PGDM 2017-19

Product and Brand Management

DM – 436

Time Allowed: 2 hrs 30 minutes

Roll No________

Max Marks: 50

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as Unfair Means. In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5	10 Marks each	3*10 = 30
B	Compulsory Case Study	20 Marks	20
		Total Marks	50

Section A

(Answer any 3 questions out of 5)

(Max 300 words per question)

Question 1: You are the Product Manager tasked with the development of a new kind of "reusable syringe for patients suffering from type 2 Diabetes". Please outline the steps you would undertake to

1. Form your team
2. Understand consumer requirements
3. Develop and screen concepts

Question 2: You are in the process of launching a brand that specializes in selling high quality ceramic dinnerware. Please explain which secondary brand associations will you utilize to enhance brand credibility. What will be the limitations of the associations you choose?

Question 3: You are the product manager of a product which is in a mature market. What situation is likely to be present for each of the 4Ps and the competition in the market? What strategies would you undertake to best handle this situation?

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Question 4: You are brand manager of a brand of coffee. What does brand equity mean to you in reference to a brand equity model you have come across? How would you go about measuring it through descriptive research?

Question 5: Each part is worth 5 marks

a. Relate Ansoff's growth matrix to new products and brand extensions

b. Brand extensions could be advantageous or disadvantageous for the parent brand and the organization. Please list five ways in which brand extensions can prove to be disadvantageous and provide a very brief description of each.

SECTION B

Case Study (Answer All Questions)

Question 1: (i) Calculate the Following (10 marks)

a. Fixed costs of the marketing program
b. Contribution per unit (assuming royalty payments are charged on MSP less invoice and advertising allowances)
c. Break-even volume.
   (ii) Is this Break-even volume viable?

Question 2: What possible problems do you anticipate with the Guardian marketing program? What can Classic do to counter these problems? (10 marks)

Classic Knitwear and Guardian: A Perfect Fit

Brandon Miller, Chief Marketing Officer at Classic Knitwear Inc. explained in September 2006, explained in September 2006 why his company had decided to explore the introduction of a branded line of insect repellent clothing. "We've got to improve gross margins," he said. "and this looks like the most expedient way to do it." Classic's problem with gross margins was that its private label or unbranded knitwear had no branded recognition among retail customers, which sharply limited the opportunity to differentiate its products. The company's executives believed this led to substantially lower gross margins that those enjoyed by leading branded product manufacturers – currently 18% vs. 30% to 40%. Classic had recently succeeded in shrinking that gap, but not enough to suit an increasingly growth-hungry board.

Classic had been investigating the launch of a line of insect repellent shirts through a partnership with chemical firm Guardian, Inc. Miller, along with CEO Robert Ortiz, and CFO Sandra Chong were in the late stages of evaluating a preliminary marketing program and estimating demand for the new line. If their analysis showed that demand for this higher-margin line would be robust enough to surpass break-even, Ortiz wanted to announce the new line at Classic's analysts' conference call in late October.

Classic Knitwear, a publicly traded company headquartered in Miami, Florida, was established in 1995 as a manufacturer and distributor of unbranded casual knit apparel (T-shirts, sport shirts, sweatshirts, fleeces etc.). Some casual knitwear was expensive and carried prestigious fashion label (e.g., Ralph Lauren, DKNY). Classic did not operate in this category. It operated in the $24.5 billion category of non-fashion casual knitwear. Classic reported 2005 revenues of $550 million (see Exhibit 1 for a summary income statement). All of classic's revenues were earned on U.S. sales; CEO Ortiz perceived too much risk in foreign markets.

Wholesalers comprised 75% or $413 million of Classic's revenues. These wholesalers sold in turn to screen print channels – companies that customized t-shirts and other knitwear with logos of everything from rock bands to small businesses to tourist destinations. Classic had concentrated on this segment of casual knitwear because Ortiz and Chong believed it offered faster growth potential than ordinary retail. Screen printing industry shipments to wholesalers exceeded 80 million dozens[1] in 2005, representing roughly $2.5 billion in factory sales (over and above the non-fashion knitwear retail sector). Most industry analysts believed Classic was the #2 player in this sector with 16.5% market share.

