



**music2go**

**A Marketing Simulation**

**music2go Players Manual**  
**WebSim**



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## CHAPTER 1

# Introduction and Overview

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## What Is music2go?

Music2go (m2g) is a computer-based marketing simulation. It can be used as an interactive tool to enhance the integration and learning of the basic concepts of marketing in a simulated portable music player (PMP) industry (i.e. mp3 players).

Music2go will give you the opportunity to have practical hands on experience at making critical marketing decisions and seeing the outcome in a live, interactive case study.

## Learning Objectives

By interacting in this simulated marketing environment you will learn:

- The standard terms and concepts of the marketing mix; product, price, promotion and place (distribution).
- To think of marketing planning as planning the integration of these components in an integrated marketing communication (IMC).
- To develop both a strategic marketing plan and annual marketing plans for an organization
- To analyze market research data to support the planning process
- To evaluate marketing performance using marketing cost analysis.
- Many key quantitative skills for marketing management.

Music2go is designed for use in many different ways and at different levels within universities and corporations. simulate the marketing decisions of a company in the portable music player (PMP) industry and require you to make comprehensive decisions about the marketing mix of product, price, promotion and place.

## music2go WebSim

In the Multi-Player WebSim version, you will compete against other student teams within a 4 to 7 Firm Industry competing for the highest CNMC (Cumulative Net Marketing Contribution).

- The WebSim requires an Internet connection to be open before logging in. Your decisions are updated immediately and saved on our servers. This allows you to

login to make decisions for your firm from anywhere where you have a computer with access to the Internet.

- All members can login to view their Firm, results, reports, and make decisions at any time. However we recommend that you select one team member to enter your final decisions to avoid confusion.
- Moving from one year (decision period) to the next is done by automatic rollover on preset dates set by your Instructor. Before each of these scheduled times your team needs to have all decisions for the upcoming year entered into the Multi-Player version. At the decision deadline time the simulation will be processed (rollover) and the decisions you have saved at that point will be automatically processed.

## Getting Started

- 1 Go to the Smartsims website, [www.smartsims.com](http://www.smartsims.com), and login at the top right using the login details provided to you by your Instructor. This will take you through to your Course Page. If you do not know these details you can request them through our website.
- 2 If your course requires you to make payment for use of the simulation you will be prompted to click on "I need to register" link". Follow the on-screen instructions to register and make payment (credit card or check). If payment has been made by your Institution you will be taken directly to your Course Page.
- 3 We recommend that you view the screenshot presentation available to you on your Course Page for more on the basics of navigating the game, making decisions, and processing decisions.
- 4 You will be emailed by Smartsims with your multi-player login details. Once you have received these, go to [www.smartsims.com](http://www.smartsims.com) and login again using these new details.
- 5 Once logged in, you can launch the Multi-Player game. Simply click on the "WebSim" menu item on the left hand side of your coursepage, and then click the "Launch FirmX" button to begin the browser based simulation.
- 6 Once logged in, you will see that if you click your way through the menu tree items on the left-hand side, you can see the various reports and decision areas available to you so work your way down. You will note that some menu tree items can be expanded by clicking the (+) symbol. When viewing the report menus, click on the drop-down menu at the top of your screen will allow you to view further reports.
- 7 When you enter a decision, ensure that you click the "Apply" button so that the decision is stored on our servers for processing.

## Net Marketing Contribution: Performance Measurement of Music2go

Net marketing contribution is the amount of profit remaining after manufacturing (cost of goods sold) and marketing expenditures have been deducted. The only costs still to be deducted are other functional overhead costs for your firm, e.g. finance, administration etc.

Net marketing contribution is a measure of how profitable your firm is as a result of your strategic marketing plan. There are two ways that you can increase your net marketing contribution:

- Increase Gross Margin without increasing your marketing expenditure
- Reduce Marketing Expenditure without reducing your Gross Margin.

How you achieve that is the challenge of m2g.

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## Company Overview

The section below gives you an overview about the history of your m2g firm; it's organizational structure and how your performance will be measured now that you have been appointed Vice President Marketing.

### History

Your m2g firm is the portable music player (PMP) division of a larger audio equipment corporation. Traditionally your corporation has been very strong in the household audio market and five years ago, your division was created to launch an assault on the portable music player market. However, after strong initial growth your m2g firm has been losing sales growth momentum over the last two years.

After another disappointing year end result of failing to meet sales forecasts you have been appointed Vice President Marketing to lead the management team directing sales, marketing and distribution for the portable music player (PMP) market.

Your challenge is to take your existing starting position and to build your m2g firm into the dominant player in the PMP market as quickly as possible.

### Organizational Structure

Before beginning to plan how to run your m2g firm you need to understand how it is organized.

There are several decision areas in m2g that you will need to become familiar with:

- Product Development - whether to upgrade existing products and/or launch new ones.
- Price - what price to charge for each of your products and which retail channels to distribute it through.
- Advertising - which media to place advertisements with for each product.
- Sales Promotion - what sales promotion activities to run for each product.
- Sales Force Management - what size sales force to have for each retail channel.
- Inventory Management - how much stock to keep in hand of each product.

In m2g, you will be competing directly against several teams from your class (typically four other teams). Each team will start in exactly the same position as you with exactly the same type of firm, products and results. Your course instructor will explain what the goals of the simulation are to you but typically, you can expect to be required to try and maximize cumulative net marketing contribution within a limited number of decisions.

The combined actions of all of the firms in the market affect the performance of the whole industry. For example, if everybody discounts price then more consumers will buy PMPs, and vice versa.

## ORGANIZATIONAL STRUCTURE

How you organize your team, is generally left up to you to decide unless your course instructor has a preferred structure that he/she requires you to follow. In general, there are two broad possible approaches to managing your m2g firm:

**Functional Manager approach** each member of the team takes individual responsibility for a particular functional decision area, e.g. Product Development Manager, Advertising Manager, Sales Promotion Manager, Sales Manager (Pricing and Sales Force Management), Inventory Manager, General Manager. The advantages of this structure can be that everyone is required to become a specialist in their own area and to make recommended decisions for their function. The disadvantage is that some areas are more exciting than other, e.g. pricing is often more exciting than inventory control. You also have a limited budget so you need to agree on a budget meeting to allocate maximum budgets to each functional area.

**Product Manager approach** - you start making decisions as a group but as each new product is launched (you are allowed a maximum of 6), you appoint someone to be product manager and to make recommendations for all aspects of marketing that product. The remaining members take the role of general manager, allocating budgets and monitoring the performance of the whole firm. The advantages are that the product managers get to try to control all functional aspects of marketing a product and the disadvantages are that some products will be more successful than others. This could generate friction within your team and it will take several decision periods to launch enough products for everyone to have one.

## Managing Your Firm

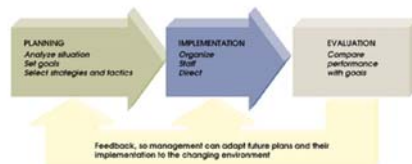
The management process, as applied to marketing, consists of:

- Planning a marketing program,
- Implementing it,
- Evaluating its performance.

This process is depicted in the figure below

Figure 3: The management process in marketing

The management process in marketing.



The planning stage includes setting goals and designing both strategies and tactics to reach these goals. The implementation stage entails designing and staffing the marketing organization and then directing the actual operation of the organization according to the plan. The evaluation stage consists of analyzing past performance in relation to organizational goals. This third stage indicates the interrelated, ongoing nature of the management process. That is, the results of this stage are used in planning goals and strategies for future periods. So the cycle continues.

The rest of this manual will concentrate on taking you through the three steps of the management process in more detail.

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## Testing My Decisions

### **FORECASTING**

In a typical M2g year you will review your previous year's performance by reading the Industry Overview Reports and Firm results reports, and formulate a set of decisions based on this data. You will then enter your decisions in each screen and review your Forecast Results reports. If you are not satisfied with your forecast results then you repeat the process of planning your decision set and forecasting sales.

We recommend that you focus on accurate forecasting. There are numerous reports available to aid in forecasting and to compare your actual performance to your previous forecasts.

## CHAPTER 2

# Planning

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## What Is Planning?

At the strategic planning level in m2g, you need to match your m2g firm's resources with its market opportunities over the long run. A long-run perspective does not mean that plans can be developed or executed in a sluggish manner. The term strategic window describes the limited amount of time in which a firm's resources coincide with a particular market opportunity. Typically, the "window" is open only for a relatively short period. Thus in m2g, your firm must be able to move rapidly and decisively when a strategic window opens.

### MISSION

An organization's mission states what customers it serves, what needs it satisfies, and what types of products it offers. A mission statement indicates, in general terms, the boundaries for an organization's activities.

To be useful, a mission statement cannot be either too broad and vague or too narrow and specific. To say that a firm's mission is "to benefit American consumers" is vague; to state that its purpose is "to make tennis balls" is overly narrow. Neither statement outlines meaningful benefits for customers or provides much guidance to management. Unless the firm's purpose is clear to executives, strategic planning is likely to result in disagreement and confusion.

