Product Management Decisions

Read the following case study on a hypothetical product manager for frozen pizza. They are faced with a strategic challenge for which way to growth the business.

If you were this product manager, what would you do?

Meet Larry the Product Manager

Larry is a product manager for frozen pizza for a large national firm. He is in his late 20's and is very career-ambitious. He knows that success in a product manager role will create opportunities for advancement. Therefore, he wants to be seen as one of more dynamic and high performing product managers in the firm.

In his firm, the key accountability of the product managers is the overall profitability of the products in their area of responsibility. The firm also has requirements for brand equity, market share, and sales growth – but these are secondary to the profit requirements. In order to meet the firm's profit targets for frozen pizza, Larry has embarked on a series of line extensions over the past three years.

He has also successfully argued for an increase in his promotional budget to support sales. (His argument was based on the fact that fresh, home delivered pizza was frequently discounted, which meant that frozen pizza no longer had a price advantage).

Therefore, he successfully argued that additional promotional funds were required to slightly reposition frozen pizza towards a 'planned purchase-impulse consumption' product (that is, for consumers to buy it regularly and always have it in the freezer 'just in case'). The following table summarizes the profit contribution for his frozen pizza portfolio:

Sales – supreme pizza	2,000,000	1,600,000	1,600,000
Sales – meat lovers pizza	1,000,000	1,000,000	800,000
Sales – cheese and bacon pizza	2,000,000	2,000,000	2,000,000
Sales – plain cheese pizza	1,000,000	800,000	800,000
Sales – vegetarian pizza	n/a	500,000	500,000
Sales – BBQ chicken pizza	n/a	500,000	500,000
Sales – hot 'n spicy pizza	n/a	n/a	250,000
Sales – pepperoni pizza	n/a	n/a	250,000
TOTAL SALES	**6,000,000**	**6,400,000**	**6,700,000**
Average profit margin	$2	$2	$2
Total Income	$12.0m	$12.8m	$13.4m
Marketing budget	$3.0m	$3.5m	$4.0m
Profit Contribution	**$9.0m**	**$9.3m**	**$9.4m**

As can be seen from the table, Larry has not really delivered significant increases in profitability. While he has maintained profitability in a more competitive market, he is not achieving his personal career goal of being seen as one the firm's best product managers.

Larry is pretty sure that he needs a new strategic approach. He now believes that he cannot rely on simple product line extensions for continued growth. His market analyst believes that each line extension cannibalizes existing sales. For instance, the new vegetarian pizza appeared to steal sales from plain cheese sales.

He also wants to review the marketing budget. While he is sure that the extra funds have helped maintain sales of most existing products, it is very clear that the marketing budget increases have eroded away virtually of the extra profit from the increased sales.

After several weeks of thought and analysis, he now believes that there are three main choices for his new strategic approach (listed in the table below). As each of the options has merit, Larry's dilemma is which one to choose. Can you help him decide?

Option One **Product Line Rationalization**	Larry has expanded the product line from four varieties to eight over the last two years. Obviously, this requires more promotion support. And as there has been clear cannibalization of sales, this should also work the other way around. Therefore, in this option, Larry plans to withdraw both the hot 'n spicy and the pepperoni varieties from the market. Hopefully, sales will be maintained as consumers switch back to the other varieties. A key component of this option would be to actually reduce the marketing budget (as there would be fewer products to support). Hence, profits would increase as sales are maintained and expenses are reduced.
Option Two **In-store promotion emphasis**	This option calls for a restructuring of how the marketing budget is spent. Instead of spending money on advertising, the majority of the budget would be allocated towards in-store promotion. With the discounting of fresh, home-delivered pizza, consumers no longer drive to the supermarket to get a frozen pizza to take home and cook immediately. Therefore, by using in-store promotion (rather than advertising), it is planned that the program will be more effective in reminding consumers to grab a frozen pizza or two. With this option, profits should increase through greater sales.

Option Three **New Pizza Products**	This option is a little more realistic about the limited growth potential of frozen pizza in the new competitive environment. So instead of trying to grow the 'traditional' market, perhaps they should look to develop new pizza products where home-delivered pizza cannot compete. Some possible examples are: • Frozen pizza in animal shapes – for kids' parties • Pizza in a self-heat bags – ideal for traveling and picnics • Add your own topping frozen pizza (all ingredients included, and consumers chooses which ones to put on) – for pizza exactly the way you want This is the most innovative option but is also clearly the most expensive and the riskiest.

Student Discussion Questions

1. If this were your decision, what would you do?
2. Would you implement one of the options listed – or your own approach?
3. Why is this option the best approach?
4. What future profitability would you expect from this approach?