Strategic Marketing -Contemporary Issues
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Lecture -7

We will start where we left off in the last session, we were discussing about formulating and implementing marketing strategy.

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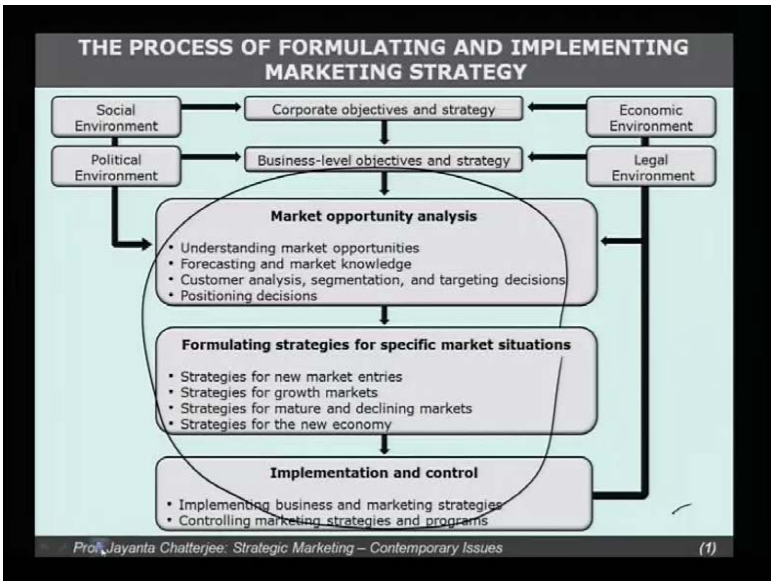

So, as you see we have now the topics that we will discuss today and in the next few sessions are topics relating to module 2 and module 3 in your course outline, which is marketing implications of corporate strategy decisions as well as competitive strategies of S B U's that is Strategic Business Unit is and the marketing implications.

So, within that if you remember we use this particular master diagram, where we said at the moment we have discussed enough about how corporate objectives and strategy and business level objectives and strategy are related, and how they are under the influence of the social, political, legal, environmental concerns. We will now focus on this market opportunity analysis and once that is done how it is converted into a marketing plan.

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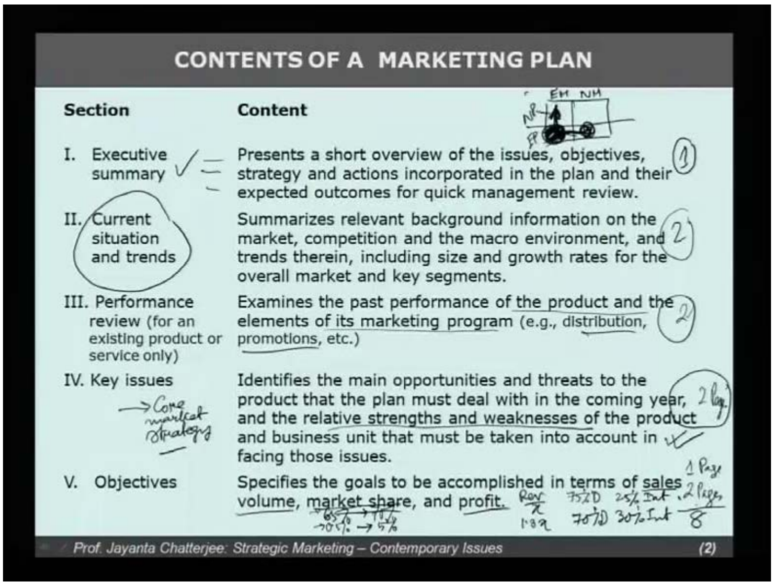

And what it consists what are their issues in the marketing plan and how it is to be constructed. We will take up a recent example, this is taken from one of the newspaper items which appeared I think just a few days back. It is about Woodland, you are all familiar with Woodland, we have been discussing about Bata, which has been a major player in the footwear and shoes market for last several decades.

On the other hand Woodland is a relatively newer trend of course, they have also been here, now I think nearly for 2 decades. And when they came into the market they positioned themselves as oppose to regular, formal or school shoes which were the staple items on the Bata offering. They came in as a companies specializing in tough shoes for rough use for rough terrain and so on. They had some technological propositions there they used what we called a special kind of leather and leather equivalent which needed very minimum care.

So, as oppose to normal shoes which need regular polishing and cleaning, these shoes were quite for a long usage without any particular care. They were quite amenable to getting wet quick drying. So, they were actually catering or aimed or targeted at the active market, active customers who were used to going on trekking, hiking or the they were also offering various kinds of walking shoes and alternatives from the basic proposition of adventure trekking, hiking applications.