For example if your m2g firm decides to target the Youth segment, then in product-orientated terms you mission would be "we make portable music players for the youth market". A more marketing orientated approach would be "to create affordable fashionable portable music players so today's youth can listen to music on the go". However, you need to remember that if you use a word like "affordable" then that means that your customers should not expect your products to be the most expensive in the market.

### OBJECTIVES AND GOALS

An objective or goal is simply a desired outcome. Effective planning must begin with a set of objectives that are to be achieved by carrying out plans. To be worthwhile and workable, objectives should be:

- Clear and specific.
- Stated in writing.
- Ambitious, but realistic.
- Consistent with one another.

- Quantitatively measurable when possible.
- Tied to a particular time period.

For example, for your m2g firm:

Weak (too general)	Workable
Increase our market share	Increase our market share to 45% from its present 40% level
Increase our net marketing contribution	Increase our net marketing contribution to 20% from its present 15% level

## STRATEGIES

The term strategy was originally associated with military operations. In business, a strategy is a broad plan of action by which an organization intends to reach its objectives and, in turn, to fulfill its mission. In m2g, the relationship between objectives and strategies may be illustrated as follows:

Objective	Possible Strategies
Increase our market share to 45% from its present 40% level	1. Enter into a new market segment
	2. Increase marketing support for our products

In m2g, you will often find that your competitors have similar objectives to your firm, e.g. increase market share by 10% over the next 3 years. Some competitors will choose identical strategies to you while others will choose contrasting strategies. If every firm makes exactly the same decisions then you will all do equally well, and the key to strategy in m2g is trying to decide, given the strategies my competitors are employing, what is the best strategy for my firm to follow to achieve our objectives?

## TACTICS

A tactic is a means by which a strategy is implemented. A tactic is a more specific, detailed course of action than a strategy. In m2g, a tactic is the decision that you intend to make this year (decision period) to implement your current strategy. For example:

Strategy	Tactics
Enter into a new market segment	Launch a new product
	Fund a promotional campaign targeting consumers in that segment
	Increase your sales force in the retail channels favored by this segment to increase your distribution coverage

To be effective, a tactic must coincide with and support the strategy with which it is related. You will experience difficulties making decisions in m2g if you find that to achieve the objectives that you have put forward you need to have opposing strategies and tactics. For example if you are trying to simultaneously increase market share and increase your net marketing contribution, then it will be a difficult balancing act between funding increased marketing budgets while growing sales quickly enough to still allow your net marketing contribution to grow.

### **SUMMARY - KEY PLANNING QUESTIONS**

The concepts of mission, objectives, strategies, and tactics raise important questions that must be answered by an organization seeking success in business or, more specifically, in marketing. These questions can be summarized as follows:

Concept	Question
Mission	What business are we in?
Objectives	What do we want to accomplish?
Strategies	In general terms, how are we going to get the job done?
Tactics	In specific terms, how are we going to get the job done?

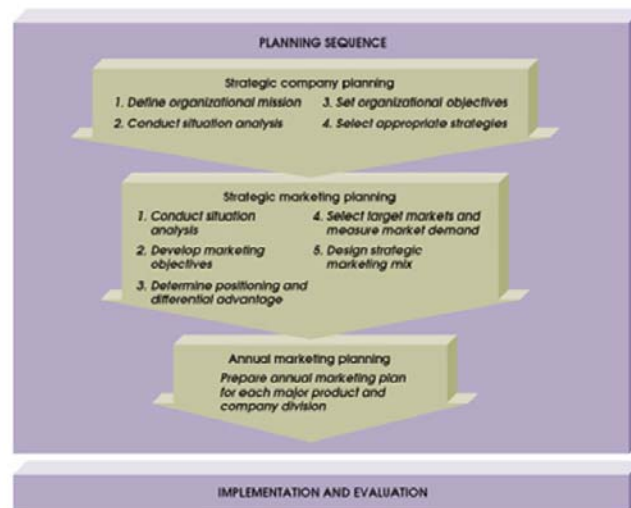
## Three Levels of Planning

Planning may cover long or short periods. Strategic planning is usually long range, spanning, five or even more years and deals with company-wide issues such as expanding or contracting production, markets, and product lines. Short-range planning typically covers one year or less and is the responsibility of middle- and lower-level managers.

Planning your m2g firm's marketing strategies should be conducted on three different levels as shown in the figure below:

Figure 4: Three levels organization planning

Three levels of organizational planning.



In m2g, you are required to create your firm's strategic company plan. Normally a company would then be required to create second tier plans for each of the functional areas, e.g. Finance, Operations etc. However you are only responsible for the marketing performance of your firm so you will only be required to create the Strategic Marketing Plan and an Annual Marketing plan for each year (decision period) of the simulation.

## Strategic Company Planning

Strategic company planning consists of four essential steps:

- Define the organizational mission.
- Analyze the situation.
- Set organizational objectives.
- Select strategies to achieve these objectives.

The first step, defining the organizational mission, influences subsequent planning. As described earlier you need to write a mission for your m2g firm that states what customers you will serve, what need you satisfy, and what types of products you will offer.

Conducting a situation analysis, the second step, is vital because strategic planning is influenced by many factors beyond and within an organization. A situation analysis consists of gathering and studying information pertaining to one or more specified aspects of an organization. In m2g, you only have direct control of the marketing function, so we will describe how to approach the situation analysis in more detail under the strategic marketing planning section below.

The third step in strategic company planning, deciding on a set of objectives, guides the organization in fulfilling its mission. Objectives also provide standards for evaluating performance. In m2g, your key objectives will be set by the marking criteria for this assessment activity in your course. You will need to supplement these key objectives with other supporting objectives that will help you to achieve your goals.

By this point in your strategic planning process, you will have determined where your m2g firm wants to go. The fourth step, selecting appropriate strategies, indicates how your firm is going to get there. Organizational strategies represent broad plans of action by which an organization intends to fulfill its mission and achieve its goals.

## **Strategic Marketing Planning**

After planning for your m2g firm as a whole, you now need to lay plans for marketing the functional area that you are directly responsible for. Of course, the firm level mission and objectives that you wrote above will guide your strategic marketing plan.

Strategic marketing planning is a five-step process:

- Conduct a situation analysis.
- Develop marketing objectives.
- Determine positioning and differential advantage.
- Select target markets and measure market demand.
- Design a strategic marketing mix.

Each step is discussed below.

### **SITUATION ANALYSIS**

The first step in strategic marketing planning, situation analysis, involves analyzing where your m2g firm's marketing program has been, how it has been doing, and what it is likely to face in the years ahead. Doing this will enable you to determine if it is necessary to revise the old plans or devise new ones to achieve your firm's objectives.

Situation analysis normally covers external environmental forces and internal non-marketing resources. A situation analysis also considers the groups of consumers served by the company, the strategies used to satisfy them, and key measures of marketing performance. Due attention should be given to identifying and assessing competitors that are serving the same markets. In addition, as often stressed by consultants, it's important to "get out of the box"-that is, to develop new perspectives on the organization's core activities and to question assumptions about how it does business (assumptions such as "we must offer competitive prices"). Situation analysis is critical, but it can be costly, time-consuming, and frustrating.

The Market Overview chapter in this manual will provide you with information giving you a broad overview of the m2g market place. You also have information available in reports in the simulation itself and the opportunity to purchase market research about key areas of competitive intelligence, e.g. sales figures for competitors.

As part of a situation analysis, many organizations perform a SWOT assessment. In this activity, a firm identifies and evaluates its most significant strengths, weaknesses, opportunities, and threats. To fulfill its mission, an organization needs to capitalize on its key strengths, overcome or alleviate its major weaknesses, avoid significant threats, and take advantage of promising opportunities.

As each year passes in m2g you will need to review both your strategic marketing plan and your situations analysis, it is important to understand that this is not a static document. Your experiences during the simulation will shape and change your assumptions and perspectives about your firm and the m2g market place. This will lead to new opportunities and strategic windows opening for you as long as you are still looking for them.

## **MARKETING OBJECTIVES**

The next step in strategic marketing planning is for you to determine your marketing objectives. Marketing objectives should be closely related to your m2g firm's company-wide objectives and strategies.

You already know that strategic planning involves matching an organization's resources with its market opportunities. With this in mind, each marketing objective should be assigned a priority based on its urgency and its potential impact on this area and, in turn, your m2g firm. Then resources should be allocated in line with these priorities.

## **POSITIONING AND DIFFERENTIAL ADVANTAGE**

The third step in strategic marketing planning actually involves two complementary decisions: how to position a product in the marketplace and how to distinguish it from competitors. Positioning refers to a product's image in relation to competing products as well as other products marketed by the same company.