The other 25% of Classic's revenues came from Knitwear sold through mass retail channels as private label merchandise, which typically carried the name of the retailer or of some in-house "brand" the retailed had invented. Just two retail customers – Wal-Mart and Dollar General – accounted for 57% of revenues in this category. The non-screen print portion of the non-fashion casual knitwear market had 2005 U.S. revenues of $22 billion. Branded product (e.g., JamesBrands) accounted for $10 billion, and private-label $12 billion; Classic, with $137 million had slightly more than 1% of the private-label sector.

Classic had achieved low production costs through the establishment in 2004 of a state-of-the-art offshore production hub in the Dominican Republic. Combined with the economies of scale from hi-volume, low SKU[2] production runs (that is, large runs of a small number of distinct products). Classic enjoyed a moderate cost advantage over other U.S. producers. Although a number of competitors had migrated many of their production facilities overseas, the higher complexity and SKU count of their production runs sometimes constrained further by the use of dated legacy equipment –made it difficult for others to replicate Classic's model. Still, Classic knew it would be only a short time before the competition, most notably heavyweights JamesBrands and Flowerknit realized similar or perhaps superior manufacturing efficiencies.

The non-fashion casual knitwear market consisted of knitted products for casual wear or underwear. T-shirts represented 53.5% of that total or roughly $13 billion. Due to its focus on the screenprint sector, Classic was more heavily invested in shirts than the overall industry.

Broadly speaking, the branded side of the non-fashion knitwear market was dominated by three large manufacturers: JamesBrands ($4.5 billion in revenue from U.S. sales), FlowerKnit ($1.25 billion in U.S. revenue), and Greenville corporation's TopTops Division ($630 million in U.S. revenue). Some of these companies competed with Classic for private-label business. Because three-fourths of Classic's output ended up as unbranded screenprinted products, Classic competed most directly with little-known firms such as B&B Activewear, the screenprint market leader with $590 million or a 23.6% market share; however the "Big Three" were involved in this sector as well.

Retail sales of apparel by type of retail outlet are summarized in Table A

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[1] Industry volumes were commonly measured in dozens of units

[2] SKU (Stock Keeping Unit), is defined as a single item of merchandise for which separate stock and sales records are maintained

Outlet	% Retail Value		
	2003	2004	2005
Mixed retailers (e.g., Kohl's, Wal-Mart)	49.7	47.8	47.7
Clothing specialist retailers (e.g., Gap, Brooks Brothers)	42.1	42.7	42.8
Other non-grocery retailers (e.g., CVS, Rite Aid)	2.8	3.0	2.2
Home Shopping	2.0	2.1	2.1
Internet Retailing	2.2	2.5	2.7
Direct Selling	1.2	1.9	2.5
Total	100	100	100

Manufacturers competed for retail business by using price, variety and prompt delivery. During weak sales periods, for example, buyers were known to cut back on inventories and demand that manufacturers ship with shorter lead times. Retailers also pressed for additional discounts and co-op advertising support.

Manufacturer pricing to the trade for a single style could vary significantly because clients purchased in varied quantities and often required customized packaging. Manufacturers' suggested retail prices generally provided retailers with a 50% margin on branded knitwear and a 40% margin on private label knitwear. Roughly 45% of unbranded knitwear was sold at a discount off the invoice price. As a result, average manufacturers' gross margin on private-label knitwear ranged from 10% to 20%, versus 30% to 40% on brands such as JamesBrands and Flowerknit.

Retailers frequently used price promotions to move private-label knitwear, often in conjunction with the back to school and Christmas promotional periods. These periods might account for as much as 50% of annual retail knitwear sales. From time to time, manufacturers and retailers partnered in designing holiday packaging for or bundling multiple branded knitwear items (e.g., t-shirts and cap) as Christmas of Father's Day gifts.