That was the story, that was their claim to fame that is how they established their (( )), and you can understand therefore, that they were actually created a kind of a new category and this was the early stage. Now, as a company they are several decades, they have been in the market for 10, 15, 20 years and now like all other companies they need to grow. And they have to therefore, assess the options in front of them, and translate those options into marketing strategy options.

And let us look at this particular news item which from which I will read to you, it says adventure brand Woodland is set to venture into China this fiscal that is 2012. It is tough and challenging market, but it is a big market. We will initially go slow in the Chinese market, but with long term goals. This is quoted from Mr Herkeirth Singh Managing Director of Woodland, he was in Hyderabad to unveil the brands spring, summer collection. Please note some of the important issues that are coming up now, he was in Hyderabad to unveil the brands spring, summer collection. That means, this particular brand already has some temporal sensitivity; that means, there are certain time in the year at certain time in the year; that means, to maybe before the beginning of the holiday season. And before the beginning of the time of the year when people go out on treks, hikes and then getting engaged into the activities during the vacation. So, that is the actually in that time while unveiling the brands spring, summer collection comprising of Woodlands R N D let.

These are some of the some of the new products that they are talking about R N D. Let functional product line including sun protection, quick drying gear, apart from products for outdoor and adventure enthusiast that they have been marketing. The company has already carried out dry runs in China, it plans to introduce its products through shop in a store. Mark this point they are actually trying to introduce their products in China through shop in a store model.

I hope you understand what is a shop in a store; that means, a large department store there may be a particular stand identified with the brand of Woodland, and that is what we call a shop inside a larger shop or shop in a store strategy of retailing. It is difficult to straight away open own retail stores in China, but after a year or two we will plan our own Chain.

This was again quoted from Mrr Singh, Mr Singh does not see major competition in this segment in China interesting, but for some strong local brands are already present in this segment. Our surveys have shown that there is a demand for adventure related goods, we will plan setting up an assembly unit there as our market picks up. Currently, about 75 percent of Woodland products are sold domestically; that means, in India and the rest exported to neighboring countries.

It is also scanning potential markets in the African countries, Woodland is set to expand it is portfolio of offerings by including organic skin care products related to adventure outings. So, what is happening here the company has is reaching has been growing well, but it is now kind of reaching a point, where it knows that it will it might saturate. It may decline due to other companies coming into the fray due to players, like Bata coming into this market place new entrance to this market place.

So, as we have discussed they need to renew, their marketing effort to create new revenue opportunities, because like all companies they need to grow expenses are growing overheads are growing, so revenues must grow. So, options are clearly can be seen in terms of E P existing products, new products, existing markets and new market. As we have discussed a company is always occupying the segment which is existing products in existing markets.

So, one of the thing you need to do is current situation and trend analysis, so as given in that short write up that I read out to you. The current situation is that 75 percent of Woodland revenue comes from domestic market that is the Indian market 25 percent goes to neighboring countries. And therefore, that they are also looking at the opportunities of opening up this whole activity or thrust into the China market and it is also thinking about going to Africa and so on.

So, what does it what does it mean? It means it is this particular arrow; that means, taking existing products and going to the new market. This is not the only thing that they are looking at, they are also looking at taking the advantage of their brand image that they are associated with adventure with trekking, hiking, mountaineering and so on. They are also adding some products that will be normally needed like maybe sun care or sun lotion maybe insect repellants maybe quick drying, versions of their existing products.

And what they call is organic skin care products related to adventure outings. So, what is that? That is there is a market their current customers who are enthusiast of adventure of outdoor life now, they want to bring in new products to them. So, you see from this segment their current thrust is existing product to new market as well as existing product, new products to existing market. These are the 2 direction they are currently following, this is the normal pathway to revenue growth followed by most companies in a regular marketing plan.

This is what we normally call a continuous objective or continuous strategy, the new product for a new market as we discussed before is something that does not happen every year. It is something that is fraught with the highest level of risk and therefore, one has to be in an established company. This is something which is usually thought of very carefully before, the company gets into that sought of marketing thrust adopts that sort of marketing strategy.

So, if we want to develop a marketing plan therefore, now for Woodland, what is going to be there? So, it there will be a short executive summary, the executive summary could actually be almost taken extracted from this short write up that I read out to you that it will very crisply state that in the coming 24 months or 12 months or 15 months or 18 moths. Whatever, is their marketing strategy planning horizon the company has three major thrusts, A to get to the China market on a test marketing or on a gradual growth basis.