After the product is positioned, a viable differential advantage has to be identified. Differential advantage refers to any feature of an organization or brand perceived by customers to be desirable and different from those of the competition. In m2g, you must give each of your products a brand name and each product will have a rating in terms of style and technological features. Each market segment has different preferences in terms of both style and technology appreciation.

Besides striving for an advantage, you must also avoid a differential disadvantage for your product. For example in m2g, the worst positioning a product can have is to be the highest priced, lowest product awareness, least distributed and worst designed product in the market.

## TARGET MARKETS AND MARKET DEMAND

Selecting target markets is the fourth step in marketing planning. A target market refers to a group of people or organizations at which a firm directs a marketing program. In m2g, to choose one or more target markets, you must forecast demand (that is, sales) in market segments that appear promising. The results of demand forecasting will represent valuable information in deciding whether a specific segment is worth pursuing, or whether alternative segments need to be considered. More information on the possible market segments available to you in m2g is provided in the Market Overview chapter of this manual.

## MARKETING MIX

For each target market, you must design a marketing mix, which is the combination of multiple aspects of the following four elements: a product, how it is distributed and promoted, and its price. These four elements, are intended to please the target market(s) and, equally important, achieve your m2g firm's marketing objectives.

Each marketing-mix element contains numerous options. Further, decisions regarding one element affect the others. In marketing, you need to consider these options and relationships when designing a marketing-mix for a particular target market.

## Annual Marketing Planning

Besides strategic planning for several years into the future, more specific, shorter-term planning is also vital. An annual marketing plan will provide your m2g firm with a blueprint for a year's marketing activity.

### PURPOSES AND RESPONSIBILITIES

An annual marketing plan serves several purposes:

- It summarizes the marketing strategies and tactics that will be used to achieve specified objectives in the upcoming year. Thus it becomes the "how-to-do-it" guide for executives and other employees involved in marketing.
- The plan also points to what needs to be done with respect to the other steps in the management process - implementation and evaluation of the marketing program.
- Moreover, the plan outlines who is responsible for which activities, when they are to be carried out, and how much time and money can be spent.

### ANNUAL MARKETING PLANNING IN M2G

Each year before making your decisions in m2g, you should go through the following series of steps to create a draft annual marketing plan.

- Executive Summary. You should be able to write a short explanation of what the main thrust of your marketing plan is this year.
- Situation Analysis. You should examine the marketing program for each of your products within the context of pertinent past, present, and future conditions. Much of this information might be derived from the results of your earlier strategic marketing planning.
- Objectives. Specific annual objectives that support the longer term objectives of your strategic marketing plan. E.g. an annual objective to increase sales by

5% this year will support a strategic objective to increase sales by 25% in 5 years.

- **Strategies.** As in strategic marketing planning, the strategies in an annual plan should indicate which target markets are going to be satisfied through a combination of product, price, distribution and promotion.
- **Tactics.** Specific activities devised for carrying out each major strategy detailed above. Tactics specifically answer the questions of what, who and how for your firm's marketing efforts. In m2g, this is effectively the actual decision set that you enter in the simulation. E.g. A strategy might be to improve the design of one of your products, the tactic will be actually choosing the new design in the simulation and implementing it.
- **Financial Schedule.** This section normally includes two kinds of financial information: projected sales, expenses, and profits in what's called a pro forma financial statement; and the amounts of resources dedicated to different activities in one or more budgets. In m2g, you are given a budget that you divide amongst your various marketing mix activities and the pro-forma financial statements are prepared automatically for you as a result of the decisions that you enter.
- **Timetable.** Normally you would include a timetable of when various activities are due to happen, but in m2g the decision period is a year so that is not required.
- **Evaluation Procedures.** This section addresses the questions of what, who, how and when connected with measuring performance against goals, both during and at the end of the year. In m2g you make annual decisions, but it is still important to determine in advance how you will evaluate the success or failure of your plan. To give you some assistance with this each m2g provides you with a comparison of your actual results versus your forecast results.

## CHAPTER 3

# Market Overview

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## The m2g Consumer Market WebSim

In m2g Multi-Player there is a total population of approximately 100 million households representing a market the size of America. m2g starts with approximately 10-15% of households purchasing at least one PMP each year with the potential through marketing to grow to up to 40% of households within 10 years.

### Consumer Demographics

Market research has shown that there are three key factors involved in determining the likelihood of a household purchasing a PMP in m2g.

- Age, the younger a person is the more likely they are to want a PMP, provided they are older than ten years old. Market research has shown that very few PMP users are aged over 35 years old in m2g.
- Income, market research has shown households earning an annual income less than \$20K do not buy significant numbers of PMPs in m2g.
- Household type, large numbers of PMPs are purchased for dependents by Households with children.

Therefore to better understand how to segment the m2g market you should review age, income and household type information.

### HOUSEHOLD AGE AND INCOME

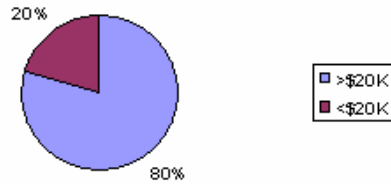
In the m2g market, there are five main household age groups:

- Youth (15-24)
- Young Adults (25-34)
- Middle Aged (35-44)
- Senior (45-64)
- Elderly (65+)

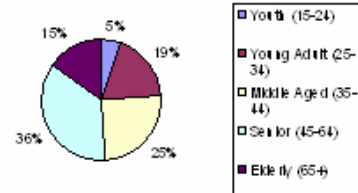
The proportion earning more that \$20K and their split between the various age groups are shown in the figures below.

Figure 5: Household Age and Income Data

Percentage of m2g Households with an Annual Income >\$20K



m2g Population by Household Age Group (Income >\$20K)

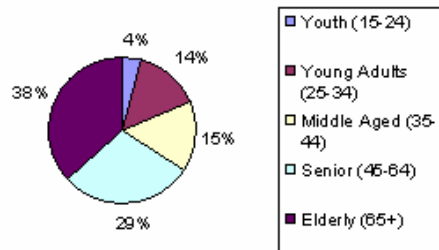


### HOUSEHOLD TYPE

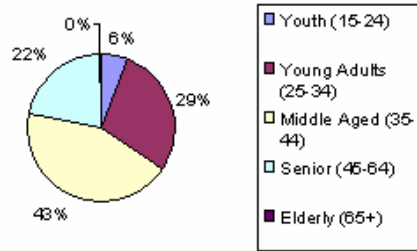
In the m2g market there are three main household types:

- Non-family
- Family with children
- Family without children

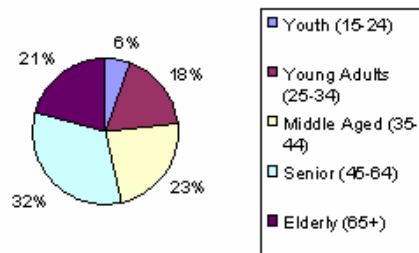
m2g Non-Family Households



m2g Family with Children Households



m2g Family without Children Households



From this information, you can see that:

- Youth households make up a very small percentage of the population so most youth must still be living with their parents. However youth households without children should be the ideal candidates for multiple PMP purchases.
- Young adult households will be the highest earning of the household purchasing directly for their own use rather than their children. So childless young adult households will be prime targets for PMP promotion.
- Middle-aged and senior households are the largest proportion of households with older children; any PMP products pitched to teenagers will need to target distribution channels where these households shop.

Elderly households are generally childless or non-family. Given that most m2g consumers are believed to be less than 35 this household type can be ruled out as a major demographic segment in m2g.

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## Segmentation WebSim

Further market research has identified that there are three potential market segments available in m2g.

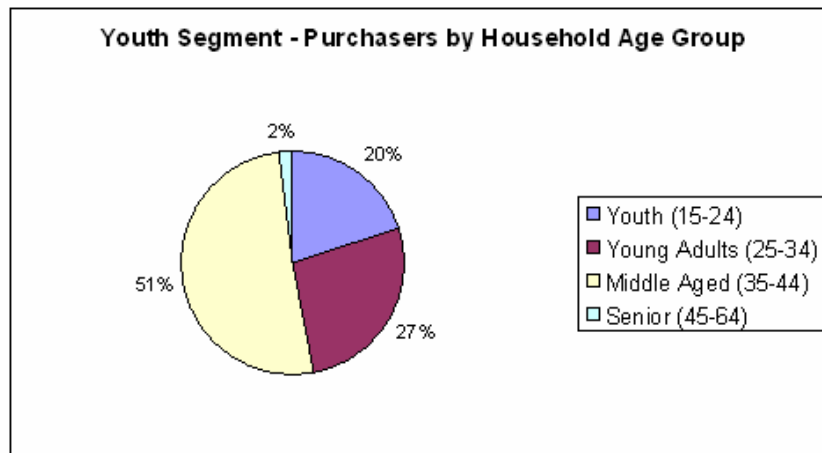
- Youth
- Sports
- Standard

### Youth Segment

The Youth segment is representative of the high style emphasis, fashion conscious youth purchaser (less than 18 years of age) of PMPs in the m2g market. Products in this segment tend to display the following characteristics:

- Competitively priced (\$30 - \$60)
- High emphasis on style features. This includes product attributes such as shape and coloring as well as storage accessories such as player/CD cases.
- An average level of technological features relative to other segments. While youth portable music players do not typically include extra features such as FM radio or blue tooth accessories, sound options are important to the youth segment. This includes volume control as well as bass boost/surround sound and stereo headphones, reflecting the types of music that this segment prefers to listen to (R&B, Rock, Dance etc).
- Fashion driven, with moderately fast changes in tastes and preferences. Note that the youth segment will grow to be an increasingly significant segment several years into m2g as market research and product launch begins to reveal the opportunity to leverage existing technologies towards a younger target audience.
- Purchase decision is heavily influenced by Television and Radio.
- Older age groups on behalf of children/youths will make the majority of purchases in this segment. As such purchasers in this segment tend to reflect the demographic composition of family households with children in the United States market. They also tend to be more price conscious owing to the fact that portable music players are a luxury item, and many pre-commitments exist in family households with children (this translates to lower average disposable income per person than in non-family households).

