness and Accessibility go hand in hand towards making the sale. The former is about encouraging the customer to choose your product; the latter is about closing the deal via your salespeople and distribution channels.

Sales Forecasting

Accurate sales forecasting is a key element to company success. Manufacturing too many units results in higher inventory carrying costs. Manufacturing too few units results in stock outs and lost sales opportunities, which can cost even more.

To recap:

Log into the simulation and click Marketing. Use this area to determine each product's Price, Promotion Budget, Sales Budget and Sales Forecast.

Your Sales Forecast sets your own prediction of what you think will happen and shares it with your Production team. When you update your forecast, you will notice changes to your proforma financial statements.

The interface also displays the financial impacts of your decisions:

- Gross Revenue (Price multiplied by Your Forecast.)
- Variable Costs (Labor, material and inventory carrying costs subtracted from the Gross Revenue forecast.)
- Contribution Margin (Gross Revenue forecast minus Variable Costs.)
- Fixed Costs (Depreciation, R&D costs, Promotion Budget, Sales Budget and admin costs.)
- Net Margin (Contribution Margin forecast minus the product's Fixed Costs forecast.)