B it is one thing it is an R N D let strategy to introduce new products like, organic skin care or other quick drying, moisture resistant or footwear and other adventure wear products and so on. The third maybe the long term goal of exploring during this time the strategy that needs to be adopted to get into an Africa and such new markets. So, that is these 3 bullet points will be mentioned in the executive summary.

Then we will come the current situation and trend it will talk about how their current market position, their current market share and various kinds of strengths that they have already developed. And the threats that they face now from companies like traditional companies like, Bata coming into this market place. Newer companies like Nike or Addidas or all those other brands coming into this market place and creating variants from their product line into this market place.

Now, possibly at this stage when we are discussing current situation and trend one could devote a some space also to explore that why should Woodland not get into the market of Bata. Why should they not come out with formal shoes or school shoes or office going shoes which is not their current? But, they possibly have the manufacturing capability, the supply chain, the technical capability, to get into that market place right.

So, that is something maybe they have already evaluated that option in some previous marketing strategy report, but currently they could actually again revisit. If that was something as a parallel activity they had been looking at, then that is why it will be there is performance review. Where, it examines the performance of the product and the elements of it is marketing program; that means, it can look at if whether in the past.

They also tried to get into the formal wear market formal footwear market or school or institutional market or they try to get into the B 2 B market or business or institutional market like marketing to the army or marketing for industrial footwear and so on. If some of these things they have tried in the previous plan or these were some strategies they had actually talked about. So, this is the place where those earlier strategies and the result in the performance should be discussed.

Based on this then the key issues for the current plan identifies the main opportunities and threats to the product that the plan must deal with in the coming year relative strengths and weaknesses. Now, here as you can see as we have discussed before that it is not only about this marketing plan cannot be only about how they are going to take their existing products to the new market, or how they are going to bring new products to existing market. It also must talk about how they are going to protect, the core of their strength, cash flow, other financial strength, coming from the existing product in the existing market.

So, therefore, what are the core market strategy; that means, how are they going to deal with better distribution. What are the promotional strategies that will take care of this relative strength and the weaknesses of the product. All that must be covered in the key issues, so objective wise then in terms of sales volume, market share and profit definitions will have to be clear cut objectives will have to be set. So, it could be that they are they are looking at currently their distribution is 75 percent domestic and 25 percent international.

So, here they may have objective of and their revenue currently may be x. So, they may be talking about 1.3 x as the revenue growth and they may say that they would like to achieve a 70 30 distribution of in domestic versus international. Because, of this derived out of this China plan which they have talked about. So, and they have to talk about their current market share, so maybe in this their chosen market which is adventure activity this tough shoes for rough use type of market.

In that market maybe today they have a 65 percent market share, I am just using arbitrary numbers. So, 65 percent and they may say that they would like this market share to remain at 65 percent share or they know that when you are at 65 percent you cannot go to 80 percent that is tough that may not be always prudent. So, they may say they would like to get to 70 percent and they may say that in China their current market share maybe 0.5 percent and they would like to get a 5 percent market share.

Because, starting from a starting from a low base that is a possible, because as it is mentioned in this write up. That they do not see our survey had shown that there is a demand for adventure related goods and also they feel that there is not much major competition in this segment in China, but for some local brands. So, if today they have practically nothing from there to aim at 5 percent market share, now remember always whenever we are talking about the share.

The share is the share of the address market or the served market some of these terminologies we have discussed before and how one should be brutally honest and sincere while defining these, but we will again discuss it. And that, so today when they are of course, here in this write up very clearly talking about the adventure footwear and related other adventure active life products like skin care and so on.

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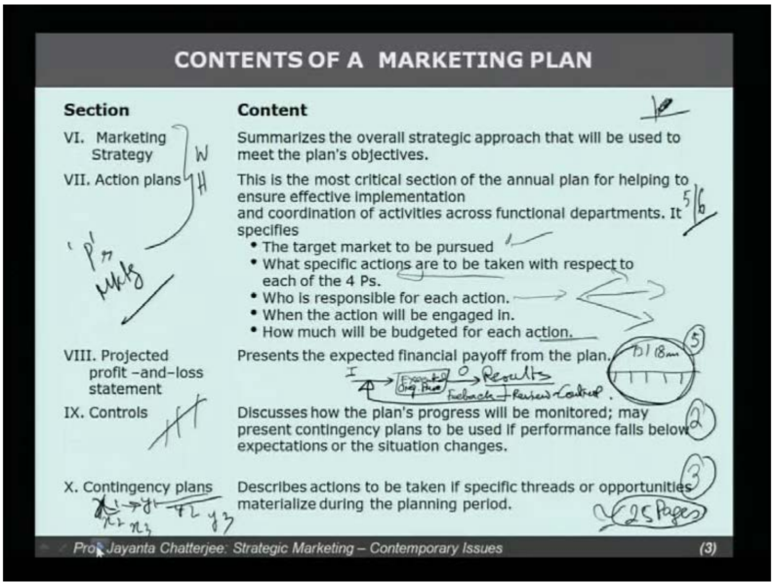