Figure 6: Youth Segment- purchase profile by household type



## Sport Segment

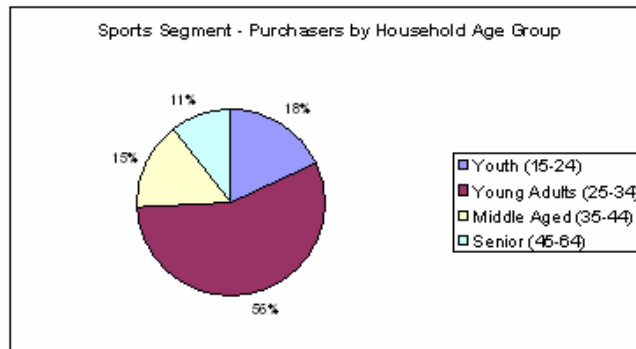
The sports segment is comprised of young, physically active individuals. They require a high degree of technological sophistication in their portable music players in order to cope with the physical demands they place on their PMP when in use with sports/recreation activities. As such, these players can command a premium price in the market, and are thus popular with young adults (18-34) who have begun work but are not yet subject to the family commitments of older age groupings. Products in this segment tend to display the following characteristics:

- High priced (\$80-\$120)
- High emphasis on technological features. Of critical importance is the installation of advanced anti- shock technology as well as improved battery life (active people do not want to stop to charge batteries when "on the go"). .

- Medium high emphasis on styling features. In order to be used in conjunction with exercise a portable music player must be durable, water resistant light and compact. It must also encompass features such as belt clips and/or arm straps, since carrying a Portable Headset Audio (PMP) player is not practical in exercise situations.

This segment will emerge from the standard segment (see below) as technological developments begin to facilitate the service of the above set of tastes and preferences. Although the smallest market by potential sales volume, products in this segment will command a high price relative to Youth and Standard PMP markets.

Figure 7: Sports segment- purchase profile by household type



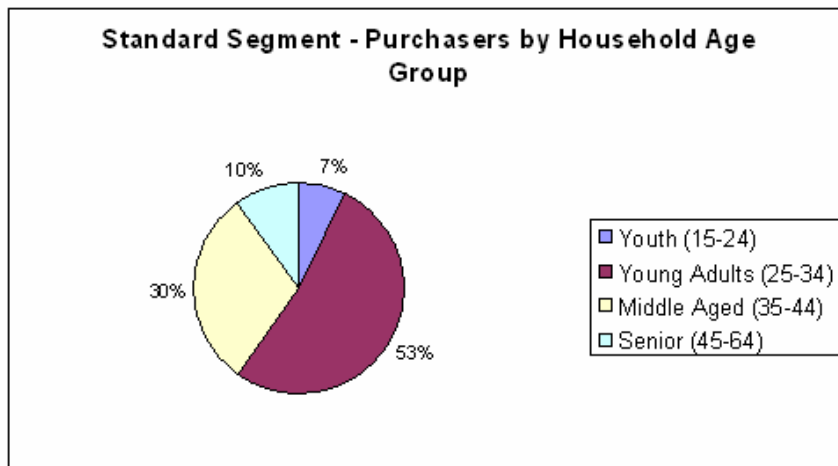
## Standard Segment

This is the base segment of market demand and is representative of the original state of portable music player technology at the beginning of this simulation. While still appealing to the younger adult and youth age groupings (i.e. those less than 35) through their rapid adoption of digital audio technology, consumers in this segment tend to be less active than those in the sports segment and thus do not require the high level technological specifications inherent in sports designs. Thus while young adults in this segment share the purchasing ability of their sports counterparts they are slightly more price conscious, which is reflected in the relative pricing between these two segments. Products in this segment tend to display the following attributes:

- Medium priced (\$40-\$80)
- Average level of technological specifications. While standard buyers do not require the high level technologies of the sports segment, they display the highest interest in external accessories. These include car adaptor units as well as AC adaptors for home/long term travel usage. In contrast to the youth segment, consumers have less interest in functions for specific music types (such as Bass Boost) but are instead more interested in systems for organizing different songs/music such as repeat, random and programmable memory options as well as the ability to receive FM radio and radio station presets .
- Average level of style features. Since portable music players are more heavily used for activities such as travel and commuting size/weight/durability and aesthetics, become less important considerations for the average consumer in this segment.

The standard segment will form the basis for market demand in the first 2-3 years of the simulation. Market research (if purchased) will indicate the emergence of the higher tech/med high style sports segment as anti shock and motion sensor technology develops. In addition, a new style conscious youth segment will be evident as the ability to position existing (and new) product specifications is explored in the opening years of the m2g PMP industry.

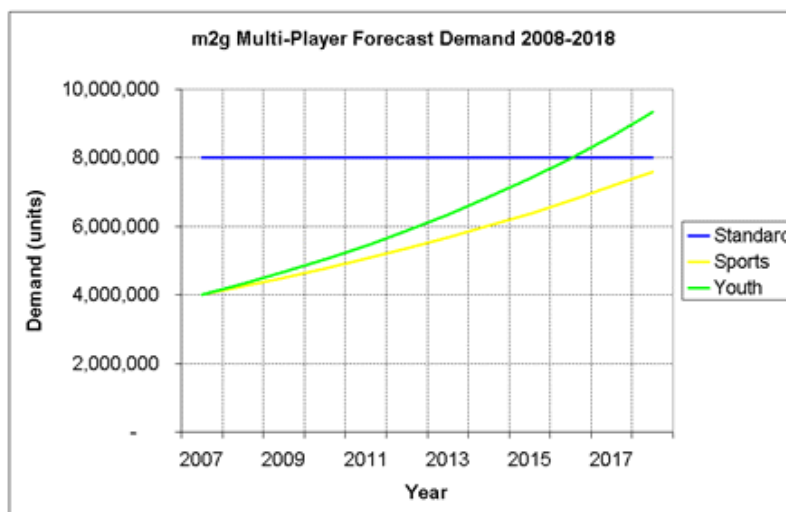
Figure 8: Standard segment- purchase profile by household type



### Forecast Segment Demand

The following market research data shows information relative to forecast trends in underlying segment demand. The forecast is that the standard segment has matured and most of the growth is expected to come from the new emerging segments. However, bear in mind that these are only forecasts and the true demand will vary according to the combined actions of firms in the industry. For example, if all firms discount price heavily and launch major promotional campaigns then all of the market segments could grow significantly.

Figure 10: m2g Multi-Player Forecast Demand 2008-2018



## Distribution Overview

Consumers in the PMP market can choose to purchase at one of three categories of retailer- consumer electronics, department stores or discount stores. The proportion of consumers purchasing from each retailer (by market segment) is given in Table 1 below:

Table 1: Retail Purchases by Segment Type

Retail Channel	Market Segment		
	Youth	Sport	Standard
Consumer Electronics	60%	50%	40%
Department Stores	30%	30%	30%
Discount Stores	10%	20%	30%

Note: "Consumer" is defined here as the individual conducting the purchase transaction, as distinct from the end-user of the product. This is an important distinction with regard to the youth segment (see below).

