AN ANALYSIS OF THE MARKETING ISSUES RELATED TO THE UNDER-PERFORMANCE OF A NEW PRODUCT : A CASE STUDY

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TABLE OF CONTENTS:

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1: BACKGROUND ABOUT THE PRODUCT AND PROBLEM DEFINITION.

1.1 Introduction.

This study was prompted by a concern over the poor performance of 'Nestlé Infant Cereal with Soya' raised during ad hoc discussions held with Sales and Marketing Managers. It represents an investigative study of the marketing issues associated with the poor performance of the product with a view to establish possible causes and their likely solutions.

Nestlé was founded by Henry Nestle in 1866 and today it is the world's leading food company. It is Switzerland's largest industrial company with more than 480 worldwide operations. The company is present in different markets which are demarcated into zones. Zone one represents Europe, Zone two – Asia, Zone three – Latin America, Zone four – North America and Zone five – Africa and the Middle East. It has more than 200 000 employees worldwide. Over the years, the company grew through mergers with other companies such as Anglo Swiss Condense milk, Chocolate Suisse S.A., Alimentina S.A. (Manufacturers of Maggi products and acquisition of carnation USA), Buitoni-Perugina (Italy), Rowntree (Great Britain) and Perrier (France). More than 80% of sales are generated in Europe and America and the balance of sales come from Asia, Africa and the Middle East. Nestlé SA (Pty.) Ltd. was established in 1916 as a private company. It is a company in the food industry, which manufactures, markets and distributes a variety of consumer goods which are well-known household brands.

The Head Office is in Randburg, Gauteng. Manufacturing establishments are scattered throughout cities in the country's provinces such as Bethal, Standerton, Belleville, East London, Escort, Harrismith, Pietermaritzburg, Robertson, Mosselbay and Duiwelskloof. Depots are situated in Cape Town, East London, Durban, Johannesburg and Pretoria. Products are moved from factories through third party carriers to the depots and further distribution to customers is done through a combination of its own fleet and third party carriers for local and non-local customers.

Nestlé as a multinational organization, has both international and local brands. Different products are offered to different markets. Local products are included in Table 1.1. Nestlé has also diversified into other non-food products and services such as pet foods (Friskies, Fancy Feast, Buffet, Dr Ballard's and Gourmet), cosmetics (L'Oreal) ophthalmological products(Alcow) as well as restaurants, catering services and hotels (Chef, Davigel, Santa Rica, Heimb's) (Source: In-company literature).

1.2 Problem Definition.

The effectiveness of the current methods used in marketing 'Nestlé Infant Cereal with Soya' is being questioned as a result of the product's under performance in the market. The product has not lived up to expectations. Table 1.2, 1.3 and 1.4 provide an overview of the product's performance since its launch.

Table 1.1: A profile of local products.

Product type	Brands
Coffees	Nescafé Classic, Finesse, Encore and Ricoffy
Chocolate beverage	Nesquick, Milo, Carnation, Cocoa and Hot Chocolate
Mineral water	Perrier
Dairy products	Nido, Nespray, Carnation and Milkmaid
Coffee creamers	Coffee-mate, Condensed milk and Cremora
Culinary products	Maggie, Buitane, Crosse and Blackwell, Fondor and Two-minute noodles
Ice cream	Nestlé, Carnation, Frisco, Dairy Farm and Magnolia
Refrigerated products	Yogurt, dessert and cold meat products
Chocolate and confectionery	Crunchie, Milky Bar, Kit Kat, Quality Street, Smarties, Nuts, Rolo and Aero
Infant foods and dietetics	Nan, Lactogen, Nestum (regular, rice and maize mixed cereal, honey and chocolate malt, Cerelac (regular, honey, banana,chocolate malt, guava and custard) and Nestlé Infant Cereal with Soya.

(Source: In-company literature).

Table 1.2: Product performance for 1994-1996.

Month	Kilograms sold in 1994	Kilograms sold in 1995	Kilograms sold in 1996
January		5399	6225
February		4960	4519
March		6254	1585
April		4389	3189
May	4092	7012	8012
June	6899	10270	7354
July	5690	5585	4394
August	16587	6758	841
September	9771	5512	7729
October	7113	6612	5431
November	9570	7613	5416
December	4460	5478	5305
TOTAL	**64182**	**75842**	**60000**

(Source: In-company literature)

At the time of submitting this paper, the monthly kilograms of sales for 'Nestlé Infant Cereal with Soya' could not be obtained for 1997 and part of 1998 and 1999. However, according to the latest Nielsen report (report attached as Appendix I) on the Infant Cereal Market on Food and Drugs, the market share of Nestlé Infant cereal with Soya for the past three years was as follows:

Table 1.3: Product performance since the launch.

	May/June 1997	May/June 1998	May/June 1999
Kilograms sold	9855	8398	9191
Percentage of market shares	1,5	1,3	1,3
Total markets	657	646	707
Percentage change in growth		-2	-9

(Source: Nielsen report)

Table 1.4: Product performance taken over a twelve-month period from May/June 1998 to 1999.

Month	Kilograms	Percentage
May/June 1998	8008	1,3
July/August 1998	8216	1,3
September/October 1998	7464	1,2
November/December 1998	9450	1,5
January/February 1999	12064	1,6
March/April 1999	11102	1,4
May/June 1999	8943	1,1

(Source: Nielsen Report)

The total Cereal Market, shows a positive upward trend, from 1998 to the first six months of 1999, while the product performance is erratic with no sign of exponential growth.

The company did not set itself objectives but had the belief that as the product takes off, and sales grow, sales history will enable it to set realistic targets. From table 1.2 it is clear that the product showed erratic performance in 1994. From May 1994 to December 1994 the product performance is characterized by peaks and valleys and does not show exponential growth from its inception. The same pattern can be observed in 1995 and 1996, although the last three months in 1996 shows the product consistently dropping in performance. In 1995 the total performance increased by 18% compared to the results of 1994 and showed some promise of growth. An 18% increase may be deceptive if one considers that no sales were recorded from January to April.

Perhaps it would be more realistic to compare the total sales for 1995 and 1996 where two full trading years can be evaluated. The comparison reveals a 21% negative growth. Product performance over the past three years has not lived up to expectations. The product was intended to capture and grow in this niche market and it has not been able to achieve growth. It is the purpose of this study to attempt to explore the reason behind this problem of poor performance.

1.3 Background to the problem.

Nestlé Infant Cereal with Soya, was launched in May 1994. The rationale for the launch of the product was based on the following factors:

1.3.1 Corporate objectives:

The company's aim was to expand its range of nutritionally complete cereals for infants. The aim was to offer this type of cereal to a wider number of infants growing up in an area where milk, the usual source of protein in complete weaning cereals, is either not readily available or not easily affordable. To realize this objective, Nestlé came up with the new Nestlé Infant Cereal with Soya, which is a nutritionally complete cereal for infants and which can be manufactured in almost all parts of the world, with the use of local raw materials and low additional investment in technology.

I Use of local raw materials:

The base ingredient, maize, is a product which can easily be obtained locally. The protein source in cereals, often proves to be more difficult to acquire. For this reason, soya, which can be grown almost everywhere - which is also the richest known source of protein - has been tapped.

II Investment and technology:

With the manufacturing infrastructure in place, Nestlé Infant Cereal with Soya, could easily be manufactured with a relatively low investment. The additional expense anticipated was the procurement of the equipment for the cleaning, dehulling and milling of the soya beans to enable the ultimate use of 100% locally cultivated soya beans.

III Growth in the existing market:

Another factor considered was to expand the existing market. The intention was to tap the large emerging market comprising of those consumers who could not afford to buy protein. Nestlé Infant Cereal with Soya was therefore positioned between Nestum and Cerelac. It combines maize and soya to create a nutritionally balanced complete meal for the baby as opposed to mixing the cereal with milk as with the other cereals (Source: In-company literature - a company document at the launch of the product).

1.3.2 Objectives of the study:

The primary objective of the study is to determine whether the current strategies used to market Nestlé Infant Cereal with Soya, are the desired ones under the circumstances and to recommend possible adjustments or alternative strategies.

I Sub-objectives:

* To determine the strategies that are being used at present and evaluate their appropriateness or effectiveness against the theoretical framework.
* To identify problems that are being experienced in the marketing of this product and their likely causes.
* To recommend possible adjustments or alternative strategies in marketing this product so as to enable the company to incorporate the adjustments or strategies in their overall marketing strategy.

1.4 Research methodology.

The approach that will be followed in the handling of this problem will initially entail the survey of secondary literature. In this regard company publications, literature and project reports of the products will be surveyed. The purpose will be to establish whether problems relating to the performance of the product have been identified and likely solutions found. Should it happen that the problems were identified and solutions found, the study will be descriptive. The study will therefore describe in detail how the problems were identified, what the problems were and what solutions were found. However, should it occur that the problems have not been identified yet, and no solutions have been found, then the analysis will be directed to unanswered questions and gaps of information from the company literature which will be pointed out and followed. Leads from the company literature that will shed a light on the problem and subproblem will also be followed to assist in the solution of the primary objective or main problem. Primary literature will be used to acquire the theoretical background about the problem and to provide a framework within which the problems and solutions can be handled.

1.4.1 Scope of the study.

The emphasis will be placed on Nestlé Infant Cereal with Soya, to the exclusion of all other products manufactured by the company. The study was done during 1999.

1.5 Demarcation of Chapters.

- **Chapter two:**

This chapter will present the Cravens model of the new product planning process and will provide theoretical aspects which will facilitate the achievement of the study objectives and will also serve as background for analysis of marketing issues related to the performance of the product under study.

- **Chapter three:**

This chapter will deal with the survey of in-company literature including all material on Nestlé Infant Cereal with Soya, periodicals, company magazines and reports on any projects undertaken in this regard.

- **Chapter Four:**

This chapter will deal with the analysis of the marketing issues related to the under-performance of Nestlé Infant Cereal with Soya, against the Cravens model and will recommend possible adjustments or alternative ways of improving this product performance.

CHAPTER 2: NEW PRODUCT PLANNING AND MARKETING ISSUES REGARDING COMMERCIALIZATION.

2.1 Introduction.

This chapter deals with the Cravens Model which is to be used in the analysis of marketing issues relating to the under performance of a new product, in particular Nestlé Infant Cereal with Soya. An attempt will be made to define a new product and this will be followed by a detailed discussion of the elements of the model. A discussion of some marketing issues regarding commercialization will conclude this chapter.

2.1.1 Definition of a new product.

According to Proctor the definition of a new product is relative and a new product can therefore not be defined in definitive terms. It is relative in the sense that an invention of a new physical product and additions or alterations to physical properties of existing products may from the business' point of view be seen to be new products. Again the product may be seen as new from the customer's point of view when there are perceived changes in benefits offered by the product. Products are very seldom new to the company and the market. He however considers new products as products that are new in any way to the company concerned (Procter: 1996; 295).

Cravens defines new products in terms of newness to the company and newness to the market. He also acknowledges the relationship between customer needs and new products. New products must be directed toward meeting unmet needs (Cravens: 1994; 357).

Wilson defines new products as those that are new to the world, those that have been improved or modified and new brands coming into the market (Wilson, Gilligan and

(Wilson: 1995; 302). A new product is seen as a product that is new to the company introducing it (Rachman: 1994; 270). A new product can therefore be defined as a product that is new to the company or to the world or that which has undergone some improvements in either its physical properties or benefits offered. We shall now discuss the Cravens-model and its elements in detail.