Then what happens next, what are the other parts of this? Now, comes marketing strategy, summarizes the overall strategic approach that will be used to meet the plans objectives. Now, this is normally therefore, it must answer for this for 5 6 and 7 part which is the marketing strategy and action plan, one can quite use those W and H questions. As somebody says 5 wives and 1 husband questions; that means, who will be the customer?

When and how they will be reached and where they will be offered? So, all these questions are as you saw it is written in the that small press statement, that they will follow the store in the store shop in the store strategy. So, that answers your where will the product offer and who will be the target customers? So, these could always also be actually projected by way of those what we call the famous ‘P’s of marketing. And coming from your fundamentals of marketing course, I am sure you are quite familiar with that.

That means, here we have a clear definition of the product the product range are adventure where, activity where, shoes, hiking, trekking, mountaineering, types of tough shoes for rough use and associated products like, skin care on outdoor trekking routes etcetera, sun lotions and so on. and so forth. And with a special unique proposition that of the organic variety or the herbal variety and so on.

So, that is your P; that means, what is the product that is considered in this plan the place; that means, how we will reach the customer the distribution strategy is this shop in a store strategy. Currently, therefore leveraging relationships with other big stores, departmental stores and super markets as the case maybe, but with the plan of opening their own stores in the near future. So, this is the with respect to place we do not have much data about pricing here in this write up, but one can guess based on the situation that they will be in China market.

They will be they are saying they are not much often competition and there accepts for some local brands and there is a growing demand. So, perhaps the pricing strategy will be somewhere here; that means, at the introductory stage in the China market. Now, as you can clearly see this marketing strategy has to therefore, look at differential pricing strategy; that means, that the pricing strategy in China which is the entry market there are some entry expenses entry marketing investments, so one will have to recoup those investments.

On the other hand the pricing strategy in the domestic market maybe to some extent defensive or retention oriented. And of course, in the domestic case the other P which is the purchaser or the buyer or the consumer again. There will have to be strategies with respect to because this is in the domestic market they had already they have customers over the last 15 20 years. So, they have to have now at this time some customer intimacy, some relationship, some add on benefit, enhanced value propositions for such customers.

You know sometimes it is done through that you bring in your old shoes get some discount on the newest style or newly developed special range and so on. And these are all customer intimacy customer relationship strategies, so that your customer does not go away to another brand lured by some newer offerings. So, you have to continue to add value to what you have been offering to your existing customers and have relation and bring them in.

And you know keep on providing them additional opportunities to buy products from you be the original one which is footwear or these newly associated R N D products like the skin care outdoor care and so on. So, therefore, this kind of talks about the target marketing to be pursued what specific actions are taken with respect to this place promotion price packaging and so on. Who is responsible this? Where to be internally you have to assign responsibilities to different?

And when the action will be engaged? What will be the time frame? How much will be budgeted for each action? And then from this will emerge the financial plan, we will discuss several issues relating to the finance plan in the subsequent session. And of course, as I have discussed several times during the previous sessions that a plan can be brilliant, but it can be totally barred by bad execution. So, therefore, monitoring, controlling, checking at milestones.

If it is an annual plan for 18 months or 12 months, you need to review it maybe, if it is China where it is a new entry plan maybe you need to review every month. In the early phase whereas, in the domestic market where it is in a strong position may be it should it must review every 2 months or every 3 months. You cannot rest on your laurels because you have 65 percent market share in the Indian market. Always there are others who are trying to nibble and trying to eat into your market, so you need to therefore, review and control and take corrective action.

So, it is therefore, in some way you can look at that there is A the plan is an input and as that plan is getting executed. The whole organizational process is involved in that and as there output, so if this is the input the output are all the results that are coming in from market place the revenues and so on. And this need to be must there must be a clear feedback loop, feedback review control loop. And all good plans must have contingencies as I discussed in the previous session, it must have if then analysis.

That if the domestic market is under high pressure due to entrant of three new players and if the domestic market share is declining then it needs to do some special promotion. It may need to do some special relationship oriented communication with their customers, it may need to tweak their pricing plan in the domestic market. And at the same time if suppose in the China market the original stores where, they which were chosen for shop in the store.