## Consumer Electronics Stores

The Consumer electronics store channel is comprised of a mixture of traditional limited line (electronics store) shops and new emergent 'Category-Killer' stores. Both share some common aspects in terms of marketing strategy, but differ along several aspects of the product mix. These similarities and differences are highlighted in table 2 below:

Table 2: CE Store Categories by Marketing Mix

Aspect of the Marketing Mix	Limited Line Store	Category Killer Store
Product Offering	Narrow, but deep range of product lines	Narrow, but deep range of product lines
Pricing	Full pricing	Low pricing
Customer Services	Full customer services	Few to moderate customer services
Other distinguishing characteristics	Typically synonymous with primary product line (electronics store)	Primary object to secure high volume/large proportion of sales in a particular product category - hence 'category killer'
Examples	Local electronics store	Best Buy

Taken in aggregate these two store types account for approximately 50% of all sales of portable music players (PMP) players in the m2g market. This reflects the fact that a high proportion of consumers from each product segment choose to shop at consumer electronics stores. This can be motivated through purchase behavior and preferences of each of these potential target markets, as summarized below:

## YOUTH SEGMENT

Consumer electronics stores are an extremely popular place of purchase for consumers in the youth market, accounting for 60% of all sales (by volume) in this target market. This popularity can be attributed to the combination of the following factors:

- Deep product assortment within the portable music player product line is consistent with the emphasis that youth places on styling:
- By stocking a wide variety of models, CE retailers are able to cater to the wide variety of styling preferences (colors, pattern, shapes and other aesthetics) within the youth segment.
- By aiming at achieving a high rate of sales turnover, Category killer stores are able to more quickly adapt to fashion-driven changes in tastes and preferences.
- Between them, traditional limited-line and category-killer stores serve the needs of the middle-aged buyer with regard to making a purchase decision. In the case of the traditional Limited-Line store, this is provided in the form of extensive customer service in order to choose the 'best' gift for a younger family member, while the low pricing in category killer stores reflects the price consciousness of these buyers in this segment.

## SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)

Consumer electronics stores are almost as popular with consumers in the sports segment, accounting for half of all purchases in this market by sales volume. The reasons for this popularity can be attributed to the combination of the following factors:

- The deep product assortment is consistent with the emphasis that sports consumers place on the combination of styling and technological features. By stocking a wide variety of models encompassing a range of features, CE stores are able to capture a large proportion of demand in this segment.
- Sports consumers are prepared to pay full prices at traditional limited line electronics stores in return for additional customer services such as advice on features and after sales service (e.g. warranties and repairs). This is related to the fact that portable music players in this market will receive the most intensive/demanding usage as part of recreational activities.
- The high sales turnover rates of category killer stores are useful to counteract the effects of product obsolescence associated with technological developments.

## STANDARD SEGMENT

Many purchasers in the standard segment also use CE stores, although they do not constitute the majority of sales by place of purchase (CE comprise 40% of purchases in this segment). The reduced popularity of CE stores relative to the sports and youth segments can be motivated as follows:

- Buyers in the standard segment place less emphasis on styling and technological features of portable music players than the other two market segments. As such, the deep product range within the PMP product line is of reduced importance with regard to variations in consumers tastes and preferences.
- This effect is set against the fact that many consumers in the standard segment are looking for accessories suitable to convert portable music players for use at home/work or in the car. As such purchasers are prepared to pay full prices in order to receive customer service and choice (offered by electronics stores) regarding the selection of combinations of player units/accessories that are best suited to their requirements.

- Consumers in this segment typically spend less time on the identification and evaluation of alternative products than the sports or youth related consumer . Consequently, an average purchaser in this segment is less inclined to specifically travel to a specialty consumer electronics store (or store(s)) to compare the range of possible product choices. As such, a slightly larger proportion of sales in this market are characterized by impulse purchases made while the consumer is already in the store- favoring retail outlets with a broader product range such as department stores and discount retailers (see below).

## Department Stores

Department stores have traditionally been characterized by the following marketing mix attributes:

- A broad, deep assortment of product lines
- An array of customer services such as credit plans
- Strong emphasis on branded goods, personal service and convenience
- Non-price competition

In m2g, Department stores account for approximately 1/3 of all purchases made in each of the Youth, Sports and Standard segments, as detailed below:

### YOUTH SEGMENT

Department stores are less popular with consumers in the youth segment, accounting for less than 1/3 of sales (by volume) in this target market. This is largely reflective of the fact that large category killer stores compete more effectively on the price dimension, despite the fact that department stores share many of the favorable characteristics of consumer electronics stores with regard to customer service and product assortment. Price is a primary consideration of the typical purchaser in this segment (middle aged buyer with children) this distinction has a large effect on relative demand between consumer electronics and department store channels in the youth segment.

### SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)

Department stores account for a slightly smaller proportion of total sales (by volume) than consumer electronics stores in this segment. This is largely reflective of the fact that sales assistance is likely to be more comprehensive in CE stores by virtue of the fact that advice/expertise and support services are more specific to the PMP product line than in a broader line Department store. This is especially important for consumers in this segment who require comprehensive advice regarding styling and technological features, as well as after sales service such as warranties and repairs (owing to the demanding usage of the product as part of recreational activities).

### STANDARD SEGMENT

Department stores comprise a marginally smaller proportion of sales volume than CE stores in the standard segment. This reflects the pricing advantage of Category killer stores and the modest price sensitivity of consumers in this segment in a similar fashion to the youth segment. Note that the difference between the proportion of purchases made in Consumer electronics and Department stores is the smallest in the standard segment. This largely reflects the fact that the wide array of product lines offered by Department stores attracts some impulse purchases by consumers as they notice products whilst shopping in the store.

## Discount Stores

Discount stores adopt the converse marketing mix to that of consumer electronics stores. This involves the presentation of a broad, shallow product line at low prices with few attendant customer services. As such the factors that contribute toward the success of CE stores in this market count against distributors adopting this type of marketing mix so this type of distribution channel accounts for less than one quarter of all sales (by volume) in the aggregate PMP market. These factors are described for each market segment below:

### YOUTH SEGMENT

Only one in ten portable music players for the youth market are purchased from a discount store. The poor performance of distribution in this segment is related to the following factors:

- Shallow product range is incompatible with end-user emphasis on styling (see CE stores above)
- Marketing mix is less suited to middle aged purchaser demographic:
- Limited levels of product advice
- Products offered are typically cheaper, non-branded portable music players. Thus, distributors in this segment pass over the opportunity to stimulate demand in this purchase market through the inclusion of branding as part of overall promotional efforts.

### SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)

Less than a quarter of all sales to the sports segment are made through discount stores. This reflects the fact that sports consumers are prepared to pay high prices in order to receive excellent customer service and product selection to satisfy their specific requirements in terms of technological features and styling. By avoiding branded goods, consumers are also less inclined to perceive that a particular product will be of reasonable quality or that they will receive good levels of after sales service from the manufacturer (such as warranties and repairs given the more extreme usage demands placed on products by this segment).

### STANDARD SEGMENT

Sales volumes in discount stores are comparable to that of department stores. This reflects the fact that while discount stores offer reduced customer services relative to department stores (an important consideration in the purchase process for this segment) they remain more price competitive. In addition, Discount stores benefit from a large amount of foot traffic (and hence impulse purchases) relating to their broad product range (and cheap prices) in a manner similar to that of department stores (see above).

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## Product Segments and Promotion

The response of the market segments to various promotional methods/media is heavily influenced by purchase behavior and demographic profile of consumers in each segment. The media preferences for each segment are given below:

## **YOUTH SEGMENT**

Mass media channels such as television and radio as well as broad focused sales promotional activities heavily influence the youth segment. In particular, sales in this segment respond well to point of purchase displays and overall branding expenditures. These behaviors are related to the following characteristics of consumers in this segment:

- Younger age groupings have a higher tendency to make purchases on impulse. This is especially true of purchases made in broad product line stores frequented by consumers in this segment (see Distribution for more information).
- A large proportion of children/teenagers watch television and/or listen to the radio on a daily basis, so advertising reach is particularly high in this segment.
- Reference groups in this age category heavily influence purchases.

## **SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)**

Consumers in the sports segment are best reached through more targeted promotional activities than the youth segment. This includes advertising in specialty sports magazines and trade promotion through the training of retailers' sales staff in the range of product features available in the high-end (high technology and styling) portable music players. Note also that product branding is an integral part of promotion in this segment.

Consumers in this segment pay particular attention to product specifications, as a result:

- The steps of the identification and evaluation of alternatives is longer than other product segments (point of sale promotions are less effective).
- Consumers require knowledgeable sales assistant support in making the selection of a product.
- Functionality and reliability are important determinants of segment demand. As such consumers use branding as an indicator of quality when making a purchase decision.
- Advertisements need to provide a range of product information within the message. This is well suited to the large, high resolution, color advertisements available in magazines. In addition, magazines are typically read in a leisurely fashion (in contrast to newspapers), during which time the reader has time to consider the information. Magazines are also typically targeted at a narrow customer segment, minimizing wastage in advertising effort (only prospective consumers will be reached by the advertisement).

As a consequence of leading a more active life-style, consumers in this segment spend less time watching television, reading newspapers or listening to the radio. It is thus typically harder to reach consumers in this segment through these traditional mass-market media than other segment groupings such as youth.

## **STANDARD**

Behavior in this segment incorporates elements of both the youth and sports segments. This is reflected in the fact that consumers can be reached through a number of mass media channels such as newspapers and radio, while sales are also responsive to trade and consumer promotion initiatives in the form of sales training and coupon/cash rebates. These behaviors reflect the following characteristics of this segment:

## Product lifecycle and Promotion

In addition to the above considerations with regard to behavioral characteristics of the target market audience, the optimal promotional mix is influenced by the product lifecycle stage of a portable music player.