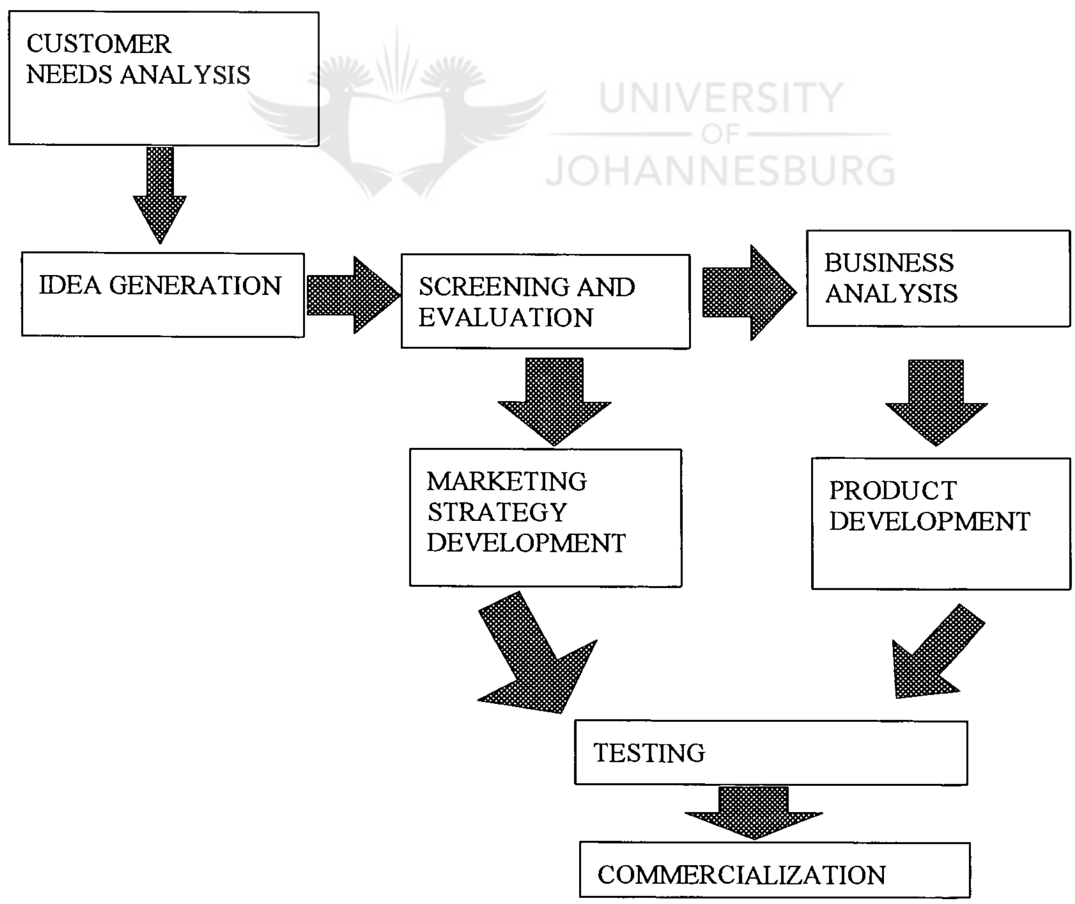

Figure 2.1: The Cravens model of new product planning (Cravens: 1994; 363)

2.2 The Cravens model of new product planning.

2.2.1 Step one: Deciding which customer needs to target.

The entire product market needs to be analyzed in order to establish factors that will influence the marketing decisions and actions with regard to introducing new products. This process is essential in determining segments existing in product markets; changes in customer tastes and preferences; competitors and their actions; and threats and opportunities. This is necessary even though the company's interest may be in the one segment or in a few segments of the market (Cravens: 1994; 153).

2.2.2 Step two: Idea generation.

Most companies have well-developed Research and Development departments that continually look at new products and new product improvements. It would enhance efforts for a new idea search if companies looked broadly into other sources including company employees, customers, competitors, outside investors and channel members (Cravens: 1994: 365).

It is obvious that when companies start to expand their idea search, a lot of ideas will be generated that the company will be able to handle. Guidelines that can be used in this regard include a well defined new product development strategy. The strategy will spell out which products and markets will be subjected to idea generation and what the company wants from its new products - high cash flow, market-share or percentage return on investment (Kotler: 1991; 290).

Rachman also recognizes that opening up the concept generation widely, can be a time consuming and an expensive exercise. An alternative is to set product specifications or criteria based on the company's strengths and capabilities in advance. In this manner, ideas that do not comply with the set criteria can be eliminated at an early stage. Only ideas that are technically feasible will pass this stage (Rachman: 1994; 276).

It is evident that idea generation extends beyond the company's Research and Development function and needs to be managed. The process must take place within the predetermined criteria based on the company's strengths, capabilities and other objectives such as cash flow generation or increasing market shares. Ideas that are compatible will move to the next stage of screening and evaluation.

2.2.3 Step three: Idea Screening Evaluation.

Ideas are screened to determine their compatibility and alignment with the company's predetermined criteria for new product development strategy. Depending on the company, predetermined criteria may include any of its mission and objectives, development, production and marketing capabilities, financial needs and competitiveness. The idea must be commercially feasible and must take into consideration social and environmental concerns. It must also be commercially viable in terms of it being attractive to the market. Companies employ various methods to screen for compatibility and feasibility (Cravens: 1994; 369).

Wentz amplifies the importance of the criteria by stating that the compatibility of new product ideas must also take into account resource utilization factors such as engineering, manufacturing and marketing resources. The idea can be further evaluated by using a utility-value scale that will either select or reject an idea. The idea will be evaluated in terms of excellent, good, satisfactory, poor and very poor. The relative importance of factors will be weighted. His utility model will identify and discriminate between new product ideas

* that are sufficiently good to warrant immediate commitment to production,
* that are sufficiently good to warrant commitment to production of a prototype and market testing,
* that warrant additional analysis and
* that should be rejected without further expenditure of company resources (Wentz: 1970; 340).

Experience has shown that successful products fit in well with the business capabilities and with the needs of the market. New product ideas can be rated against a checklist that will provide additional marketing information. This checklist will address questions such as:

* Is the product compatible with the present distribution channels?
* Is the product complementary to current products?
* Can it be priced competitively alongside products of a similar quality?
* Will promotion of the product be easy?
* Will there always be uses for the product?
* Are there a wide variety of potential customers?
* Are existing resources sufficient to facilitate production and marketing of the product?
* Is the market likely to grow in size? (Proctor; 1996; 305).

Kotler sees idea screening as the first idea reducing stage whereby poor ideas are eliminated and good ideas are put to use. This process has the effect of minimizing costs and maximizing the profit potential of new products. He supports a rating scale such as the one illustrated in table 2.1.

The rating scale is .00-.40 = poor; .50-.75=fair; .76-1.00=good. The minimum acceptable rating is .70. The first column of table 2.1 lists factors required for the successful launch of the product in the marketplace. The next column determines the relative importance of each factor followed by rating of the compatibility of the product with the success factors and the last column records the total score. The new product idea will be successful if it falls within the fair category.

The most important consideration in idea screening is determining the new product's success factors. The importance of these success factors will differ from one company to the next. Kotler provides a much simplified rating process to which other factors proposed by Proctor can be added to give a comprehensive evaluation. When screening and evaluation is complete, the new product idea progresses to the business analysis stage.

2.2.4 Step four: Business analysis.

Business analysis is the process of estimating future sales and profit potential of a new product (Rachman: 1994; 277). According to Rachman other companies insist on a predetermined rate or return percentage at the inception of the product. Cravens concurs when he states that business analysis entails estimating the commercial viability of the new product (Craven: 1994; 370). The same view is held by Kotler that business analysis involves a review of sales, costs and profit forecast to find out whether they are in line with the company's stated objectives (Kotler: 1991; 294).

I. Revenue forecasting:

The challenge in forecasting is to determine the pattern of sales with any real degree of accuracy. Products with minor improvements reduce forecasting problems when compared to new products or existing products being introduced to new markets. In the latter situation sales can be inferred by referring to sales of the last new product that was launched by the company (Wilson: 1995; 312).

Several approaches can be used to estimate the sales of a new product. Some approaches examine the sales history of similar products, survey market opinion, use expert opinions and statistical modes (Proctor: 1996; 306).

Cravens is of the opinion that in an established market such as breakfast cereals, estimates of the total market size can be obtained from industry information as published by several industry associations. The difficulty arises in estimates of a market share for a new product. One percent of market share for a new product has been established as a norm for predicting success in sales growth (Cravens: 1994; 372).

Questions that are commonly asked during the business analysis cycle include:

* What is the likely demand for the product?
* What impact would the new product probably have on total sales, profits, market share and return on investment?
* How would the introduction of this product affect existing products - would it cannibalize existing products?
* Would current customers benefit from the product?
* Would it affect current employees in any way - would it lead to the hiring of more people or the reduction of the size of the work force?
* What new facilities, if any, would be needed?
* How would competitors react?
* What is the risk of failure and are we willing to take the risk? (Lamb: 1994; 314).

Table 2.1: Product idea rating process

Product idea rating process												
New product success factors	(a)Relative importance	(b)Fit between product idea and company capabilities										Idea rating (axb)
		.1	.2	.3	.4	.5	.6	.7	.8	.9	1.0	
Company strategy and objectives	.20								x			.160
Marketing skills and experience	.20									x		.180
Financial resources	.15							x				.105
Channels of distribution	.15								x			.120
Production capabilities	.10								x			.08
Research and Development	.10							x				.07
Purchasing and supplies	.05					x						.025
Total	**1.00**											**.740**

(Kotler: 1991; 292)

II Cost estimation:

As the product moves through the stages some costs related to research and development, manufacturing and marketing are incurred. A forecast on the behavior of costs needs to be established (Cravens: 1994; 372).

While estimating costs is an essential task, predicting behavior of costs every time is difficult because of uncertainties regarding costs. An escalation of costs in raw material may impact on the profit potential of the product. Financial evaluation of new product ideas should examine the following:

* estimated after-tax return on investment
* pay back period
* variances in the estimates of return on investment and payback between the best scenario and the worst scenario, to indicate risk (Proctor: 1996; 306).

III Profit projection:

Break-even analysis is a useful tool in determining the number of units that has to be sold before profit is realized. It therefore indicates the commercial feasibility of new products (Cravens: 1994; 372).

Having completed the business analysis, the company faces a decision situation about the exploitation of the idea. The company may decide to follow the internal development route or to explore other alternatives. If the new product idea is commercially viable, the company will assess whether the sales forecast and cost meet the company's objective on the required rate of return, and it will also take the market size into account. Alternatives that will be considered include:

* **joint ventures:**

When the company does not have adequate capital or manufacturing or sufficient technical knowledge or the required marketing capabilities, it may seek a partner who can share in the costs and the profits that will accrue from the exploitation of the new product idea.

* **licencing:**

The new product idea can be patented and licenced to other manufacturers in return for royalties.

* **selling the new product idea:**

The new product idea is then sold to other manufacturers although selling potential products has not proved successful over the years.

* **internal development:**

The company can also decide on this risky path. Should the company decide on this route, the new product idea will then progress to the next stage of the market strategy development phase (Wentz: 1970; 353).

2.2.5 Step five: Market strategy development.

According to Cravens, a totally new product, requires complete targeting and positioning strategies. He sees market targeting strategy and positioning strategy as interrelated. Market targeting is the process of evaluating and selecting each segment that the company decides to serve. Positioning strategy is the combination of marketing actions the company takes to meet the needs and wants of each target market (Cravens: 1994; 184).

Cravens continues to say that the marketing strategy must take marketing aspects such as packaging, environmental considerations, product information, colours, materials and product safety into account that are the preserve of the product development (Cravens: 1994; 377).

We will now examine two of the most important aspects of the marketing strategy, namely marketing targeting and positioning. Kotler sees the marketing strategy as comprising of three parts. The first part describes the target market, planned product positioning, sales, market share and profit goals for the first few years. The second part outlines the planned product's price, distribution and marketing budget for the first year and the third part describes the planned long term sales, profit goals and marketing mix strategy (Kotler: 1991; 293).

I Marketing targeting:

The process of targeting entails deciding which groups of customers to target. The company may decide to target the new product at existing customers or to an entirely new group of potential buyers (Cravens: 1994; 377). A market segment can be targeted if it is identifiable, accessible, and is large enough to be profitable. It should be identifiable in terms of it being distinguishable within the broader market. It also must be possible to access this market segment with ease. Lastly, the market segment must have the potential of justifying the costs related to production and marketing activities (Rachman: 1994; 135).

Wilson states that targeting allows the company to adapt the product or the marketing program or both to satisfy different tastes and different demands for various segments (Wilson: 1995; 192). Market targeting strategy, begins with a segmentation strategy that includes identifying and analyzing the segments in a product market, deciding which segments to target, and designing and implementing a marketing program for each segment (Cravens: 1994; 296).