If after 6 months it is found that it is not exactly jelling, then one may have to change the relationship align strategy there. And you may have to go to other retailers or you may find that the off take is, so fast or the product is it often happens. That means, there is on every plan there will be often can be an upside, there can be downside. So, if there is an upside that the products are flying off the shelf as soon as you know over the first 3 months show rapid adoption by Chinese customers of Woodland products.

Then you may have to accelerate your plan of starting your own stores or speeding up your local manufacturing and sourcing process and so on and so forth. So, you see therefore, you need to have a whole set of contingency plans that if x happens then what is the y set of action that you need to take. If x 1 x 2 x 3 these are the different scenarios then y 1 y 2 y 3 are the different action plans.

So, that is kind of a short discussion or introductory discussion on marketing plan the components of the marketing plan and how the different components are related and how the development of the marketing plan is related to the concepts that we have already discussed which is which are mainly product lifecycle the hands of matrix. And of course, the previously a previous concepts that you must have from the fundamentals to of marketing or basic marketing course like product, price, promotion, place, purchaser and all those issues.

And all of that will become your building blocks your inputs to create your marketing plan. So, again to recap your marketing plan will have a crisp executive summary, so a good plan I would say that you should have maximum 1 page for this section. The current situation and trend analysis maximum 2 pages, if I am using Woodland as an example. The projected profit and loss statement presents the expected financial payoff from the plan.

So, that the performance review what has happened in the past, the past years plan the past periods strategic plans and etcetera, again maybe 2 pages. And key issues on which the current plan is based I would say 1 to 2 pages, because it identifies the main opportunity and threats to the product. And that the plan must deal with relative strength maybe we should take 2 pages, objectives again it should be very clear crisp and I would say ideally it should be in 2 pages or better maybe 1 page.

So, we get about 5 7 about 8 pages for the first 5 sections and then comes the marketing strategy action plan etcetera, this possibly will consists of about 5 to 6 pages. And projected profit and loss statement maybe another 5 pages for the different parts domestic market action and the corresponding financial payoff. And then the new thrust into the China market maybe another set of financials and then of course, some what we call milestones.

That means, what will be reviewed after 1 month what will be reviewed after 3 months, what will be reviewed weekly, what will be reviewed quarterly, all these things need to be defined, so may be another couple of pages. Contingency plans need not be that could be become a supplement or it could be a short, there should not be many escape routes or maybe you know 3 scenarios, 3 if then sets of analysis will be enough, so 8 pages plus 6 pages 19 21 23. So, roughly about the whole marketing plan should be 25 pages.

I would request you that take up any company look into any newspaper business journal and try to at least develop this first 5 sections of a of a marketing plan that you would like to present to the top management of that company. Obviously, you need more data to develop these subsequent sections, but at this stage with the knowledge that you have from your previous courses in marketing and our discussion so far you should be able to develop this a plan on this 5 first 5.

So, we discussed the key components of a marketing a strategic market plan, we discuss the case of Woodland. And it is current new thrusts in the China market, it is objectives of retaining it is dominant market share in it is chosen market Nish which is adventure and outdoor activity, footwear and related products. And how they should what are the different parts of that marketing plan? How they should go about it, we discussed. One of the thing was that part of the marketing plan was the financial plan.

Now financial plan; that means, if the revenue, cost of goods sold, gross profit, net profit, break even volume all these we have discussed in earlier sessions. These are the key components of the financial analysis that will be contained in the marketing strategy plan. And they that will be divided in there should be one set of financials for the domestic market.

There should be another set of financials for the new thrusts in the China market there should be another set of financials for it is existing international market which is 25 percent of their current revenues coming from their effort in neighboring markets and so on. But, I am now going to discuss some important issues that are often not exactly considered because you might be actually just showing a plan, revenue plan for product A product B and product C in the domestic market for a company.

And you show the revenue for each one of those product lines and then you show the you know the corresponding causes and corresponding gross profit net profit and so on and so forth. But, what often happens is that if you introduce a new products, it might eat into the market of your existing product. Like; that means, the revenue that you are getting from product new product line B is not entirely new revenue, part of that revenue. You would have got from your original product a to understand this concept, we will introduce we will just take a very easy to understand case of toothpaste.