This relates to the fact that the mix of promotion and hence the promotion objective will vary depending on the market situation in terms of consumer and distributor perceptions towards the product.

In m2g we do not clearly distinguish between the introduction and growth phase of the product lifecycle. It is assumed that the PMP market is an existing market with an inherent demand for PMPs and that products rapidly transition into the growth phase in their first year of product launch. So when your staff put forward potential promotional strategies for each of your products they will only provide options for growth, mature and decline, where the growth strategy can also be used for product launch. As a rough rule of thumb, all products will enter a decline phase within 6 years of their initial product launch, or earlier if you fail to regularly update their design.

The various promotional objectives and their links to the stage of a product's lifecycle in m2g are summarized in the table below (for completeness it also describes the introduction stage):

Objectives			Emphasis of Object at Stage of Product Life Cycle			
General Objective	Advertising Objective	Sales Promotion Objective	Intro	Growth	Mature	Decline
Awareness Let the buyer know that the product exists	Generate attention Introduce a new product & ease the way for the sales force	Facilitate personal selling Trade Shows	High	Med	Low	Med (Reminding remaining customers)
Knowledge Learning about the product's features	Communicate how to use the product	Improve marketing performance of retailers Sales Force training Website	High	Med	Low	Low
Liking Associating the product with attractiveness	Generate demand for product category	Stimulate household demand Premiums	Low	Med	High	Med

Preference Distinguishing among brands. (Direct comparisons)	Build brand preference	Supplement Advertising Website	Low	Med	High	High
Conviction Securing actual purchase or commitment	Maximize conversion of prospects into purchasers	Support Conversion Point of Purchase Displays	Low (Early adopters at this stage)	Med	High	High
Purchase Avoid delay or postponement	Counteract Substitution	Support decision to purchase Rebates	Low	Low	Med	High

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## Media Selection

In m2g, there are four media choices available to you to advertise your products:

- Radio
- Magazines
- Newspapers
- Television (TV)

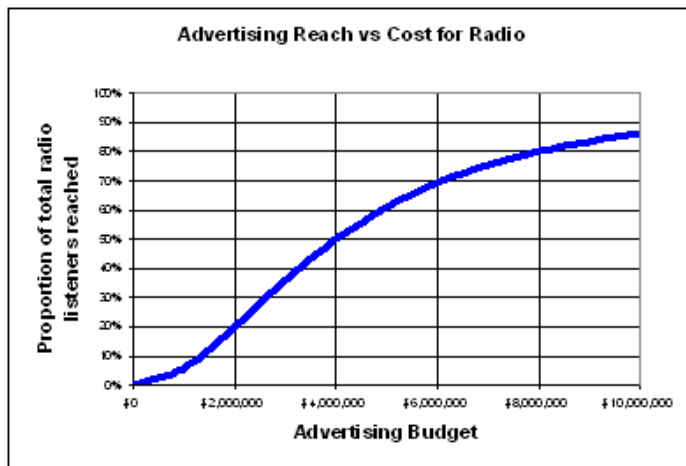
Each media choice offers different performance in terms of reach, ability to target and cost. Read below to learn more about each available medium.

### Radio

Radio is a low cost per thousand medium because of its broad reach. Nearly 80% of Americans listen to the radio daily and, on average, adults 18 years of age and over listen to more than 20 hours a week. Radio commercials can be produced quickly at a cost far below television.

The figure below gives a broad estimate of the likely cost of reaching the total population of radio listeners. For example from the figure below we can see that a budget of \$4m would reach approx 50% of the total radio listening population, if approx 80% of your target segment listen to the radio then you will have reached approx  $0.80 \times 0.50 = 40\%$  of the consumers in your target segment.

Figure 11: Advertising Reach versus Cost for Radio



In m2g you have a choice of 6 major radio station formats that you can advertise on that are most popular formats with PMP buying consumers:

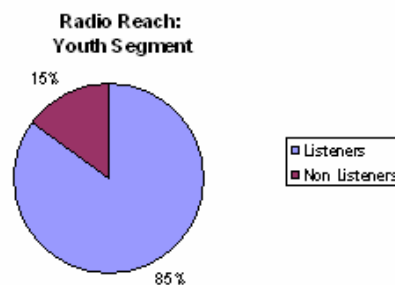
- Contemporary Hits Radio (CHR)
- Urban
- Country
- Rock
- Adult Contemporary (AC)
- Alternative

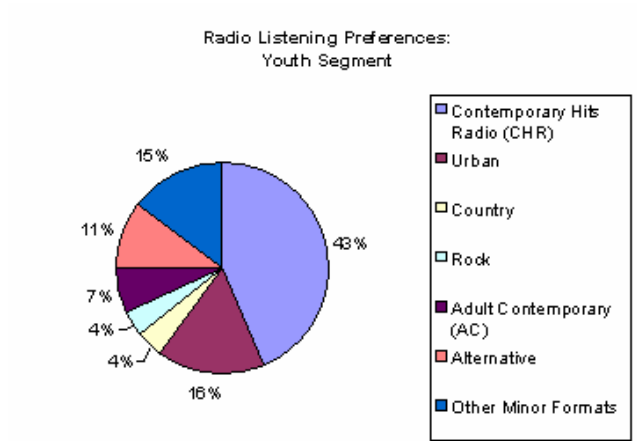
The relationship of this medium to the three potential target segments is outlined below:

### YOUTH SEGMENT

The ability of mass media channels to efficiently reach youth audiences is demonstrated by the listening habits of this segment. As figure 3 shows, the top two radio station formats account for nearly two-thirds of all listeners in this age grouping. This reflects in part the fashion driven, 'populist' characteristics of preferences in this product market, and the fact that the range of radio formats allows advertisers to pinpoint the teen market quite accurately. As a result, advertisers can limit promotional efforts to two or three format types and confidently reach most of the audience in this segment.

Figure 12: Radio listening profile of the youth segment

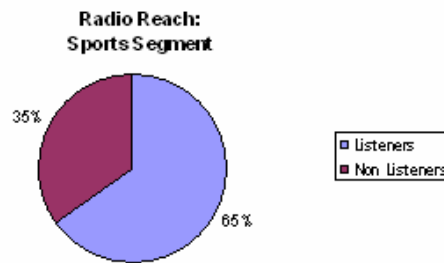


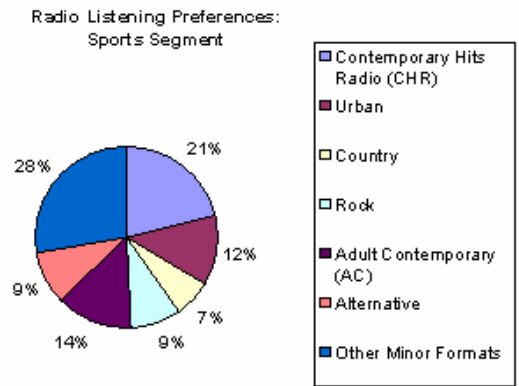


**SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)**

The listening habits of sports consumers are highly fragmented in relation to the youth segment. This in part relates to the fact that young adults (25-34) comprise a majority of purchasers in this segment and that this age group's music tastes are largely split between Contemporary Hits Radio (CHR), Adult Contemporary (AC) and Urban formats. Note also that the total reach of radio is considerably less than the youth segment. This reflects the fact that average listening time is less than other segments due to the pursuit of a more physically active lifestyle. As such in order to achieve a reasonable level of reach in this segment a firm must advertise on at least three different station formats in order to reach more than half of potential consumers from this segment.

Figure 13: Radio listening profile of the sports segment



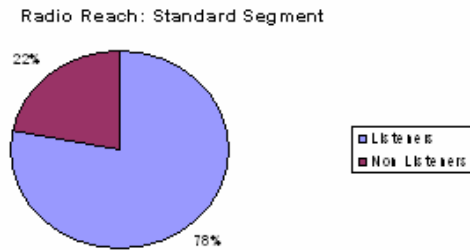


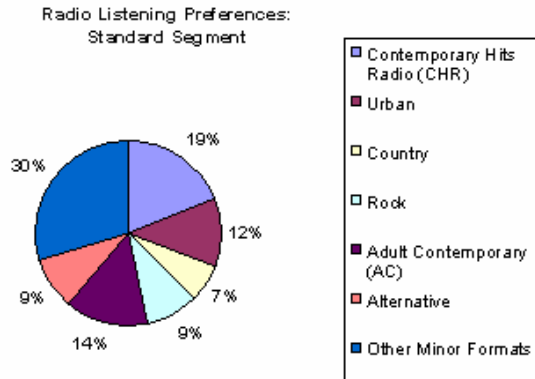
**STANDARD SEGMENT**

The listening habits of standard consumers are broadly comparable to those in the sports market. This is reflective of the fact that the age profile of customers is broadly comparable between the two segments.