A number of targeting strategies are available for companies to choose from. The choice of the targeting strategy is guided by the company's overall objectives and the product to be introduced. Generally, authors agree that targeting strategies comprise the following:

* **single segment targeting strategy:**

This strategy focuses its efforts in a single segment with similar needs. It is largely appropriate where a company has limited resources to expand on the marketing of the product. It has the potential to afford a company a competitive advantage over a company attempting to target multiple segments simultaneously. To avoid the disadvantage of depending on a single segment, a company following this strategy, must ensure that the segment is attractive and that it offers a promising opportunity that will lead to sustainable advantage (Cravens: 1994; 297).

Lamb refers to this strategy as a concentrated or a niche targeting strategy. This marketing approach is based on appeal to a single segment of a market. Some companies find the concentration of resources on a single segment more profitable than the spreading of resources over several segments. Small companies adopt this strategy in order to compete effectively with larger companies. At times, this niche targeting is intended to establish a strong position in a chosen segment as with Porsche car manufacturers who targets the upper end of the car market (Lamb: 1994; 182).

Proctor is of the opinion that single segment targeting strategies offer little flexibility. This is so, particularly for companies thriving on high quality products. Should lesser quality products become lucrative, it becomes difficult to compete in such a market. He cites Rolex watch manufacturers as a case in point. The company would find it difficult if not impossible to compete with companies that offer cheaper quality watches. Rolex can only offer cheaper watches under different brand names, but there is a limit to how low they can go in price, relative to their main product (Proctor: 1996; 217).

Another advantage of concentrated segmentation is that the company is able to control its costs by advertising and distributing only to the market it views as its primary market. The disadvantage is the possibility of missed opportunities elsewhere or vulnerability to a downturn in the demand or direct sustained attack by other competitors (Wilson: 1995; 193).

* **Selective targeting:**

This strategy looks beyond a single segment to include a few other targets. Through this strategy, marketing opportunities are expanded and dependence on a single market is decreased (Cravens: 1994; 298).

Multi-segment targeting strategy, as Lamb prefers to call it, is based on an approach where the company targets two or more well-defined market segments with a distinct marketing mix for each. According to Lamb there are potential benefits in this type of strategy which are realized in increased sales volume, higher profits, larger market share and economies of scale in manufacturing and marketing. There are also costs involved such as product design costs, promotion costs and inventory costs, costs related to market research and management of the strategy and the risk of product cannibalization (Lamb: 1994; 183). Wilson sees this strategy as an approach in which the company focuses on the buyers that have the greatest chance of satisfying their needs rather than to have its resources scattered over the entire market (Wilson: 1995; 193).

* **Extensive targeting:**

A company using this strategy attempts to appeal to all or most buyers in a product market in order to gain a dominant market position. The strategy intends to serve the diverse needs of customers in a product market (Cravens: 1994; 298). Lamb refers to this strategy as an undifferentiated targeting approach that assumes the market has no segments and therefore requires a single marketing mix. The strategy views the market as one big whole comprising of customers with similar needs and wants.

The approach is used in instances where the company either is the first to enter the industry or does not have competition. The advantage of this strategy is that it achieves economies of scale, thereby reducing manufacturing and marketing costs. This strategy tends to stifle imagination in product innovations and it is also susceptible to competition (Lamb: 1994; 181).

Proctor refers to this strategy as a mass marketing strategy. Utilizing this strategy has the risk of few customers being adequately satisfied. It works best where there is little variation in the needs of customers and the company has the required capability and resources to serve the whole market (Proctor: 1996; 216).

Wilson states that an undifferentiated targeting approach ignores any differences that exist among buyers in a product market and decides to concentrate on those aspects that seem to be common among buyers within the given product market. He is of the opinion that it is becoming rare, largely due to increasing degrees of competition and market sophistication (Wilson: 1995; 192).

* **Positioning strategies:**

Kotler sees product positioning as the place the product occupies in the minds of consumers relative to competing products. Consumers continually position products through their perceptions, impressions, feelings and experience. He believes that companies do not always leave their products to chance but actively influence the positioning of products. Product positioning can be based on the product attributes such as low cost benefits offered and product usage according to classes of users or they can be positioned against the competitor by comparison or away from competitors as in the case of "7-up" as a non-cola (Kotler: 1991; 235).

Positioning refers to the decisions and activities intended to create and maintain a firm's product concept in customers' minds (Proctor: 1996; 222). It entails clear and distinctive positioning of the product relative to other competing products. Consumers ascribe certain attributes to the product which develops into perceptions about the product's standing relative to other products, the people who use it, quality, its price and the value it represents to users.

Rachman states that product positioning represents a product image that appeals to the needs and wants of the selected segment. Once the needs and wants of the segment changes, the positioning or the design of the product must change, or both. Products can be positioned in a number of ways. They can be positioned head on with competing products if the product's performance characteristics are similar to those of competing products, if the product is lower in price. The head on positioning may also arise when competing products are similar but differ in price. The higher price may be ascribed to years of product experience.

Where a product's characteristics do not differ substantially from those of competitors, marketers may employ another positioning strategy which is different and unique, known as niche positioning. Through this positioning, the marketer may shift the focus from its current market, to another segment of the market and reposition the product to appeal to the needs and wants of the newly selected market. Companies with similar products may also position the new product in such a manner that it does not erode sales or cannibalizes earlier brands (Rachman: 1994; 278).

Wilson states that positioning is the process of designing an image and value, so that customers within the target segment understand what the company or brand stands for in relation to its competitors (Wilson: 1995; 219). The marketer must indicate to what extent the product differs from other competing brands. Companies may position themselves in terms of service, quality, low costs, the breadth of products and convenience. The positioning strategy must be reflected in the marketing mix for that product. The positioning concept may be functional, symbolic or experiential. The functional concept is designed to solve consumption problems that arise as a result of externally generated needs. The symbolic concept is intended to address internally generated needs for self- enhancement, role position, social affiliation or ego satisfaction needs. The experiential concept is used to position products that provide sensory pleasure or cognitive stimulation. Positioning may be based on product features, benefits, use or application category and user category (Proctor: 1996; 225). Lamb concur with Proctor and in addition he sees price and quality as other important considerations (Lamb: 1994; 188). Kotler states that positioning can also be based on product or service differentiation, personal and image differentiation (Kotler: 1991; 240).

* **Brand positioning:**

Positioning of brands can take place in two ways- single brand positioning and multiple brand positioning. Single brand positioning occurs where a company introduces a single brand that will appeal to the entire market.

A single brand strategy considers the market to be undifferentiated. Generally this strategy is short lived. In order to challenge single brands, competitors would normally position themselves in small viable niches. When a single brand is challenged by the entry of competitors or by price cuts from existing competitors, the reaction of the single brand company would either be to introduce other products that will compete directly with the competitor's brands or to differentiate the single brand by increasing the price, thereby taking it out of direct competition.

There are two ways of managing a single brand successfully in the market. First the brand must establish a position in the market that will withstand the strongest rival brands and secondly, its unique position should be maintained by creating the appearance that it is in fact a different product.

Multiple brands are introduced to the market in order to achieve growth by offering a variety of products to different segments of the market and to meet competitors' threat to a single brand. The positioning of multiple brands should be such that they do not compete with each other, otherwise cannibalization would occur where sales of one brand take away sales from another. This strategy can lead to increases in growth, market share and profitability, if properly implemented (Proctor: 1996; 226). Cravens mention that brand positioning can also be done through perceptual maps which provide information on product preferences and about the company. The information obtained is then used for product positioning and repositioning and it can also be useful for new product opportunities (Cravens: 1994; 317).

* **Positioning effectiveness:**

The way to determine the effectiveness of a positioning strategy is through measuring sales, market share, profit contribution, growth rates and customer satisfaction. The product positioning remains relatively unchanged over time with some adjustments made during the product maturity due to environmental market and competitive forces and also in response to changing customer needs and preferences (Cravens: 1994; 317).

It is at this stage that decisions are taken on packaging, labeling, branding, distribution, promotion and preliminary pricing. Once the marketing and positioning strategies have been completed, the product now moves into the next phase of product development. Attributes established in targeting and positioning will be considered in the product development phase.

2.2.6 Step six: Product development.

This is the stage where the product idea is turned into a technically and commercially feasible product. The process initially takes place in the research and development section. The objective is to develop a physical version of the product or prototype that will meet the expectations of consumers and will be produced within the budget constraints. As this is a new product, the duration of development may take some time, ranging from days to months or years, depending on the product type (Proctor: 1996; 307). At this stage it is important to involve all functional areas of engineering, production and even suppliers simultaneously, rather than sequentially. Prototypes are subjected to more stringent laboratory tests than is expected by end users. Product safety is also rigorously tested. Through the tests the prototypes are refined until they satisfy the development specifications (Lamb: 1994; 314).

Cravens mentions an important point - the decisions regarding the design of the products must be guided by customer preferences and analysis of competitor advantages and weaknesses (Cravens: 1994; 368).

Recently, a new concept of design for manufacture and assembly has come to the fore. In terms of this approach, products are not only developed for the needs and wants of customers, but must also be compatible with the manufacturing infra-structure of the company. This reduces costs and enhances the quality of products.

The testing of products in a use situation improves the quality of feed back from users. This is achieved through free samples for trial by customers. In a use situation the product's name is not disclosed as is the case in marketing testing. Tests provide important information about customer preferences, likes or dislikes, advantages or limitations, unique features, usage, users and comparison with competing products.

2.2.7 Step seven: Market testing.

Market testing is normally carried out after the product has been fully developed. If the product is suitable for market testing, certain decisions are required before the tests. A decision must be taken whether the newly developed product should be launched without testing the market. If the risk is high, it would be appropriate to invest in market testing before the launch of the product. The company must also weigh the speed of response by the competitors, once the product has been launched. It should also be borne in mind that the cost of test marketing can be astronomical for most companies. The company must also assess the value of the information to be obtained from test marketing against the risk of the competitor knowing about the company's plans for the new product's launch (Cravens: 1994; 316).

Kotler believes that test marketing allows the company the opportunity of testing its entire marketing program for the product - its positioning strategy, advertising, distribution, pricing, branding and packaging. The company will also gather information about the potential problems and any other relevant information needed before going to the expense of full production. The basic purpose is to test the product in real market situations. Information provided by test marketing will also assist in the forecasting of sales and profit. Test marketing is essential in so far as new products are concerned. Minor modifications on existing products or products that have been copied from competitors need not be subjected to market testing (Kotler: 1991; 295).

Lamb states that test marketing is the limited introduction of the new product to the market to determine the reactions of potential customers. It assists the company to evaluate the marketing program and to determine alternative product strategies. Cities that are chosen for tests must reflect the product's new target market (Lamb: 1994; 315).

Large sophisticated companies are able to simulate real market situations on computers. More commonly used methods of testing include home testing, during which potential buyers are given the opportunity of using the product and then evaluating it on a predetermined questionnaire.

Caution should be taken with laboratory tests as they can produce a laboratory effect which implies that situations created in a laboratory are incomparable to real situations. When the product is introduced to the real market, a replica of laboratory circumstances seldom occur. A product's success can therefore not be inferred from laboratory tests but save to say that they may have a fifty-fifty chance of becoming commercially successful (Rachman: 1994; 380).

Critics of test marketing argue that the process only results in marginal value in the sense that difficulties are experienced in finding locations that are truly representative of the market as a whole. Competitors respond by copying or altering the current sales strategies in order to distort the test marketing results when they become aware of the launching company's plans (Wilson: 1995; 313).

Siegel mentions that many companies are now moving away from test marketing in order to avoid distortions by competitors through price-cuts, special offers, increased advertising and other incentives designed to move their products and undercut sales of the test market products. These companies are now shifting to less costly and less risky alternatives such as testing in selected stores, located in selected market areas (Siegel: 1996; 348). A variety of test marketing methods exist and we shall now examine those that are relevant to the marketing of consumer goods.