Classic's pricing policy was determined by Chong and Miller. Classic averaged an 18% margin in 2005 but, at Chong's direction, the company was pursuing increased manufacturing efficiencies in the hope of achieving Ortiz's short-term margin goal of 20% in 2006.

Having decided by late 2005 that neither controlled labels nor tie-in promotions could ever push overall gross margins consistently over 20%, Miller's marketing team began researching a number of proposed product innovations. They landed on an interesting prospect in February 2006: knitwear treated chemically to repel insects. The team had read compelling evidence of growing national awareness of insect-borne illnesses such as Lyme disease and the West Nile Virus – and of American dissatisfaction with the few prevention products they could purchase. Miller's team also learned that while some insect-repellent clothing was already selling successfully into small niche markets, notably to avid hunters and fishermen, this new category had barely begun appearing in mass-market products. Based on these discoveries, Miller's team set out to analyse the viability of a new national brand of high-quality men's and boys' insect repellent shirts. While optimistic about the market potential, Classic determined that a marketing investment of $8 million to $10 million would be required to generate 50% national unaided awareness of the new branded line among males age 18-35[3]. Classic's CFO Chong was quick to point out that an investment of that size was well beyond the company's financial resources.

The opportunity arose to negotiate a licensing partnership with Guardian, a manufacturer of insect repellents that offered odourless protection against mosquitoes, ticks, flies etc... The potential alliance would allow Classic to use the Guardian name on a line of insect repellent shirts. Guardian which reported 2005 sales of about $100 million, was founded in 2001 by two former pharmaceutical industry scientists. The young company had recently received EPA registration for a newly patented insect-repellent technology that would provide protection through 70 washings— nearly 3 times the 25 washings promised by existing insect repellent apparel. Guardian claimed that its propriety repellent formation bound to fabric fibres more tightly and durably than existing technology. Guardian viewed its potential partnership with classic as an opportunity to reach the outdoor enthusiast market that valued the convenience of not having to apply or carry traditional liquid repellents.

Preliminary consumer research showed that unaided awareness of Guardian's flagship repellent, branded under the "Guardian" name was over 50% among males age 18-35. Further, 95% of consumers who were aware of the Guardian name indicated that they held positive perceptions the brand, with 58% expressing a recognition Guardian's pioneering status in insect repellent clothing technology. Given the brand's high level of awareness and positive customer associations, Classic concluded that insect repellent apparel treated under license with Guardian could be launched successfully with a marketing investment of just over $3.0 million.

Chong harboured concerns: "Why", she insisted, "should we risk the success of our next product line on an unproven technology?" Originally trained as an engineer, Chong strongly believed that continuing to pursue production efficiencies was a far less risky strategy. But Ortiz, fearing a downgrade of Classic's stock if the company didn't communicate compelling plans for margin growth, told Miller to move forward with additional market research and draft a plan for the new product's introduction. Miller simultaneously initiated negotiations with Guardian for a possible licensing agreement.

In April 2006, Classic – in partnership with Consumer.com – conducted an online survey to gauge purchase intent for four shirt types treated with Guardian repellent (short-sleeve tee, long sleeve tee, Polo-style sport shirt, and heavyweight fleece) and two pricing groups (low and high). Consumer.com engaged registered users in quantitative research studies in exchange for reward points that could be used to purchase a range of merchandise or gift cards from participating merchants. Out of 1,000 e-mail invitations to male Consumer.com subscribers, 185 respondents satisfactorily answered a set of "screening" questions to confirm interest in the product and went on to complete the survey.

By September 2006, Classic and Guardian completed a draft of the licensing contract (summarized in **Exhibit 3**) It stipulated that Classic would launch "Guardian Apparel" in

[3] Unaided brand awareness means a consumer would have to identify the brand name in response to an inquiry such as "what brands of knitwear can you name?" The aided metric reflects all consumers who respond affirmatively to a question such as "Have you heard of Brand X?"