Note that whilst the distribution of listeners by format type is broadly similar the proportion of the total segment that listens to radio is much higher in the standard segment, reflecting the fact that consumers in this segment typically listen to the radio for longer on average every day than sports consumers (refer sports segment above). This implies that the effective reach for any given format type is much higher in the standard than sports segment (i.e. higher overall effectiveness of radio advertising in the standard vs. sports segment).

Figure 14: Radio listening profile of the standard segment



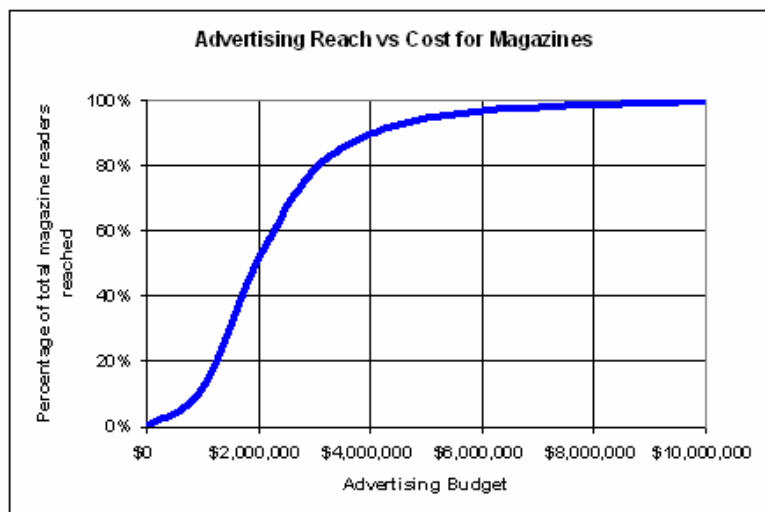


## Magazines

Magazines can reach a national market at relatively low cost per reader. In recent years, the rapid increase in special-interest magazines and regional editions of general interest magazines has made it possible for advertisers to reach a selected audience with a minimum of wasted circulation. Note also that this print media is usually read in a leisurely fashion, in contrast to other forms such as newspapers. This feature is especially valuable to the advertiser with a lengthy or complicated message .

The figure below gives a broad estimate of the likely cost of reaching the total population of magazine readers. For example from the figure below we can see that a budget of \$2m would reach approx 52% of the total population of magazine readers, if approx 40% of your target segment reads magazines then you will have reached approx  $0.40 \times 0.52 = 21\%$  of the consumers in your target segment.

Figure 15: Advertising Reach versus Cost for Magazines

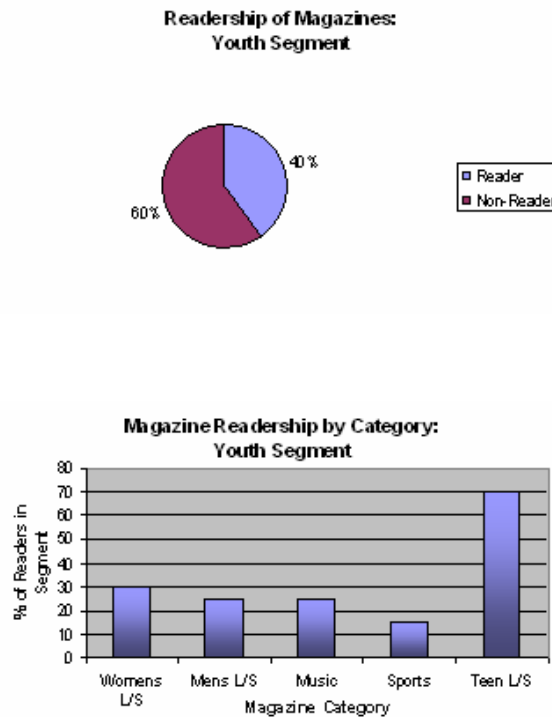


The relationship of this medium to the three potential target segments is outlined below:

## YOUTH SEGMENT

Magazine readership patterns in the youth segment are broadly reflective of radio viewing habits, with a high concentration of readership in one category of the medium (teen lifestyle magazines). This reflects the importance of reference groups and opinion leaders to this segment and thus popular style/fashion trends for the under-18 age group. In contrast to radio however the total potential reach of magazines is small relative to other segments. This is indicative that consumers in this segment spend less time reading than the older representatives of other segments.

Figure 16: Magazine Readership Patterns- Youth Segment



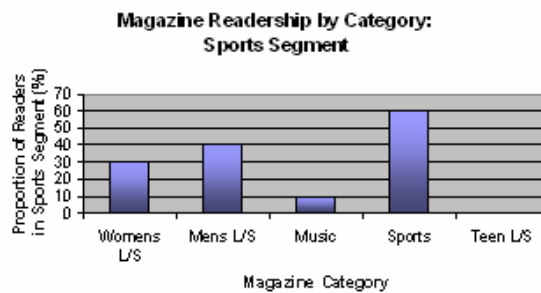
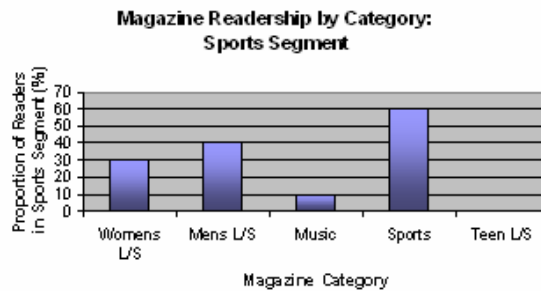
## SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)

A larger proportion of sports consumers read magazines than any other segment. This can be related to the following:

- Sports consumers are the least price sensitive consumer segment and so are the most likely to purchase luxury goods such as magazines.
- Consumers in this segment display the longest product identification/alternative evaluation stages of the buying decision process. The magazine format is thus a preferred information source since the format of this medium facilitates extensive comparisons through the provision of detailed information/opinions/reviews.

For similar reasons to those stated in point two above a majority of consumers in this segment also refer to sports magazines for specific news, opinions/reviews and information relating to the various recreational activities that they pursue-see figure 7 below. This high rate/concentration of readership make magazines an effective promotional medium to reach this consumer type.

Figure 17: Magazine Readership Patterns- Sports Segment



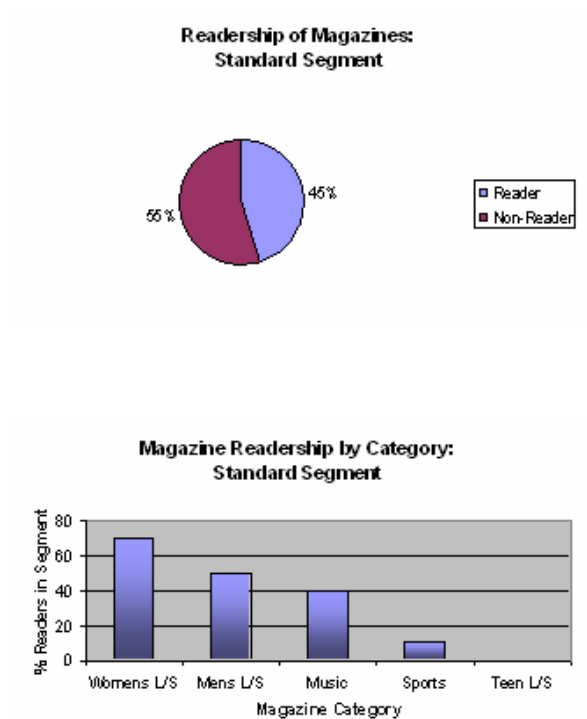
## STANDARD SEGMENT

Magazine readership is distributed over a number of categories in a manner similar to format preferences for the radio medium. This is reflective of the fact that this segment encompasses individuals from a variety of backgrounds and interests in contrast to the fashion-oriented youth or the recreational focused sports consumer. Note that the total rate of readership for magazines is slightly higher than the youth but less than for the sports segment. This can be related to the following:

- The older age grouping of the standard segment reads more on average than youths.
- The standard consumer is more price conscious than their sports counterpart, and thus less likely to purchase magazines (a luxury item).

Thus, magazines represent a medium in which only moderate reach is achievable to the target consumer. For example, advertising across several magazine categories would at best reach less than half of all potential consumers in this segment.