I Simulated store technique:

A large group of shoppers are invited to a venue where they are shown advertisements of well-known brands. One of the advertisements is about the new product but they are not made aware of this. After viewing advertisements, they are given some money to spend and are invited to a simulated store to buy items of their choice. Those who do not wish to buy anything in the store are allowed to keep their money. Notes are made on how many buy the new product and how many buy competing products. At the end shoppers are asked to explain reasons for their purchase and non-purchase. After a period of time the group is contacted again to find out about their attitude towards the product and their satisfaction with the product. They are also offered the opportunity to repurchase the product.

II Sales wave research:

In this situation shoppers are persuaded to try the product at no cost and are then offered the product or a competitor product at a reduced price. They are offered the product three or five times. People are also asked to report their experience of the product. Researchers note how many customers pick the product and also estimate the repeat purchase rate in situations where customers spend their own money and choose among competing brands.

III Controlled test marketing:

In this case the store agrees to carry the new product and the company oversees the supply, shelf location, number of facings, displays, point of purchase promotions and pricing. The information is then obtained by observing the product movement and also consulting diaries of the consumer panel which records who buys the product.

IV Actual test marketing:

The company sells the product to towns and cities which are representative of the new product market. These representative towns are given full advertising and promotional coverage (Proctor: 1996; 309).

The above methods can be complemented by other methods such as the scanner-based test marketing, which is less expensive than the conventional market tests. In this method a panel of respondents is established in each city and respondents are given cards to show to participating stores when they make their purchases. Their purchases are electronically recorded and transmitted to a central data bank (Cravens: 1994; 378).

In controlled test marketing, systems exist such as the Nielson's Erim test site and the Information Resources Inc. which provide information on purchases. The behavior scan tracks individual behavior from the television set to the checkout counter. All these systems provide information on repeat purchases and on how different buyers react to the new product, its advertising and various elements of the marketing program (Kotler: 1991; 297). Should the new product prove to be commercially viable, it will then move to the next stage of commercialization.

2.2.8 Step eight: Commercialization.

Commercialization involves coordinating introductory activities with business functions, implementing the marketing strategy, monitoring and controlling the product launch. Several decisions must be made about the launch. Is the timing right for the launch of the product? This is important, as poor timing may result in the new product cannibalizing sales of other existing products. Will the product be launched at a single location, a region or several regions, the national market or the international market? Market coverage depends on the strengths of each company. The launch may be staggered starting with one city and then moving to another region. Companies with national distribution networks often launch their new products to the national market. The company must also target its distribution and promotion to groups with good prospects. An action plan must be developed for introducing the new product into selected markets (Kotler: 1991; 298).

Lamb states that commercialization sets several tasks in motion such as the ordering of production materials and equipment, the start of production, building inventories, shipping the product to distribution points, training the sales force, announcing the new product to the trade and advertising to potential customers. The time from commercialization to the introduction of the new product to the market varies, depending on the ability to manufacture and assemble the new product (Lamb: 1994; 318).

Before the roll-out the company should also consider the possibility of later entrants introducing imitative products. Schnaars recommends four alternative courses of action to fend against imitations. Where the product is not patented, the company must first cover the low end by introducing low end generic products of its own. This will deny imitations access to the market or force them to share that part of the market. Secondly, the company may cede the low-end to clones. This strategy allows later entrants to have the low-end of the market and the company can focus on the more profitable top half. Thirdly, the company may innovate perpetually. Perceptual innovation puts the company one step ahead of the imitator (Schnaars: 1994; 240).

The type of strategy adopted will depend on the company's new product development objectives and policies. Launching a new product is a complex process that requires careful consideration. This is the last stage that represents the accumulation of time, effort and investment, and should be managed well to ensure a successful launch. Van der Walt points out that launching a new product in South Africa, poses a high risk. He notes that in recent months only nine percent of the 277 new products listed, achieved a market share of more than ten percent while 74 percent failed to reach a five percent mark (Van der Walt, Strydom, Marx and Jooste: 1996; 213).

2.3 Marketing issues regarding commercialization.

2.3.1 Introduction.

In this section selected marketing issues of relevance to our study will be discussed. These issues pertain to the product, pricing, distribution, and marketing communication.

2.3.2 Product issues.

Kotler defines a product as anything that can be offered in a market for attention, use or consumption to satisfy a need. To put it more broadly, products comprise anything that can be marketed, be it a physical product, a service, people, places, organizations or ideas (Kotler: 1991; 252).

Lamb says that most people have a narrow view of a product as a tangible good, yet it extends beyond that to include services and ideas that are either favorable or unfavorable. He distinguishes various product types. He sees a business product as a good or a product that is used to manufacture other goods or services or to resell to customers. A consumer product is bought to satisfy an individual need or want. A convenience product is a product that is relatively cheaper and requires little shopping effort from the consumer. A shopping product requires customers to compare prices as it is relatively more expensive than a convenience product and is found in fewer shops. Speciality products represent goods that are expensive. The customer will spend a considerable effort to search for the product. Unsought products are unknown to the potential buyer or are products the buyer does not actively seek. New products fall into this category and they require advertising and distribution to increase product awareness.

Kotler states that product planners need to think about the product on three levels:

* **Core product:**

A core product consists of those services directed at solving consumer problems or core benefits that consumers obtain when they buy the product.

* **Actual product:**

The actual tangible product may have as many as five characteristics: quality, a product feature, styling, a brand name and packaging.

* **Augmented product:**

This entails offering additional consumer services and benefits. When consumers buy the product, they get more than just the product itself e.g. a warranty on parts and workmanship, free lessons on how to use the product and a toll-free telephone number to call should they have problems or questions. All these augmentations become important as parts of the total product to the customer. When products are designed, core consumer needs have to be established, that will be satisfied by the product. The design can then be augmented by other benefits in order to create a bundle of benefits (Kotler: 1991; 253).

* **Product attribute decisions:**

From time to time, companies are required to make certain product decisions. The types of product decisions are similar irrespective of the range of products offered by companies. Such decisions contribute to the development of a product strategy and the planning efforts involved in the process of new product development (Siegel: 1996; 215). Kotler states that decisions are made about the benefits the product has to offer. The benefits are then used to communicate and deliver the tangible product attributes such as quality features and design.

2.3.3 Pricing.

I Introduction:

Pricing is an important aspect as far as possession utility is concerned. The new product development process would be incomplete without consideration of pricing issues. Price denotes the value of the product and must be relevant to the selected target who are willing and able to purchase the product. Various methods are used to induce potential customers into trying and buying products.

II Pricing objectives:

Companies use their price strategies to achieve several objectives. They may price for results (sales, market share, profit), for market penetration or position or for achieving certain functions (promotional pricing). More than one objective is usually involved and objectives may be in conflict with each other. Pricing objectives therefor vary according to situational factors present and management's preferences (Cravens: 1994; 478). Boone and Kurtz state that pricing objectives are based on the overall objectives of the organization (Boone *et al.*: 1995; 681). Diamond and Pintel assert that before prices can be set, management must have an overall marketing goal (Diamond *et al.*: 1972; 181). Some examples of pricing objectives are:

* **Gaining market position:**

The use of a low price may be intended to gain market position, to discourage new competition or to attract new buyers.

* **Achieving financial performance:**

Prices are selected to contribute to financial objectives such as profit contribution and cash flow. Boone states that the rational behavior of firms is to maximize gains and minimize losses. Companies strive to keep a balance between increased profits through pricing and the acceptable level of sales or quantities sold. They set minimum acceptable profit levels and then seek to maximize sales in the belief that the increased sales are more important to the long-term competitiveness than immediate high profits (Boone *et al.*: 1995; 682).

Diamond states that setting prices to maximize profits, requires a long-term view. A new product that might be sold at a price that is designed to deliver a very high profit, may also result in the attraction of competitors, which would minimize long-term profitability. It frequently may be to the advantage of a firm to sell new products at a loss, in order to get into a new field or gain customers for the firm's other offerings. New products on which production is limited, generally have high production costs (Diamond *et al.*: 1972: 183).

* **Product positioning:**

Prices may be used to enhance product image, promote the use of the product and create awareness (Cravens: 1994; 478). The degree of freedom a company has in pricing a new product or service, depends on the nature of the market. For example a firm introducing a new product that is very similar to a number of other goods already on the market, will have restricted pricing freedom. The company will probably have to charge a price that is relatively close to the average market price if it is to be successful. On the other hand a company that is introducing a totally new product with no close substitutes will probably have considerable pricing freedom (McDaniel: 1979; 321).

* **Stimulating demand:**

Price is also used to encourage buyers to try a new product or to purchase existing brands during periods when sales slow down (Cravens: 1994; 478).

* **Influencing competition:**

Price may be used to influence existing or potential competitors. The company may want to discourage market entry or price cutting by current competition. Price leader may also want to encourage industry players to raise their prices. The only problem is that competitors may not respond as predicted (Cravens: 1994; 478). Boone states that while price is an effective method of obtaining a differential advantage over competitors, a price reduction is an easily duplicated move (Boone *et al.*: 1995; 684).

* **Prestige objective:**

Boone adds another price objective which he terms prestige objective. According to him a prestige objective involves establishing a relatively high price to develop and maintain an image of quality and exclusiveness that appeals to status conscious consumers. Such objectives reflect marketers' recognition of the role of price in creating an overall image for the firm and its goods and services (Boone *et al.*: 1995; 685).

Kotler draws a distinction between pricing an innovative product and pricing a product that imitates existing products.

* **Pricing an innovative product:**

Companies that bring an innovative, patent-protected product can choose between market-skimming pricing and market-penetration pricing.

- **Market skimming pricing:**

Many companies that invent new products set high prices initially to 'skim' revenues layer by layer. An original innovative and patent-protected product can be priced higher than other products customers may buy. When sales slow down, the price can be lowered to draw in the next layer of price sensitive customers. If it is decided not to lower the price of the product, then a new, simpler version of the product can be introduced to draw in new segments. Market-skimming makes sense only if the product quality and image support its higher price and enough buyers are willing to buy the product at that price. Secondly the cost of producing a small volume must justify the price. Finally competitors should not be able to enter the market easily and undercut the high price (Kotler: 1991; 338).

McDaniel states that as the product moves through the product life cycle, the company lowers its price so as to reach successively larger market segments. According to him a successful skimming strategy enables the company to quickly recover its product development costs. The company often feels that it is better to test the market at a high price and then lower it if sales are not forthcoming. The company is in fact saying if there are any premium price buyers in the market, let's reach them first and maximize our revenue per unit (McDaniel: 1979; 322).

Products that are easily produced attracts competition and lowers the price of the product to the level where profitability of the product becomes marginal (Diamond *et al.*: 1972; 186).

- **Market penetration pricing:**

Companies using market penetration pricing set a low initial price in order to penetrate the market quickly. The objective is to attract a large number of buyers and win a large market share. Conditions that favour the setting of a low price are a market sensitive to price, so that a low price can produce more market growth; production and distribution costs must decrease as sales volume increases; and the low price must help to keep the competition out (Kotler: 1991; 339).

Mc Daniel states that a penetration strategy can effectively block entry into the industry if it enjoys economies of scale. Only a well- financed company will be willing to sustain substantial short term losses to obtain penetration (MaDaniel: 1979; 323).

Another derivative of penetration pricing is called extinction pricing. It involves pricing the product way below cost (often below variable costs) in order to drive independent or under-financed competitors from the market. After the marginal competitors have been driven from the market, the firm raises its prices back to normal levels (McDaniel: 1979: 323).

Baker states that no matter how intelligently the product distribution and communication mixes are conceived, improper pricing of a product may nullify the effect of all other actions. He cites that in numerous surveys, executives have rated price a number one or number two success factor. It is regarded as the moment of truth in that it determines the reward to the company in terms of investment in the product. Demand, which determines revenue, is also sensitive to price. Price can also be used as a competitive tool, for example to limit potential entry; as a positioning tool, for example' value-for-money'; as a promotional incentive for example to stimulate new product trial: as a segmentation variable, for example to delineate segments of the market or as an image building tool, for example to create an area of exclusivity (Baker: 1995; 182-183). In table 2.2 an outline of pricing objectives is given.

