

## **From Research to Strategy**

### **Introduction**

In this mini case study for a manufacturer, the management team of the Little Italy Pasta is discussing the results of their market research and considering what they should do next.

Your task is to help them decide. So, given the research results given and the other information in the case, what advice would you give them?

### **Background Information**

Clive, the owner of the Little Italy Pasta company, was still not happy. He had recently sacked Mitchell (who had since started a business in competition with Little Italy). And Clive had also given up using consultants and had instead hired Sue-Anne as his new marketing manager.

Clive was now convinced that he needed a new marketing plan to achieve the \$3m per annum profit he wanted within the next three years.

Clive did not plan to work forever and wanted to build his fortune fast. As part of her contract agreement, Sue-Anne was able to establish her own marketing department, consisting of: Prue, Astrid and David.

### **Excerpts from the Management Meeting**

Sue-Anne: Astrid, what were the key findings of the market research with our customers?

Astrid: The research showed that we have established good customer loyalty. Around 60% of our customers buy our products on a regular basis.

David: What about non-customers?

Astrid: We'll, the figures aren't as strong there. We have a less than 5% unprompted awareness and less than 10% prompted!

Prue: That's surprising after all the advertising that was done last year. But hang on – didn't I see a brand awareness figure of 25%?

Sue-Anne: That figure included both customers and non-customers, so the number's a lot lower when we look at non-customers only.

David: So, is the sales growth a result of increased brand awareness or growing loyalty of existing customers?

Prue: It's probably interrelated. A higher level of advertising will lead to increased loyalty because the advertising is more noticeable by those customers, which then reinforces their initial purchase decision.

David: So, what you're saying is that we need to continue the advertising.

Sue-Anne: Look the keys to success are going to be distribution, brand, and product range and quality – in that order. Therefore, a level of advertising is always going to be important for brand building.

Astrid: But how do we improve distribution? We already sell to 70% of suitable restaurants, cafes and delicatessens in the main cities.

David: Well, that gives us a great track record to expand nationally.

Prue: Plus we can sell more product varieties to those existing stores. Like the new frippaloni – our own pasta style to the world.

Sue-Anne: Sure, we have lots of good ideas, but they all cost money. Each new product line will cost around \$500,000 to bring to market. Interstate expansion is at least \$1m per area to set up, and then another \$500,000 per year to maintain.

David: And on top of those costs, we need to combat Mitchell's new pasta company. It's a sure bet that he will be targeting our retailers, because he knows many of them.

Sue-Anne: Well, we've got to make sure that our retailers have a reason to stay with us – namely a broad product range, a trusted name, loyal customers, and good trade promotion deals.

Their recent financial figures are as follows:

<b>Metric</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Sales (\$m's)	7.4	8.2	10.8
Market share	6.1%	6.5%	8.2%
COGS (\$m's)	2.2	2.5	3.2
Marketing (\$m's)	1.4	1.5	3.5
Fixed Costs (\$m's)	2.6	2.7	2.9
<b>Pre-tax profit (\$m's)</b>	<b>1.2</b>	<b>1.5</b>	<b>1.2</b>
Brand awareness	16%	17%	25%

The break-down of their marketing expenditure for Year 3 was:

Marketing Salaries	\$500,000
Advertising	\$2,000,000
Trade Promotions	\$750,000
Sales Force Incentives/Bonuses	\$250,000
TOTAL	\$3,500,000

**Student Discussion Question**

Given these research results and the other information in the case, what marketing advice would you give them in order to achieve their financial goals?

*Hint: In your response, you should look to prepare a financial forecast showing that your plan (advice) can deliver the profit goals for the firm.*