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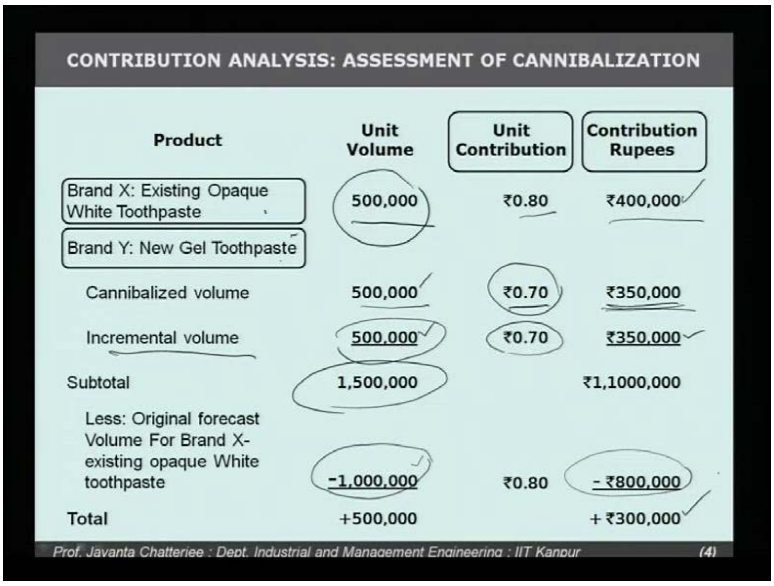

As we have discussed previous session that even 10 years back the only kind of toothpaste that was available was the white toothpaste in maybe 3 different sizes. Today if you go to the store you will find perhaps more than 50 different varieties of toothpastes in terms of color composition and green, green and red, blue. The original white and now you may be getting in it 6 different sizes, there may be trial packs at 5 rupees and there may be jumbo packs that 300 rupees and so on and so forth.

Now, if we take this existing opaque white toothpaste and we look at the new entrant which is a gel toothpaste transparent with mouth freshening as the key value proposition and aimed at the youth market. Then it is not this unit volume, so what is happening here that the original volume is 5,00,000 cannibalized volume maybe 5,00,000 and incremental volume is 5,00,000.

So, the total is 101.5 million and which is if it is; that means, the original forecast was of 1 million which is which belongs to this existing opaque white toothpaste out of that 50,000, 5,00,000 or a half a million has been has been cannibalized. So, the incremental sales maybe 100,000 for the new product, but that new product 5,00,000 is incremental, real incremental and 5,00,000 is actually replacing the older. So, what happens therefore, suppose the original wise it was 100,000 at 0.8 this was say 8,00,000 rupees was the original forecast.

Now you are getting 5,00,000 at 0.8 which is the original product; that means, out of 1 million you still have 5,00,000, so that is 4,00,000 rupees. And cannibalized volume of 5,00,000 that you have received and now this is new where the unit contribution is 0.7, so you are now getting 350,000. And the incremental that you have got from the gel toothpaste which is 5,00,000 again at 0.7 which is 350,000. So, I will repeat our original forecast was 1 million of the original opaque white toothpaste, but maybe the marketing people were not totally confident of that particular 100,000, 1 million forecast.

And this new product was felt as necessary to be introduce to protect market share or to defend against new entrance and be in tune with the emerging market demographic. So, 1 million out of that only 5,00,000 is now the original opaque white toothpaste at 0.8 per unit contribution leads to 4,00,000 rupees 5,00,000. Coming from the gel, but which is actually coming out of these original hundred 1 million forecast at 0.7 leads to 3,50,000 and this is the incremental volume this is coming to 3,50,000.

So, maybe the overall growth is 1, 50,000, but from that, so instead of 1 million it is now 1.5 million, but from that we have to deduct the original 8,00,000 that was expected. So, the incremental in rupees is 3, 00,000, it is not this 1.1 million is it clear; that means, I might have a revenue now in a composition of product A and product B, but 1 must not forget that that incremental or the total revenue has within that certain amount of cannibalization.

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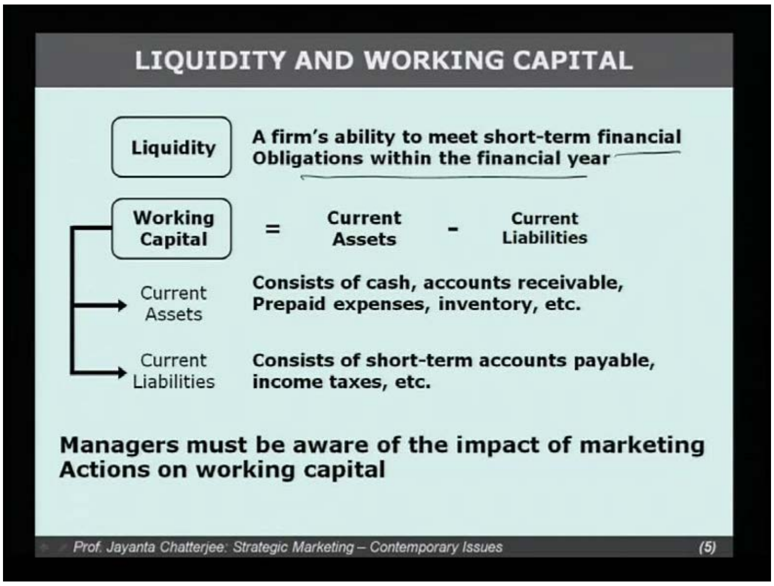

And that therefore, 1 has to look at in this particular type of, so this is something when we have new products being offered to the existing market. Sometimes, this part of the financial analysis we forget and this is very important otherwise we might get false picture. Another concept that is very important is this concept of working capital and liquidity. So, liquidity is a forms ability to meet short term financial obligations within the financial year.