2.3.4 Distribution strategy.

I Introduction:

Distribution entails the strategy of bringing the products to selected markets. It is concerned with how the company intends to distribute its products to customers.

The channel of distribution connects suppliers and producers with the end-user of goods and services. An effective and efficient distribution channel provides the company with an important strategic edge over competitors. Some producers market their products directly to end-users, while others move their products through one or more channels of distribution e.g. wholesalers and retailers, each performing a specific distribution function (Cravens: 1994; 444).

Table 2.2: Pricing objectives.

Pricing objectives		
Profit	**Volume**	**Financial**
• Money profit • Gross/Net margin • Contribution margin • Return on sales • Return on capital employed • Return on net worth • Profit growth	• Market share • Sales volume • Sales revenue • Sales growth • Capacity utilization	• Cash flow • Earnings per share • Price earning ratio • Dividends
Competition oriented	**Customer oriented**	**Miscellaneous**
• Matching/under-cutting competition • Avoidance of price wars • Limit entry • Price stability • Money profit	• Fair price levels • Goodwill • Value for money • Full price range • Price maintenance in the channel	• Projection of a high quality image • Avoidance of government • Survival/security

(Baker: 1995; 185).

II The strategic role of distribution:

A good distribution network creates a strong competitive advantage for an organization. The strength of a company like the South African Breweries lies not only in its product offerings, but also in the development and management of its distribution network. Distribution channels play a key role in the marketing strategy, because they provide the means by which goods and services move from producers to ultimate users (Boone *et al.*: 1995; 466).

The objective of physical distribution is to provide good service at low cost. Good service increases the probability of repeat sales, a high customer retention rate and the addition of new customers.

The best measure of distribution service is the 'order-lead 'time. This refers to the time lapse between the customer's placing of an order and the receipt of the order in good condition. Consistent delivery schedules enable companies to lower the level of stock they need to keep on hand to guard against being out of stock. This means lower inventory carrying costs and a reduction in the amount of capital tied up in the inventory. A survey of 400 purchasing agents for large manufacturers revealed that the distribution service is second only to product quality and that it is more important than price (McDaniel: 1979; 266).

III Why middlemen are used:

There are certain advantages in the use of middlemen by producers. In some instances producers lack the financial resources to set up the infrastructure that will reach the end-users hence they establish franchise dealers. Channels can often earn a greater return by increasing their investment in their own businesses. Through their contacts, experience, specialization and scale of operations, middlemen usually offer more than companies can achieve on their own. Middlemen play an important role to match supply and demand. This is achieved by buying large quantities of many products from producers and breaking them down into smaller quantities and broader assortments wanted by consumers (Kotler: 1991; 360).

IV Distribution channel functions:

Several functions are necessary in moving products from producers to end-uses. Some of these functions are:

* **Buying and selling:**

Activities by middlemen reduce the number of transactions for producers and end-users.

* **Assembling of products:**

Middlemen match the needs of both the producer and the buyer by assembling products according to the needs of both parties.

* **Transportation:**

Transport activities eliminate the location gap between buyers and sellers, and accomplish the physical distribution function. Transportation enables customers to receive prompt delivery in response to their demands, thereby reducing their inventory investments.

* **Finance:**

It facilitates the exchange function and grants credit that may be unavailable if customers purchase directly from manufacturers. It provides financing assistance to producers by purchasing products in advance of sales (Boone *et al.*: 1995; 468).

* **Processing and storage of goods:**

It provides a warehouse function at lower cost than most individual producers could provide. The processing of goods involves breaking large quantities into individual orders, maintaining inventory and assembling orders for shipment. McDaniel states that an efficient inventory control system goes a long way towards reducing order cycle time. Slow shipment, incorrect merchandise or partially filled orders can create just as much dissatisfaction as being out of stock or slow delivery (McDaniel: 1979; 275).

When some functions are shifted to middlemen, the producer's costs and prices are lower although the middleman adds a charge to cover his expenses (Kotler: 1991; 361).

V Distribution channel strategies:

Three strategies are available to help companies to determine the number of middlemen.

* **Intensive distribution:**

Producers of convenience goods stock their products in as many outlets as possible, to provide maximum brand exposure and consumer convenience. These goods must be available where and when customers want them. Diamond states that convenience goods are goods for which customers do not go out of their way to buy, and for which substitutes are readily available. These goods require maximum exposure and mass distribution and should be placed in every available outlet. Examples of such goods are cigarettes, toothpastes and soft drinks (Diamond: 1972; 108).

* **Exclusive distribution:**

Some producers purposely limit the number of middlemen handling their products. This is achieved by giving exclusive distribution rights to dealers in their territories. In South Africa typical examples are the Volvo cars, Fiat using Nissan as its exclusive distributor, and Landrover with BMW as its exclusive distributor. By granting exclusive distribution the manufacturer hopes for stronger distributor selling support and more control over middlemen's prices, promotion, credit and services. Exclusive distribution often enhances the product's image and allows higher mark-ups. Boone is of the opinion that exclusive distribution sacrifices some market coverage, but this loss is often countered by the development and maintenance of an image of quality and prestige for the product as well as by the reduced marketing costs associated with a small number of accounts (Boone *et al.*: 1995; 487).

* **Selective distribution:**

In selective distribution a company chooses only a limited number of retailers in a market area to handle its product lines. Price cutting is less likely because fewer dealers are handling the company's product lines. By limiting the number of retailers, the firm can reduce its total marketing costs and establish better working relationships with the channel at the same time (Boon *et al.*: 1995;487).

VI Physical distribution:

Physical distribution consists of all business activities that are concerned with transporting the finished inventory and/or raw material assortments so that they arrive at the designated place when needed in a usable condition. The physical product is inseparable from accurate order filling, billing, timely delivery and the arrival of the goods in good condition (McDaniel: 1979; 264)

Companies attract more customers by giving better service or lower prices through physical distribution. On the other hand, companies lose customers when they fail to supply goods on time. Many companies state their objective as getting the right goods to the right places at the right time for the least cost. It is unfortunate that it is not an easy task to strike a balance between maximizing customer service and minimizing distribution costs.

The starting point for the design of a better distribution system is to study what customers want and what competitors are offering. Customers want several things from suppliers such as on time delivery, sufficient inventories, the ability to meet emergency needs, the careful handling of merchandise, good after-sales service and the willingness to take back or replace defective goods (Kotler: 1991; 375).

Morris states that physical distribution in the black market has been left largely to the wholesalers and the cash-and carry stores. Most manufacturers have promoted their products at wholesaler level and relied on their promotions and advertising to create the necessary pull-through in this market. If the volume of a product is not particularly high, direct delivery to every outlet in every township will be extremely expensive. The manufacturers therefore have to rely on the wholesales and cash-and-carry stores for distribution. If volumes are high - direct delivery will be the best strategy. Morris suggests the following steps with regard to distribution in the black market:

* **Step one:**

The brand has to be listed with the major supermarkets and cash-and-carry stores. Strong promotion should be aimed especially at the cash-and-carry stores. The use of music, sport and themes with which the market identifies, such as football, athletics and boxing should be advantageous. For the urban market the ideal medium would be television, radio and outdoor promotions. Magazines and the press should also be considered, depending on budget constraints and the type of product involved. For the rural market, a strong mix of radio and outdoor advertising is recommended. Volumes will grow provided the quality, pricing, image and consumer needs are aligned.

*	**Step two:**

A salesperson can be introduced to increase service levels and to take the product directly to the dealer in the township. As volumes grow, it will be cost effective to have a secured warehouse and load vans from the warehouse and to send them out to dealers. This method is successful in achieving maximum product availability through all the outlets. Independent agents or distributors should be set up to handle the distribution. They should be situated within the township. As incentive, they should be offered discounts, so that they can offer their products at competitive prices to the general dealers. Other agents or distributors may be engaged to service the informal sector, using their own transport.

*	**Step three:**

Once a reliable agent or distributor has been established, a cost effective delivery, daily or once a week, can be arranged. The onus will be on the agent or distributor to maintain product availability through the informal and formal sector. The advertising and promotional support should be continued aggressively in order to grow the product and build it into a strong consumer loyal brand in every rural and urban township (Morris: 1989; 82).

Van der Walt mentioned another emerging distribution channel in the black townships - Supa Dupa shops, pioneered by Spar - are getting established in wealthier black townships. Spar provides them with training of personnel, finance, store layout and inventory. The owner has to ensure that the products are sold (Van der Walt *et al.*: 1996; 262).

**VII	Choosing an appropriate distribution strategy:**

The following are suggestions for the selection of an appropriate channel strategy:

* **Selecting the channel strategy:**

Boone states that the overriding consideration is where, when and how consumers choose to buy the good or service (Boone *et al.*: 1995; 483). Cravens sees the first issue as being able to decide whether to manage the channel or to be a participant in the channel. He says the choice often rests with the bargaining power a company can exert in negotiations with other organizations in the channel system. Management may decide to manage or coordinate operations in the channel of distribution, or become a member of a vertically coordinated channel or become a member of a conventional channel system (Cravens: 1994; 458). Certain factors often influence the choice of a channel strategy:

\- **Access to the market:**

The needs of the target market are closely related to the channel strategy to be selected. Information about the customer's needs, helps to eliminate unsuitable channel strategy alternatives. Multiple market targets may require more than a single channel of distribution. One advantage for the manufacturer using a middleman, is that the intermediaries have an established customer base (Cravens: 1994; 458).

A major determinant of channel structure is whether the product is intended for the consumer or the business market. Business purchasers usually prefer to deal directly with the manufacturer except for supplies of small accessory items. Most consumers Purchase from retail stores. Often a product that serves both business users and consumers is sold through more than one channel. When the potential market is concentrated and the number of buyers small, direct channels are more feasible. When the potential market is geographically dispersed and customers purchase small amounts at a given time, as in the case of consumer goods, a marketer may prefer to use marketing intermediaries (Boone *et* *al.*: 1995; 484).

- **Financial considerations:**

Two financial issues affect channel strategy. Firstly whether the resources are available for the launch of the proposed strategy and secondly whether the revenue exceed the cost of the chosen strategy. These analyses include cash flow, income, return on investment and operating capital requirements (Cravens: 1994; 458).

Small firms with limited financial resources are often forced to select channels by cost rather than effectiveness (Diamond: 1972; 107).

- **Flexibility and central considerations:**

Management should decide on how much flexibility it wants in the channel network and how much control it would like to have over the channel participant. Flexibility refers to how easy channel members can be added or eliminated. The conventional channel offers little opportunity for control by a firm, yet it is flexible in terms of entering and exiting from the channel (Cravens: 1994; 458).

- **Analyzing existing distribution systems:**

Existing distribution systems should be analyzed for further opportunities. Companies with direct sales forces may consider using indirect channels such as wholesalers, distributors, dealers or retailers, to serve part of the customer base. Other contact methods include telephone sales, computer ordering and catalogue sales (Cravens: 1994; 458).

Some firms are forced to develop unique distribution channels because of inadequate promotion of their products by independent marketing intermediaries. A manufacturer might for example add a direct sales force or set up his own retail distribution network (Boone *et* *al.*: 1995; 485).

- **Product factors:**

Product factors are important in determining an optimal distribution channel strategy. Perishable goods, such as fresh produce and fashion items with short life cycles, typically move through relatively short channels. Complex products, such as custom-made installations and computer equipment are often sold directly to the ultimate buyer. Generally, standardized products move through longer channels (Boone *et al.*: 1995; 485)

Bulky items such as coal, tend to move through shorter channels. The costs of storage and a lack of facilities render lengthy channels unsuitable. Some products can be moved in bulk quantities to central markets and reformulated into other products. For example, milk is gathered in bulk from the country side and brought to large cities for final processing and packaging. Soft drink manufacturers ship syrup in bulk to bottlers throughout the country rather than producing finished drinks at one plant.

A range of product lines is also an important consideration in selecting a distribution channel. If a firm has an extensive product line, even if it consists of low-priced products, total sales to individual retailers may be high enough to justify direct distribution (McDaniel: 1979; 216).

Collier further provides some channel management options both direct and indirect.

Table 2.3 Channel management options.