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January 2007. Classic executives also assembled a marketing program recommendation to support the new product introduction. The four shirt styles in the product line were equal in quality to the best branded apparel on the market. Although Classic had traditionally sold more T-shirts than any other shirt style, all four styles of Guardian shirts were expected to be equally popular based on the target audience (male outdoor enthusiasts).

Guardian shirts would be sold through branded cardboard display units featuring outdoor activity-related imagery. Each unit would incorporate 12 dozen shirts across 16 SKUs, four styles each in four colours (including white). A complimentary display unit would be made available to each store placing an initial order for 12 dozen shirts across all four styles, plus an additional 24 dozen shirts as back-up inventory. Classic's cost per display, assuming a minimum order of 10,000 displays was $100. Each display unit prominently featured the Guardian name in the same green and black colours used to promote Guardian sprays and lotions. A claim of "long lasting protection" was backed by an unconditional one-year money back guarantee. Each shirt would be labelled with the same EPA category IV product rating (the most favourable) that Guardian sprays and lotions enjoyed. Ortiz and Miller decided to not include the name "Classic Knitwear," believing it might detract from the product's innovative and insect repellent positioning.

Miller and Chong set retail prices for Guardian shirts to match those for other national brands of comparable quality and provide the trade a 45% margin (see **Exhibit 4**). Pricing reflected the higher of the price groups tested in the Consumer.com research due to the fact that the percentages of customers completing the survey who stated that they would definitely or probably buy Guardian apparel were not significantly lower under the high-price option than under the low-price option. Additionally, both Miller and Chong believed that mass retailers would implement some discounting.

Classic planned to eventually make Guardian shirts available to its existing wholesale clients for distribution to interested screen printers. Initially, however the product would be distributed through major sporting goods and apparel chains such as Bass Pro Shops, L.L. Bean, Orvis and REI (representing a completely new outlet for Classic), general merchandise chains and discount chains. Miller hoped that Classic would have 10,000 displays in place within two years of product launch, of which 50% would be in discount stores, 25% in general merchandise stores and 25% in sporting goods and apparel stores. While there was no guarantee that Classic would be able to achieve this level of acceptance within two years, Miller was optimistic enough about product demand to recommend that 10,000 displays be produced to lock in the $100 production cost.

Miller felt strongly that Classic's 20 person internal sales force did not have the experience and relationships necessary to quickly penetrate sporting goods and apparel stores. He insisted that a minimum of 3 new sales reps be hired to focus specifically on this sector. At an annual salary of $85,000 per rep, each sales executive would be accountable for one of three geographic regions.

Print and television advertising would target men aged 15 and up. This segment reflected 100 million men. Of Classic's $3 million marketing investment, Miller projected that advertising costs of $1.2 million would be required to garner a 25% unaided awareness of its Guardian product among its target market by the end of two years. Since he knew from past experience that building such awareness would be a gradual effort, he made a mental note to use just half that number – or 12.5% - as an average awareness level for the two year period in any financial projections. Miller speculated about how he might use Consumer.com's market research to predict sales at this level of awareness.

Miller recommended a 5% off-invoice trade promotion allowance to encourage retailers to set up display units. Miller also recommended an advertising allowance by which Classic would reimburse a retail account a percentage of the order invoice upon receipt of evidence that Guardian shirts were prominently positioned in the retailer's advertising. Miller expected that 20% of retailers placing orders would qualify for the 10% advertising allowance.

By September 15, 2006, Classic had invested substantial senior management focus in evaluating the Guardian project. Now the executives had to decide whether to launch the new product line, pursue Miller's marketing recommendations, and aggressively work to place display units in retail outlets within two years.