So, this is something one has to look at the cash flow to see that you are able to pay off your current bills and your current rents and your current salaries to that extent your plan must not get everything tried into some kind of future income that is going to come, because you have to live every day. So, this is an important part, so marketing plan which ties up a lot of resources, where revenues will be generated at a later period of time should not overlook.

This need of liquidity that must always flow into the companies offers to maintain it is present commitments. So, the working capital concept I am sure you already know from your introductory course in finance is the difference between the current assets and current liabilities. Current assets are your cash in hand account receivable prepaid expenses; that means, advances that you might have paid and inventory etcetera. And current liabilities are your accounts payable and income tax that you have to pay and many other routine over head type of expenditure that are sometimes clubbed under this heading.

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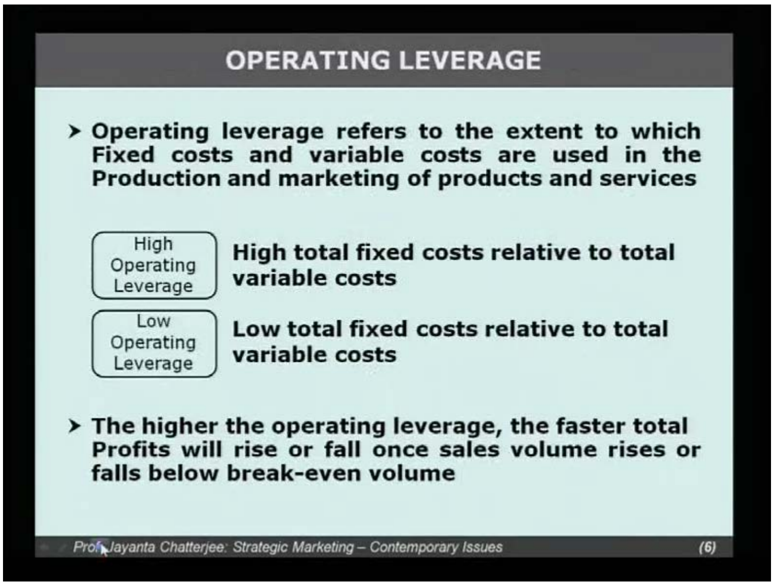

And this is to be financed is we have to constantly see that the marketing revenues are flowing in into the system. So, that this need of the working capital can be met not by borrowing usually there will be always a gap between this current asset and current liabilities. To that extent it needs to be financed that is why we borrow working capital borrowing, but that; obviously, be with interest.

So, the better or is your marketing velocity, your rate of turnover better will be working capital performance and what does that mean marketing. Therefore, has a role to play, so that the accounts payables are quickly collected sorry account payables are delay to the extent possible and account receivables are quickly collected. And similarly one has to see that the inventory should be as minimized and should be as low as possible and so on and so forth.

This in a introductory finance course all these working capital management strategies you would have already discussed. But, from a marketing stand point the another important concept whenever we are looking at the marketing plan of option A option B remember I was just now talking about the contingency plans for the different scenarios.

Referring to our previous discussion on break even volume and fixed costs and variable costs, I introduce you to you now 2 important concepts 1 we call high operating leverage which means a high total fixed costs relative to total variable cost. And the other is low operating leverage; that means, low total fixed costs relative to total variable costs.

So, what happens if you have a high fixed cost it means your break even volume will be going upward, if you have low fixed cost it means your break even volume will be going downwards. The marketing plan wise what is very important is to is to note this point that the higher the operating leverage, the faster total profit will rise or fall with respect to the sales volume rise or fall. That means, the sensitivity of the profit line will be much higher if you have a higher operating leverage or; that means, high fixed costs.