Best direct by company	Best by intermediaries
• Technically complex products	• Simple products with basic service
• Requiring high levels of support	• Service requirements
• Made-to-order for customer	• Standard stocked lines
• Specified products	
• Small customer base	• Large customer base
• High volume or value customer	• Smaller customers
• Geographically easy to cover	• Geographically difficult to cover
• Large scale or planned deliveries	• Small, random delivery patterns,
• (Just in time)	often requiring rapid fulfilment

(Collier: 1995; 181-184).

When the distribution strategies of products are completed, the company must develop communication strategies in order to communicate product features to selected potential customers. Features to be communicated are unique selling propositions intended to advise customers on how the product will solve their consumption problems or satisfy their needs and wants.

2.3.5 Communication strategies.

Communication strategies are important tools to persuade customers to buy the company's products. They are vehicles for providing customers with the needed information so that they can make informed purchasing decisions. This is even more important for new products that are being introduced for the first time in the product markets. Marketing information enables the company to convey the information to the potential buyers or to others in the channel in order to influence their attitudes and behavior. The intended message is to inform the target customer that the product is available at the right place and price (Perreault Jr.:1996; 420)

Marketing communication and the distribution channel influence each other to an extent that the lack of coordination may result in out-of-stock situations or excessive inventory holding in the distribution channel (Van der Walt:1996; 242). Lancaster defines marketing communications as the process of presenting an integrated set of stimuli to a market with the aim to raising a desired set of responses within that market target, (Lancaster: 1999; 149). Elements of the communication strategy are discussed below:

I Sales promotion:

Sales promotion consists of short-term incentives to encourage purchases or sales of a product or service. It includes a wide variety of promotional tools designed to stimulate earlier or stronger market response. Promotional tools comprise consumer, trade and sales force promotion. Consumer promotions include: samples, coupons, rebates, discounts, demonstrations, etcetera. Trade promotions include: buying allowances, free goods, merchandise allowances, dealer sales contests, trade shows, etcetera. Sales force promotions include: business contests and sales force rallies (Kotler: 1991; 458).

Boone states that sales promotion activities today are integral components of many marketing plans, and their focus has shifted from short term to long term goals of building brand equity and continuity of purchase. An example is the 'Frequent Flyer' programs that have enabled airlines to build loyal customer bases from scratch. Sales promotion activities are aimed at specific target markets for promoting a particular product (Boone *et al.*: 1995;

623).

The current view, however, is that sales promotion tends to suffer from an image problem. The image problem, contrary to Boone, stems from the short term effects of promotional activities. Because an effective sales promotion rarely exceeds three months, it is seen more as a tactical rather than a strategic intervention (Hill *et al.*: 1996; 292).

II Goals of sales promotion:

The goals of sales promotion can be grouped into the following broad categories.:

* **Behavior modification**:

Sales promotion seeks to modify behavior and thoughts for example, to get people to drink Pepsi rather than Coke. It also reinforces existing behavior, for example, to get people to continue to drink Pepsi once they have converted. Sales promotion activities hope to create a favorable image or to motivate purchases of the company's goods and services.

* **Informing:**

Sales promotion activities are designed to inform the target market about the firms offerings. Informative promotion is generally more prevalent during the early stages of the product life cycle. It is a necessary ingredient for increasing primary demand. People typically will not purchase a good or a service until they know what it will do and how it may benefit them. Consumers and social critics generally applaud the informative function of promotion since it helps the consumer in making more intelligent purchasing decisions.

* **Persuading:**

Sales promotion attempts to persuade consumers and to stimulate purchase. Sometimes the firm is not attempting to obtain immediate response but to create a positive image in order to influence long-term buyer behavior. Persuasion normally becomes the primary promotional goal when the product enters the growth stage of the product life cycle. For some reason many consumers do not view persuasive promotion in a favorable light.

* **Reminder promotion:**

Reminder promotion is used to keep the product brand name in the public's mind and is prevalent during the maturity stage of the life cycle. Coca-Cola, Pepsi and other large companies use large amounts of reminder promotion. This form of promotion assumes that the target audience has already been persuaded of the merits of the product or service (McDaniel: 1979;: 351-353).

III The purpose of sales promotion:

Sales promotion tools often have a specific objective. A free sample stimulates consumer trial, while a free management advisory service cements a long-term relationship with the retailer. Sellers use sales promotion to attract new people to try the product, to reward loyal customers and to increase repurchase rates of occasional users. Three categories of new users of the product are distinguishable. Firstly we have non-users of the product; secondly, loyal users of another brand and lastly, users who frequently switch brands. Sales promotion often attracts brand switchers because non-users and users of other brands do not always notice or act on a promotion. Brand switchers are mostly looking for low prices or good value and it is unlikely that sales promotion may turn them into loyal brand users. Sales promotions used in markets where brands are very similar, usually produce high, short-run sales responses; but little permanent market gain. In markets where brands differ greatly, however, sales promotions can alter the market share more permanently.

Many sellers think of sales promotions as a tool for breaking down brand loyalty, and advertising as a tool for building up brand loyalty. Some analysts believe that sales promotion activities do not build long-term consumer preference and loyalty as does advertising, instead they produce short term sales that cannot be maintained, (Kotler: 1991; 459).

IV Sales promotion tools:

The main consumer promotional tools include samples, coupons, cash refunds, price packs or cents-off deals, premiums, advertising specialties, patronage rewards, point of purchase displays and demonstrations, contests, sweepstakes and games. Promotions are essentially short-term, tactical devices though they may have longer term effects, for example, on the image of a company. They are used to encourage consumer brand trial, to stimulate sales or to defend brand share against competitive action. The proportionate amount of promotional activity is likely to be at its peak during the introductory and maturity stages of a product's life cycle (Blois and Cowell: 1973; 63).

V Advertising:

This promotional medium is used in the launch of a new product or for the duration of a product promotion. It is a short-term campaign, not related to image, lifestyle or product benefits. Every type of media must be considered for new product launches. The campaign will be short term and considered a promotional activity. Once the product has been established, the emphasis will shift to long term positioning.

VI Media:

Media is sometimes seen as a game of hit and miss. This need not be the case when media planning is viewed as an integral part of the communications strategy. Consideration must be given to the balance between coverage i.e. that particular percentage of the actual target reached and the frequency of consumer exposure. The size and the number of columns should also be considered. Some media types available are the following:

* **Television:**

This is always a successful flagship for all media types. The product may not require television exposure but the overall effect of selling product benefits and portraying their use visually, is extremely powerful. Reach, frequency, quality and credibility of the advertisement are equally important. It is important to keep sight of the objectives of a good television commercial: the target market must be tuned to the advert, the benefits must be sold with credibility and the advert must have attention evoking content. The positioning of the product must always be considered and the actual commercial should be the result of research to eliminate any possibilities of offensive connotations with the commercial.

* **Radio:**

Radio effectively transmits the message directly and effortlessly into the listener's mind, building a picture or image in the imagination. It provides an effective means of one-to-one selling, eliminating the small print and sticking to the hard facts. Good timing can create a situation where the consumer is using the product, for example in the kitchen, while the message is reinforced. The relatively low cost media provides sufficient frequency, with considerable reach, especially in the black ethnic market. The radio can reach the consumer where no other media can.

* **Magazines:**

Print campaigns are superior, relative to other kinds of media, since they normally provide sufficient space for informative copy. Food products for example, look far more appealing in full-colour photography as opposed to black and white photography. Many unknown products have become well established in the market place through 'did-you-know' print campaigns. This type of campaign relays the product benefits plus any additional information such as health attributes, to the consumer. Magazines are perfect for the introduction of price-off coupons in the advert, redeemable at the consumer's next purchase. They also give the marketer a good insight into the number of coupons redeemed and this offers some measure of the relative success of the advert. A magazine may be re-read several times by the same reader and other readers. It may even be stockpiled for future reference. This kind of long life exposure offers the marketer repeated opportunities to gain greater brand awareness.

* **Press:**

Retailers make extensive use of this medium. The press is appropriate for advertising short-term special offers and is popular for promotions. A newspaper is normally read once and therefore has only one opportunity to secure the reader's interest. The creative concept must be bold and should sell the benefits, especially the price. Newspaper circulation is usually high, which makes the press a relatively cheap and effective form of media. Consumer response is quick and the payback far more attractive.

* **Cinema:**

This medium is used for certain products only. Local retailers can benefit in that the product will enjoy a young concentrated audience. The creative concept should have a fun filled and highly entertaining content.

* **Outdoor:**

The term outdoor media refers to many types, for example billboards, junior posters, pop stands, shop advertisements, advertisements on buses, bus shelters, taxis and delivery vehicles. It is highly visible and can be strategically placed even in the most rural territories. Billboards should be confined to high profile positions such as township entrances or exits and along high traffic motor ways, to enjoy the maximum exposure. The smaller outdoor range can be positioned outside fast moving consumer retail outlets. Buses are usually effective as mobile billboards. Individual billboards make a greater impact on their own site than when they are positioned in a cluster. Other outdoor media, in the form of sign writing or point of sale material, are placed or painted outside the actual retail outlet. This is an extremely successful form of high awareness generic advertising.

Other high traffic areas such as sports stadiums, taxi ranks, railway stations and shopping centers are ideal for outdoor coverage. Popular media in the shopping situation are supermarket carry bags or shopping bags and supermarket trolleys (Morris: 1989; 30-35).

VII Trade promotions:

The objectives for trade promotions include getting retailers to carry new items and more inventory, to advertise the product and to give it more shelf-space (Kotler: 1991 ; 459). Trade promotion is a sales promotion that is geared to marketing intermediaries rather than to consumers. Among the most common trade promotion methods are buy-back agreements, merchandise allowances, sales contests and free merchandise.

* **Buy-back agreement**:

This is a provision in a sales contract stating that the seller will repurchase the goods within a specified period of time or after a specified minimum number of units have been sold. The seller would then receive some money proportional to the purchases made during an initial trade deal. It functions as an incentive by encouraging the resellers' cooperation during a transaction, and encouraging them to repurchase after that transaction ends. Buy-backs can be effective, but also expensive, for manufacturers.

* **Merchandise allowance:**

A merchandise allowance is paid by the manufacturer to the seller to cover the costs of special consumer promotion such as point of purchase display or extensive advertising, featuring the manufacturer's product. The goal is to increase sales to consumers by encouraging resellers to promote the product effectively. The problem with merchandise allowances is that some resellers may do the minimum amount of promotion necessary just to get the allowance.

* **Sales contests:**

Companies may sponsor sales contests to motivate distributors, retailers and sales people, and to reward outstanding performance. Such sales contests can be highly effective motivators although this technique may involve substantial financial outlays.

* **Free merchandise:**

Manufacturers sometimes offer free merchandise to reward resellers who buy certain quantities of products. This technique is intended to generate large orders by motivating trade customers to buy in volumes that qualify for free merchandise. Occasionally, manufacturer may also provide free merchandise rather than cash as a form of payment for allowances offered through other sales promotional methods (Boone *et al.*: 1995; 626).

* **Sponsorships:**

Similar in nature to many sales promotion techniques is the commercial sponsorship of an event of activity. Sponsorship is the provision of resources in cash or kind, to an event or activity in exchange for direct association with that event or activity. Essentially, the sponsor purchases two things, firstly the exposure potential of the activity in terms of its audience and secondly, the image associated with the activity in terms of how it is perceived by its audiences (Boone *et al.*: 1995; 626-629).

* **Public relations:**

Public Relations is defined as the firm's communication and relationships with its various public groups, including customers, employees, stockholders, suppliers, government agencies, and the society in which it operates. It is an efficient, indirect communication channel for promoting products. It is concerned with the prestige and image of the firm and its various public groups. Its major objective is to build goodwill between the firm and its various public groups.

Publicity is the non-personal stimulation of demand for a good, service, place, idea, person or organization. Firms generate publicity by creating special events, holding press conferences and preparing news releases. Publicity is an informational activity of public relations. Some publicity is used to promote a company's image or viewpoint. Other publicity involves corporate activities such as plant expansions, mergers and acquisitions, management changes and research and development. A significant amount of publicity, provides information about goods and services, particularly new ones (Boone *et al.*: 1995 ; 681).