Making the right decision required calculating the sales volume required to break even on Classic's marketing program investment, giving thorough consideration to the company's cost structure, the economics of the proposed trade promotions and the cost of the advertising budget. Miller, with help from Chang would spend most of September 15th entering key numbers into a spreadsheet, establishing breakeven, and then possibly experimenting with different success scenarios. Classic's team would then have to use its market research data to assess whether or not demand for the new line would be great enough to achieve break-even sales. Even if their calculations supported moving forward, Miller wondered would be Guardian project provide a viable long-term product differentiation strategy for Classic?

Exhibit 1 Classic knitwear income statement Year End, December 31, 2005 ($000)

Sales	**553,368**
Cost of Sales	453,762
Gross Profit	**99,606**
Gross Margin %	18%
SG&A	**55,337**
SG&A as % of sales	10%
EBITDA	**44,269**
EBITDA%	8%
Depreciation and Amortization	20,135
Interest Expense	5,534
Earnings before income taxes	**18600**
Pre-tax income margin %	3.4%
Income Taxes	**1046**
Net Earnings	**17554**
Net income margin %	3.2%

Exhibit 2 Results of Opt-in Online Research Survey (%)

	Total Resp.	Men's short Tee	Men's Long Tee	Men's Polo	Men's Fleece	Pricing Groups L	H
Respondent Base	(185)	(60)	(22)	(34)	(69)	(95)	(90)
Definitely Buy	38	43	45	42	29	39	37
Probably Buy	44	47	27	35	51	42	46
Might or Might not buy	13	7	23	15	16	13	13
Probably not buy	3	3	5	6	1	3	4
Definitely not buy	2	-	-	2	3	3	-

Exhibit 3 : Summary of Draft Licensing Agreement Between Classic Knitwear and Guardian Inc.

Classic Knitwear receives exclusive licensing rights to utilize the Guardian trademark and EPA rating on and in connection with insect repellent apparel sold in the United States and Canada, as long as the clothing meets established standards

Classic Knitwear pledges to "use its best efforts" in marketing Guardian shirts. Classic Knitwear will also pay a royalty to Guardian of 5% of Guardian shirts*

Classic's Guardian shirts are required to meet a series of steadily rising annual sales targets over the first four years of the agreement. The sales target for year four must also be met in each subsequent year.

The guardian trademark may be displayed on Classic's private label shirts, as long as the apparel meets established quality standards

All advertising and promotional materials for Guardian shirts require written approval from Guardian prior to publication or use. The "Guardian" trademark is to be prominently displayed on all advertising printed in the font currently used in the Guardian Logo.

Guardian may terminate this agreement during 2007 if, in Guardian's sole judgment, sales of Guardian shirts are adversely affecting sales of Guardian's existing insect repellent products

*Net sales were gross sales exclusive of returns, prepaid freight allowances and discounts

Exhibit 4 Pricing and Cost Structure

Description	Men's Short-Sleeve Tee		Men's Long Sleeve Tee		Men's Polo		Men's Fleece	
	Single	**Dozen**	**Single**	**Dozen**	**Single**	**Dozen**	**Single**	**Dozen**
Retail Price	24.99	299.88	29.99	359.88	34.99	419.88	39.99	479.88
Manufacturer Selling Price	13.74	164.93	16.49	197.93	19.24	230.93	21.99	263.93
Trade Margin ($)	11.25	134.95	13.50	161.95	15.75	188.95	18.00	215.95
Trade Margin (%)	45	45	45	45	45	45	45	45
Cost of Goods ($)	8.61	103.28	10.00	119.97	11.66	139.97	13.01	156.09
Gross Margin ($)	5.13	61.65	6.49	77.97	7.58	90.96	8.98	107.84
Gross Margin (%)	37.34	37.38	39.36	39.39	39.40	39.39	40.84	40.86

Note: All were to be sold 24 to a case. Average prices across the four styles for use in calculations were $32.49 retail selling price, $17.87 manufacturer's selling price, 14.62 trade margin, $10.82 cost of goods, and $7.05 gross margin

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