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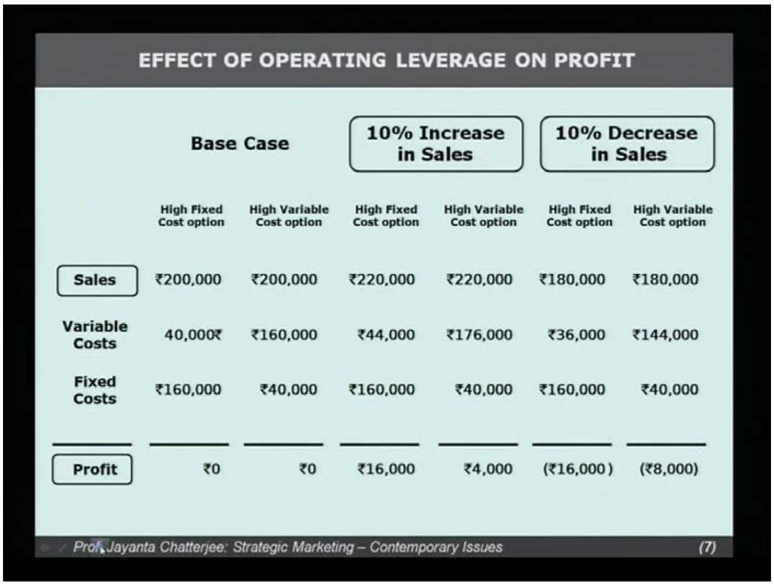

Let us look at an example how that happens, let us take the two options this could be two product lines right. For example, it could be a product line which you have to start you have to manufacture yourself versus another plan where you are actually sourcing it. Even in the Woodland plan that we have discussed, if you look at the China plan one plan is that they start local manufacturing which means that they have to incur new fixed costs by way of setting up plant machinery and so on. Another is they source the product from they are domestic manufacturing facilities in India, but of course, in this case the costs will go up because of the transportation because of storage along the supply chain. And therefore, all the costs associated with inventory in the pipeline and so on and so forth. So, therefore, in one case we are taking the same sales volume 2,00,000, in 1 case it is high fixed cost. And therefore, we are looking at 80 percent fixed cost, because this is coming out of your own plant, your own manufacturing in China.

And the variable cost of course, it will come down because you are locally sourcing material locally manufacturing using local labor. And let us assume that therefore, the variable cost is 20 percent and, so that is 40,000 rupees, if 2,00,000 is the sales volume. And in this case where actually we are sourcing this is the high variable cost and low fixed cost option. That means, we hardly have any manufacturing facility in China, but we are mostly doing maybe just some local assembly work.

The most of the key parts coming from the Indian plants, but in this case the variable cost goes up and that is almost 80 percent. So, as you see here the scenario is at sales of 2,00,000, there is no profit in 0 profit in either alternative. Now, let us see what happens if 10 percent increase in sales, so 2,00,000 becomes 2,20,000 for both options, because 10 percent increase in sales. This is marketing contribution marketing effort has created 10 percent increase in sales.

And variable cost 45,000 20 percent variable costs in this case is 1,76,000 fixed cost 1,60,000 same as here fixed cost 40,000 same as here that does not change whether the volume goes up or down. And you see here because this is a high fixed cost option the profit is 16,000 versus 4000 here, but if the sale goes down by 10 percent. Then what happens this 2,00,000 becomes 1,80,000 and in either alternative, variable costs is now in this case 20 percent 36,000.

In this case 80 percent of that 1,40,000 fixed costs remains the same 1,60,000 and 40,000 same as here, same as here. And you see here now the profit in high variable cost option is you have already the high fixed cost option is minus 16,000 where as the high variable cost your loss is 8000. So, the loss climbs faster or the profit climbs faster depending on, so if your sales goes down. Then in an highly leveraged plan there is a rapid loss, if the sales goes up there is a rapid climb in the profit line.

This is what we call leveraging and this is an important concept, so 2 additional concepts that we have introduced, when you are looking at your financial for a marketing strategy plan. One is whether there is a cannibalization effect; that means, what we are projecting as revenue from your new activity whether that is already eating into your existing activity and to some extent. Therefore, some revenue that you would have got anyway is now getting replaced by your new revenue and the new revenue usually as a higher cost.

And therefore, the contribution margin contribution will be lower and you have to look into that impact. It may actually give more about incremental volume, but it might be coming at a lower profit margin and that effect must be considered that when you are doing your marketing plans sensitivity analysis. And the other important point we that when we are looking at the different options option A option B option C the contingences plans your marketing strategy you must be clear about this leveraging.

That means, high leverage versus, low leverage remembering that high fixed cost oriented marketing plans will have will be more sensitive to sales volume. So, their sales forecasting therefore, have to be much more accurate, otherwise you may be rapidly incurring huge losses in this scenario if your forecast dives down. We will continue with the next set of topics in the next session.

Thank you.