Over and above the building of a corporate image, public relations manages unfavorable rumors, stories and events. Public relations departments use many different tools, for example:

- **Press relations:**

It refers to the placing of newsworthy information in the news media to attract attention to a person, product or service.

- **Product publicity:**

Product publicity publishes information about specific products.

- **Corporate communications:**

Corporate communications create internal and external communications to promote understanding of the firm or institution.

- **Lobbying:**

Lobbying is the process of dealing with legislators and government officials to promote or defeat legislation and regulation.

- **Counseling:**

Management is advised about public issues and company positions and image.

The company does not pay for public relations space or time in the media. If the company develops an interesting story, several different media could pick it up, having the same effect as advertising. Public relations activities have been seen as building brand awareness and knowledge of both new and established products (Kotler: 1991; 464).

2.3.6 Reasons why new product fail.

Diamond states that products fail for a number of reasons:

I Lack of a real consumer point of difference:

Diamond cites a survey that was conducted where new products boasted a difference in packaging or formulation, but not really a product difference.

II Insignificant product difference:

Container changes, slight formula variation or presentation of the product in a new form, do not seem to adequately convince the consumer to buy the new product.

III Poor product positioning:

Poor product positioning is categorized into three areas:

* **Insignificant positioning:**

In most cases this is directly related to insignificant product differences. If the product difference is a real one, generally the consumer will purchase.

* **Confused positioning:**

This is illustrated by Revlon's introduction of 'Super natural hair spray' in the early 1960's. The confusion that led to the eventual loss of millions of dollars was directly related to the words 'super' and 'natural'. In terms of hair sprays, super means more holding, whereas natural means less holding power. The consuming public, faced with this uncertainty regarding the product, did not purchase it.

* **Mismatched positioning:**

Positioning a new product means determining the most effective combination of the product's features and consumer appeal. An excellent example of a product that was raised to a level of tremendous success by a change in its positioning, is 'Right Guard deodorant'. Originally positioned as a man's deodorant in 1963, an advertising change was instituted in later campaigns that claimed it to be the perfect family deodorant.

* **No point of difference:**

When a market is not large enough, the introduction of the same product with a new name is destined to fail.

* **Bad timing:**

Very often too many similar products are introduced at the same time. This can alter a company's successful distribution of its products.

* **Product performance:**

Although the product testing procedures are generally rigorous, products occasionally fail due to unsatisfactory performance that is somehow overlooked during the testing period. Most of the products that fail because of poor performance, are largely food products. Essentially the problem lies in assessing the customer's taste preference.

* **Inadequate sales effort:**

Smaller producers often spend little time on the training of salesmen. Insufficient attention is paid to formal training or motivation, which frequently causes the failure of the manufacturer's product. It is not the product that is weak, but the selling job that is ineffective (Diamond *et al.*: 1979; 333-350)

IV Marketing strategies:

Pearce and Robinson, from a scheme developed by Michael Porter, recommend three generic strategies for companies seeking a competitive advantage in commercialization of products:

* **Low-cost strategy:**

Companies following this strategy, rely on fairly unique capabilities to achieve and sustain their low-cost position. Capabilities include having a secured supplier of raw material, having a dominant market share position or having a high degree of capitalization. Efforts are concentrated on process efficiencies, maximization of economies of scale, cost reductions and high production volumes. They fear development of new low-cost technology by competitors.

* **Differentiation strategy:**

Companies following this strategy strive to create and market unique products to a variety of customers. They appeal to customers with a special sensitivity for a particular product attribute. What they fear are competitors coming with imitation products.

* **Focus strategy:**

The strategy appeals to one or more groups of consumers using cost or differentiation as a base. Customers would in most cases have common applications for the product. Companies pursuing this strategy are willing to service isolated geographic areas and to satisfy the needs of customers with special financing, inventory or service problems (Pearce *et al.*: 1994; 220-223).

2.3.7 Summary.

The preceding chapter has set the theoretical framework for the evaluation of marketing issues related to commercialization or the launch of the product under study. The next chapter will provide some information obtained from the company documents about the marketing issues during the launch of 'Nestlé Infant Cereal with Soya', and subsequent company projects undertaken to gather more information about the product performance after the launch.

CHAPTER 3: MARKETING CONSIDERATIONS AND PROJECTS WITH REGARD TO THE LAUNCH OF 'NESTLé INFANT CEREAL WITH SOYA'.

3.1 Introduction.

In this chapter the discussions will focus on 'Nestlé Infant Cereal with Soya' as a product, the marketing aspects and projects undertaken by the company with regard to the product.

3.2 The product – 'Nestlé Infant Cereal with Soya'

3.2.1 Description.

It is a complete cereal that requires no milk. All that is required for reconstitution is to simply add it to previously boiled water and serve. It can also be given with mashed fruits or vegetables. The product is made from Africa's basic raw materials, maize and soya.

3.2.2 Difference between 'Nestlé Infant Cereal with Soya' and Nestum/Cerelac.

Nestlé Infant Cereal with Soya' falls into the same 'complete cereal' category as Cerelac, but differs mainly from the latter in the protein source. Whilst Cerelac contains milk to supply most of the protein. Nestlé Infant Cereal with Soya' has one of the richest known sources of protein, soya. Another point of difference is the fat source – Cerelac has its fat content provided by whole milk powder, while full fat soya flour contributes most of the fat in this new nutritious product.

3.2.3 Nutritional aspects of Nestlé Infant Cereal with Soya.

I Protein:

The protein content of fifteen percent conforms to internationally recommended standards for complete infant cereals. In addition the combination of maize and soya allows for the complementation of their respective proteins, increasing the availability of raw materials.

II Fats:

It contains 7.2 % fat of which most comes from soya, which contributes significantly to the calorific density of the product, which is necessary to cover the needs for complementation of milk feeds during the weaning period.

III Carbohydrates:

The two main carbohydrates are starch and sucrose. Starch is the source of time released calories and comes from the cereal portion in the Infant Cereal with Soya. This provides the Infant with calories for a reasonably long time.

IV Vitamins and mineral salts:

Vitamins similar to those added to Cereal, are used to enrich the formula. All thirteen known vitamins are added to levels which provide at least twenty percent of the daily needs of infants between six and twelve months of age.

V Taste:

The product has a pleasant taste to suit the baby's palate, blended enough to make it an excellent base to introduce a new taste sensation to the baby.

VI Color:

The light creamy color of 'Nestlé Infant Cereal with Soya' makes the product appealing to mothers.

VII Texture:

This cereal is meant to be spoon-fed and the recommended reconstitution allows for this.

VIII Instant preparation:

Simply mix the cereal with previously boiled water. All the flour ingredients have been pre-cooked to make instant preparation possible. This convenience factor is a big plus in today's world when so many mothers have to return to the workplace.

IX Quality standards:

The cereal is prepared from the best locally available raw materials and manufactured under strict quality control measures.

X Product security:

Only the best available packaging materials are utilized ensuring that maximum security from humidity and infestation is provided.

The next paragraph will look at some of the marketing aspects of the product as undertaken by the company.

3.3 Marketing aspects.

We shall now turn to some of the marketing aspects considered during the launch of the product under study.

3.3.1 Market segmentation.

Formal segmentation studies were carried out. Segments that were targeted included black women in both urban and rural areas, as well as white women who were price sensitive. The product would also appeal to mothers who experience health problems such as allergies and diarrhoea with their babies. Working mothers in both urban and rural areas would find the product easy to use.

3.3.2 Product positioning.

Nestlé Infant Cereal with Soya' is positioned between Nestum and Cerelac. It was important to have a specific argument to promote each product in such a manner that cannibalization was averted. For maximum impact it was recommended that the product be merchandised in between Nestum and Cerelac.

3.3.3 Price.

This infant cereal is priced between Nestum and Cerelac at approximately sixteen percent more than Nestum and approximately thirty percent less than Cerelac. In order to increase sales in small businesses, credit terms of thirty days and in exceptional cases sixty days were to be allowed. Product discounts would be offered to small retailers although at the end this would benefit supermarkets with large volume purchasing potential.

3.3.4 Packaging.

The product was introduced in 250g boxes similar to Nestum and Cerelac pack sizes. In addition 200g clinic packs were introduced for use by hospitals and clinics and 100g packs to be sold through the wholesale and retail trade. Attractive color-coded packs that are easy to read and identify were used. For the first time a black baby was used on the Nestlé Cereal information presenter to enhance the image and impact of the product.

3.3.5 Distribution.

As part of empowerment, local entrepreneurial agencies in the townships were subcontracted to fulfil the distribution function. Their duties were to deliver the product to retailers. As tonnages grew, the plan was to erect or acquire central warehouses at strategic points in the townships to shorten the distance that would be covered by the agents.

3.4 Marketing communication.

The marketing communication will deal with aspects of sales promotion, outdoor promotion, media advertising and trade promotion undertaken by the company.

3.4.1 Sales promotion.

A number of sales representatives were drawn from the existing sales force and assigned to the project. Additional sales people were appointed to complement this sales team. Point of sale material were used in-store and outside to increase product awareness. Coupons of R2.00, redeemable at any wholesale outlet, were offered for purchases of every 10 x 100g packets of the product. Sales demonstrators were temporarily hired to conduct wet demonstrations in selected stores and to issue free samples of the product for trials. Other in-store promotions entailed putting stickers in nappy bags reminding customers of the product.

3.4.2 Outdoor promotions.

With the consent of owners, selected Spaza shops were painted in any of the company's brands in exchange for free issues of the advertised brands. Because each brand has Nestlé as the brand name, the painting would serve as a reminder advertisement.

3.4.3 Media advertising.

Selected print media used for advertising the product, comprised of Living and Loving, Fairlady, Bona, True Love and Year Baby. Television commercials appeared on SABC 1 and -2 channels. Radio commercials were broadcasted in 1998 and 1999.

3.4.4 Trade promotion.

Trade promotion advertising was done on trade newsletters such as Trade/Medical advertising newsletters. Cash and Carry News, FMCG retailer, Independent Retailer, Trader's Friend and Pharmacy Retailer. Advertisements also appeared in publications such as SA Retail chemist, Front shop focus, Health and Hygiene, Mother and Baby, SA Journal for Food Science and Nutrition and the 1994 Hospital and Nursing Year Book.

3.4.5 Product launch.

Influential people relevant to the promotion of the product were invited to functions organized by Sales Representatives. The purpose of the functions were to formally present and introduce the product through the use of PC displays or overhead slides and video footage. For those who could not attend the launch presentations, special arrangements were made for one-to-one information sharing and video presentations at venues and times convenient to them.

3.5 Projects undertaken with regard to 'Nestlé Infant Cereal with Soya'.

3.5.1 The use of community based organizations.

A non-governmental organization called 'Group Africa' was engaged by the company in 1995 to assist with the promotion of the product in black communities. The purpose was to lecture on nutrition and promote wet demonstrations among black women in the townships. The group operated in and around Gauteng. Eastern Transvaal, KwaZulu-Natal and South-Western Cape. According to their half-yearly report at the end of June 1995 they had conducted a total of 1288 lectures to 83395 women. The largest figures recorded were in Gauteng and South-Western Cape. Comments from the reports were that positive attitudes were created among women reached and that the women reported that there was no stock in the township supermarkets. (Group Africa report, 2nd quarter; 1995)

3.5.2 Survey project by visiting student from Switzerland.

In 1995 a marketing student from Switzerland was engaged by Nestlé to conduct a study on 'Nestlé Infant Cereal with Soya', as part of her academic program, with a view to incorporating some of her recommendations in the marketing plan for the product. In her project she developed questionnaires as instruments for gathering information, held discussions with managers responsible for the product in the country and visited some distribution outlets. A single standard questionnaire was developed for the formal retailer in the township and the informal retailer (spaza shop). Visits were made to formal retailers, spaza shops, clinics, Pick 'n Pay, Shoprite Checkers, Top Store and Trade Center.

The findings of the student were that there was a general lack of knowledge regarding the product both on the part of store owners and customers making purchases. Some customers had difficulty differentiating among the range of Nestlé Cereals. Where product knowledge existed, the product was unavailable for purchases and in instances where stocks were available, the product was slow moving. There was also a general demand for demonstrations of the product in order to create awareness. It was also found that not only township mothers, but also fathers, children and grandmothers were potential buyers who could be targeted for product information.

Skills in the general management of spaza shops were also found to be lacking. Another problem with spaza shops involved the logistics regarding the placing of orders and the payment for those orders. Because spazas are 'one man' businesses, the owner has to close the shop to go and buy replenishing stocks. Spazas carry limited amounts of stock, as storage facilities are very limited. Very often when the Sales Representative from the company called either to take orders or collect money, the shop owners were absent. The amount owing, therefore became long overdue and created the impression that spaza owners were not honoring their financial obligations. Because of non-payment, spazas could not obtain further stocks from the company.

Another finding was that 'Nestlé' as a company had a 'white' image in the township and people could not relate to it as much as they did to Coke and SAB. Discounts offered on the product did not benefit spazas as they normally purchased lower quantities. As a result, overpricing was found to be rife and this placed a restriction on the growth of the product. Merchandising, housekeeping and inventory control still required upgrading in spaza shops.

Among the medical fraternity, the perception that 'Nestlé Infant Cereal with Soya' was for allergies, needed to be altered. It was also found that during the initial launch, the product was not given sufficient exposure as evident from the apparent lack of product awareness on the part of the customers and some of the Sales Representatives. This was also compounded by the fact that the product was not listed on the Sales Representative's Order Pads. This meant that the Representatives would easily forget to introduce the product as they had other products on the order pads to offer to customers.

3.6 Summary.

A great deal of work was done with regard to the product itself. However, more should have been done on the marketing aspects of the product. A survey of the market was done by the visiting student from Switzerland and some action had to be taken regarding the information obtained from the survey.

CHAPTER 4: EVALUATION OF THE MARKETING ISSUES RELATED TO THE LAUNCH OF NESTLÉ INFANT CEREAL WITH SOYA, AND RECOMMENDATIONS.

4.1 Introduction.

It appears that market trends and conditions, which necessitated the development of 'Nestlé Infant Cereal with Soya', were social conditions regarding blacks in particular, for example growing rates of unemployment, would make the cereal more affordable. The adding of water as a substitute would not necessarily take away the nutritional value of the product. This of course is in addition to other benefits offered by the product such as protein and anti-allergy benefits.

The product has potential with the growing urbanization, the increasing number of single parents and the change in cultural patterns whereby black women are now compelled to go out and seek work. Blacks are more and more adopting and assimilating some aspects of Western culture.

Political changes have also contributed to or continued to exert influence in this regard by opening up opportunities for women empowerment, thereby creating middle class women who are no longer able to raise children themselves. There is greater optimism that the economy is showing signs of growth. It will enable other families to enter into gainful employment in the lower end of the labor market, as new unskilled entrants in the labor market. More opportunities are also unfolding for the vast majority of so-called 'disadvantaged' persons, which further expand this market.

The targeting of blacks was done not exclusive of the 'white' sector market. There is evidence from secondary literature of efforts made to attract buyers from this sector of the market.

4.2 Analysis of marketing issues.

4.2.1 Target market.

From the secondary literature on 'Nestlé Infant Cereal with Soya' it appears that insufficient market analysis was carried out. It became clear that black and white families with children were targeted. The product benefits appealed to two segments of this product market, that is, the segment that requires a nutritional economic product that has protein and require water instead of milk in its preparation, and the other segment attracted to the product because of its 'anti-allergy' content. Confusion reigns within the organization as to which segment to target. One view holds that broad targeting emphasizing the first benefits was more ideal as it would attract a large number of buyers, while another view was that the second segment that was attracted to the 'anti-allergy' content was more appropriate. Obviously, in the marketing of the product in the midst of such confusion, wrong messages would be conveyed to right segments and right segments would receive wrong messages. This would render any marketing efforts ineffective and thereby affect the product performance.

4.2.2 Market research.

The literature pertaining to our product reveals that no formal market research studies were done on the product market. However, a survey of limited scope was done which mirrored the current state of affairs and marketing issues relating to the under-performance of the product.

4.2.3 Training of the staff.

Comments from the secondary literature were that the product was launched without proper preparation of the representatives who were expected to drive sales. The product was also not listed on order pads and as such could therefore not be offered to customers during order taking. Perhaps the former could have had a negative influence on the performance of the product, and to a lesser extent the absence of the product on the order pads.

4.2.4 Pricing.

The secondary literature expressly states that the company tries to help the community by making its products available at cheaper prices at some clinics and public hospitals. The company also attempts to arrange good prices for small shops, however, the rebates depend on volume and tends to benefit the larger supermarkets. Large wholesalers occasionally get good prices and small retailers are normally informed about this situation and encouraged to take advantage of this benefit.

Credit terms of thirty days and in exceptional cases up to sixty days, are offered to allow small businesses to grow. The problem encountered at present is the overpricing of products by spaza shops in order to make quick profits. The company was planning a trade education program to address this problem and others such as merchandising, hygiene, stock management and basic management skills.

Currently the 'Nestlé Infant Cereal and Soya' retails at R8.49 per 250g and the Gerber products (Whole wheat Cereal, Whole wheat Cereal with banana, Mixed Cereal, Regular Cereal) retails at R5-49 per 250g. Prices were obtained from a Shoprite Checkers supermarket. Most probably the prices are higher in spaza shops.

4.2.5 Distribution.

I Direct Classical Sales:

Sales Representatives call on large wholesalers such as Metro, Makro, Trade Centre and retail supermarkets such as Shoprite, Pick 'n Pay, Spar, Score, etc. Some Sales Representatives carry stocks and call on small retailers in the townships.

II Informal Sector Distribution:

Third party distributors, such as "Mama Pinky' (small depot) and Cash Van Sales – representatives, are sub-contracted to do smaller deliveries in the townships. Despite this distribution network, a large number of shops and spazas in the townships were found without stocks. The product was not sold out, but it was not available for purchase.

III Public Hospitals, Clinics and Private Hospitals:

4.2.6 Communication Strategy:

It should be borne in mind that overt advertisement of infant cereals is strongly discouraged by the WHO and its lobbyists in favor of breast-feeding. The company is aware of this and do not view infant cereals as substitutes to breast-feeding, but more of supplements to infant cereals. This restriction places some limitation on the number of promotional tools that could be displayed to boost the sale of the product. However, properly selected tools may prove beneficial.

4.3 Recommended Strategies.

From the preceding discussions, it may be worthwhile to consider the following strategies:

4.3.1 Marketing Research.

It is recommended that the company engage a well-established market research agency to conduct proper research into its product market. The research will not only reveal opportunities for 'Nestlé Infant Cereal with Soya' but the spin-off will extend to other product offerings as well. The information obtained should be further explored in a focus group situation to identify and evaluate new-product concepts emanating from the research information.

A focus group is a small group of eight to twelve people invited to meet an experienced moderator. Focus groups can comprise of channel members and company personnel as well as customers. Another technique is the use of an advisory panel. An advisory panel comprise of a group of people selected from the company's target market to give insights and evaluations about new products.

4.3.2 Market Target Strategy.

The market was not properly analyzed to determine the sub-markets existing within the broader black market, to develop marketing strategies that would have appealed to each sub-market. In the preceding paragraphs on secondary literature, it was mentioned that contact was regularly maintained with Doctors and other health workers such as dieticians. It was further noted that the two groups require different technical information about the product. The Doctors on the one hand were interested to establish whether the product will induce diarrhoea in infants (the formulation will not) while the Dieticians were interested in allergy effects. These two groups are carriers of information to mothers and would-be-mothers. Essentially the two groups are all health workers and should therefore be provided with all the health information pertaining to the product rather than the current selective provision of information.

Targeting strategies recommended in this regard are:

* **Selective targeting:**

Selective targeting extends beyond a single segment to include a few targets. It expands market opportunities and eliminates dependence on a single market target. Selective targeting will enable the company to select targets where its competitive advantages are best.

* **Focus strategy:**

The company must become a 'niche' player with the product and appeal to certain tightly defined customer groups. This strategy is useful where the product is new and holds a lower market share, and also where the company does not have large resources or does not intend expending much, to achieve the visibility of a major player.

4.3.3 Product positioning and differentiation strategies.

There was not enough follow-up through promotional activities after the launch, to build consumer confidence in the product and position relative to other Nestlé Cereals. "Nestlé Infant Cereal with Soya' has some strengths backed up by Nestlé as the brand name. The company must therefore build a position of uniqueness based on this set of benefits or satisfactions which customers value, and believe they can only fully obtain from this product. In order to differentiate this product, the company would need to consider a selling proposition that will be displayed on all packaging of the product and on all display material such as the point of purchase material, provided the latter will not be in conflict with the World Health Organization's recommendation. This opportunity should be further investigated. The unique selling proposition might be 'a protein infant cereal with anti-allergy benefits'. The proposition will therefore attract the two segments of the company's target market.

4.3.4 Distribution Strategy.

Nestlé's distribution network to formal channels in the cities and towns is well developed. However, this study has found the distribution network to townships, to be inadequate and require an innovative approach. One suggestion here is that Nestlé should work towards developing a network of independent distribution agents serving as smaller depots, either on its own or in cooperation with other manufacturers,. Third party carriers will then pull bulk from manufacturers into these depots. Agents can use small contractors to pull stock and deliver to outlets using their own transport or bakkies. This distribution network will then provide economies of scale and wealth distribution. Details on channel management at each stage of the distribution network will have to be worked out. The suggestion above is based on personal observations of economic activities in the township and it amplifies what Morris has already postulated.

4.3.5 Communications strategy:

Seemingly, the marketing communication strategy was not effective during and after the launch. The problem was also compounded by a lack of business knowledge by the retailers. The communication strategy also needs to be revised. Promotional tools comprise consumer trade and sales force promotion. Specific aspects of the communication strategy that the company needs to revise comprise, consumer promotion, print and sales force promotion.

I Consumer promotion:

A program of wet demonstrations and sample offerings need to be vigorously pursued. This program will provide product knowledge and raise the level of awareness of the critical mass of the target population.

II Print:

Magazines that are being used need to be revisited in view of the change in interest of the potential customers. Personal observation and discussions with tellers in large supermarkets, (Clicks stores and CNA) revealed the following preferences:

Blacks prefer to read Drum, You (mostly), People, Living and Loving, True Love, Ebony, Cosmopolitan, Pace and Value Magazine (to a lesser extent).

Whites prefer Huisgenoot (mostly), Sarie, Living and Loving, Value, Your Family, Fairlady, You and to a lesser extent Drum. Nestlé currently advertise on Living and Loving, Fairlady, Bona, True Love and Year Baby.

III Radio commercials:

Radio commercials are done on local radio stations, however, the advertisements are not aimed at promoting any specific infant cereal, but are general in that they promote the whole range of infant cereals with the company brand name as the distinguishing feature. It is not known at this stage how effective the advertisement is. It is known however, that other large companies are specific in advertisements of their products e.g. Castle Larger, Hansa, Enterprise French Polony, etcetera.

IV Sales force promotion:

This area needs to be improved in terms of allocation of representatives to product markets, training and motivation, provision of the required product knowledge and involvement in the whole process of product launches.

VI Trade education:

The company should consider employing small business developers to run an education program for retailers. Further observations are the following:

* Spazas will not grow in sophistication due to lack of enabling facilities such as telephones, faxes and PC's for electronic fund transfers and order placing.
* The problem of spaza owners leaving their businesses when they have to do purchases can be solved by improvement in the distribution systems taking into account the variety of products they purchase. Perhaps one-stop distribution depots will be ideal with investments in spaza communication infrastructures.
* The image of the company has to improve in the townships in order to enhance relationship marketing.
* Special deals for spazas and business education are essential to establish margins that would lead to the growth of the product.

4.4 Summary.

As it was mentioned in the preceding paragraphs, "Nestlé Infant Cereal with Soya' has potential in the Cereal market. The company needs to work on the recommendations that are feasible as outlined in this paper - market research, market targeting, product positioning, distribution, pricing and communication. Once these areas are in place and completed, coupled with the company's brand name, strategic edge over competitors could be achieved.

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