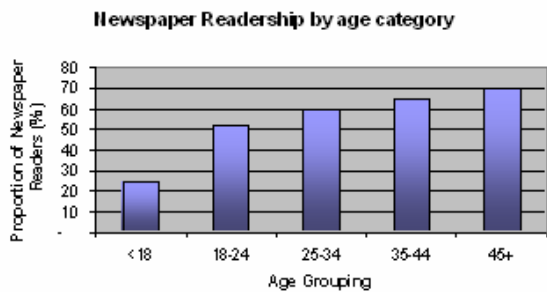
Figure 18: Magazine Readership Patterns- Standard Segment



## Newspapers

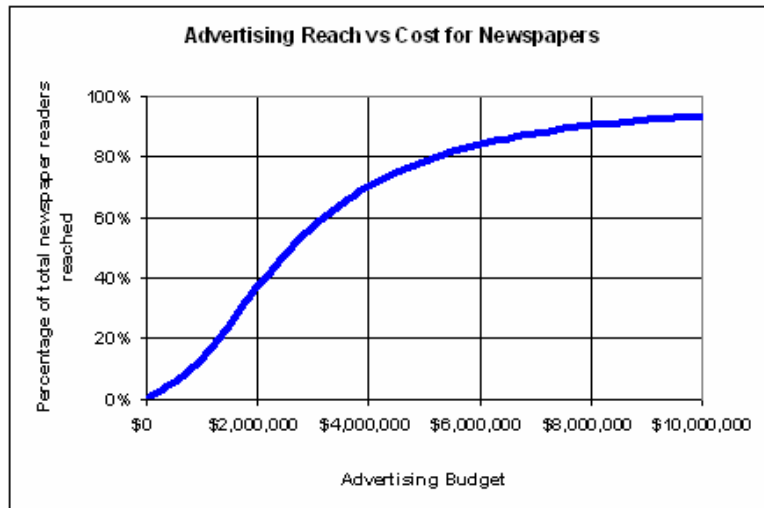
Newspapers reach a relatively large mass audience throughout a geographic region with a single exposure, at a relatively low cost per thousand. It is important to note that the readership of newspapers is heavily influenced by age. As shown in the figure below the proportion of individuals reading the newspaper on a regular basis (i.e. daily) increases steadily over ascending age groups, peaking at almost  $\frac{3}{4}$  of the adult population over the ages of 45. This therefore forms a principal basis for variations in readership between segments and thus the effectiveness of newspapers as a promotional medium, as summarized below:

Figure 19: Newspaper Readership vs. Age



The figure below gives a broad estimate of the likely cost of reaching the total population of newspaper readers. For example from the figure below we can see that a budget of \$6m would reach approx 84% of the total population of newspaper readers, if approx 50% of your target segment reads newspapers then you will have reached approx  $0.84 \times 0.50 = 42\%$  of the consumers in your target segment.

Figure 20: Advertising Reach versus Cost for Newspapers



The relationship of this medium to the three potential target segments is outlined below:

### YOUTH SEGMENT

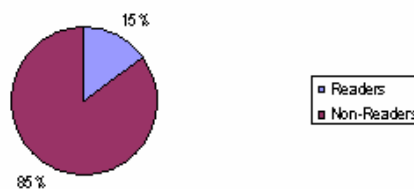
Newspapers demonstrate poor reach in the youth segment. This is reflective of the fact that

- Youth age groupings spend a larger proportion of free time watching television or listening to the radio than reading newspapers and/or magazines - see figure below.
- The broad coverage of topics in the newspaper is inconsistent with this segment's emphasis on teen related style and fashion trends.

As a result, the proportion of youth consumers reached by a newspaper advertisement is approximately 1/3 that of other segments.

Figure 21: Newspaper Readership Youth Segment

Newspaper Readership: Youth Segment



### SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)

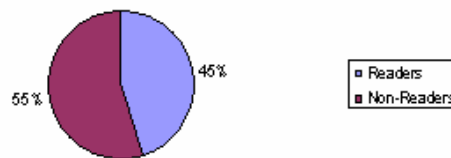
The overall rate of newspaper readership is considerably higher in the sports than youth segment. This reflects the following:

- The older age groupings in this segment spend a larger proportion of their free time reading than youths.
- Consumers in this segment can be more effectively targeted within the traditional newspaper format through a sports section.

Nonetheless, this medium's maximum potential reach is less than half of all prospective customers. This entails a higher degree of wastage in advertising since advertisements are delivered to a broad cross section of individuals outside the targeted segment.

Figure 22: Newspaper Readership Sports Segment

Newspaper Readership: Sports Segment



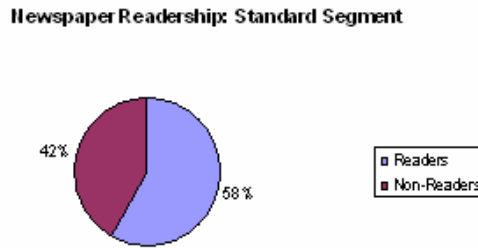
### STANDARD SEGMENT

Newspapers are a relatively effective means of reaching the standard product segment, in contrast to sports and youth consumers. This reflects the fact that:

- Like sports consumers, individuals from this segment are represented by older age groupings that tend to spend proportionately more of their free time reading as opposed to listening to the radio, watching television etc.
- The broad range of topics covered in the newspaper format attracts readership from a wide variety of interests. This is consistent with the composition of the standard segment, which share little more in common than age and income groupings.

Consequently, an advertiser can potentially reach approximately 2/3 of their intended target market through newspaper advertising. This reduces the incidence of advertising wastage and suggests that this medium deserve serious consideration as part of a promotional program directed at the standard segment.

Figure 23: Newspaper Readership Standard Segment

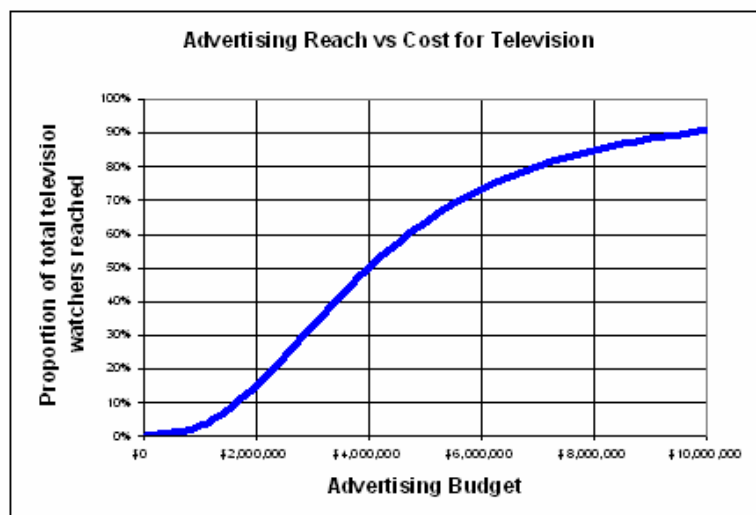


## Television

Television is the most effective method of reaching a large audience. This is reflected in the fact that virtually every household in America has a television and that over 85% of all age groupings watch television at least once a day. The television medium also has the advantage of combining motion, sound and special visual effects into an advertisement. As such it offers wide geographic coverage and flexibility in which a message can be presented. However, TV ads lack permanence (so they must be seen and understood immediately) and are expensive relative to other forms of media.

The figure below gives a broad estimate of the likely cost of reaching the total population of television watchers. For example from the figure below we can see that a budget of \$8m would reach approx 85% of the total television watching population, if approx 88% of your target segment watch television then you will have reached approx  $0.85 \times 0.88 = 75\%$  of the consumers in your target segment.

Figure 24: Advertising Reach versus Cost for Television

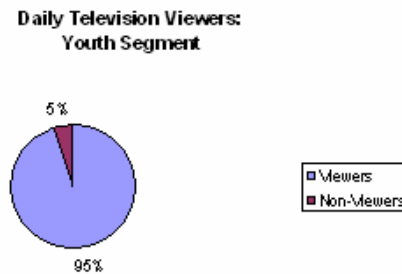


The relationship of this medium to the three potential target segments is outlined below:

## YOUTH SEGMENT

Television is a highly effective medium with which to reach the youth segment. This reflects the fact that youths spend a high proportion of their free time watching television compared to other activities associated with promotional media i.e. reading newspapers and magazines and listening to the radio. Note that television complements radio well in this instance - the message on television is short and must be understood immediately, whilst radio is more cost effective, thereby facilitating more repetitions of an advertisement in a given time frame .

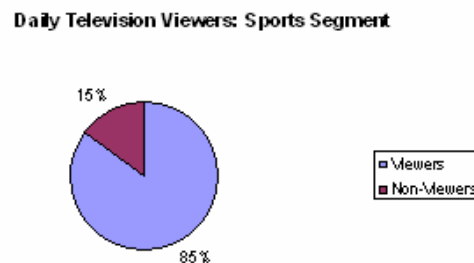
Figure 25: Daily TV Watching Habits Youth Segment



## SPORTS SEGMENT (ONLY AVAILABLE IN MULTI-PLAYER)

Television reach in the sports segment is slightly less than the youth segment. This reflects that sports consumers spend more free time in the pursuit of recreational activities. Despite this, the overall reach attained by television is considerably higher than any other available promotional media types. For reasons similar to those outlined for the youth segment above, television and magazine advertising would serve as useful complements to one another. This relates to the fact that product awareness is achievable through television whilst a more comprehensive promotional message can be delivered through magazines (refer magazine section above).

Figure 26: Daily TV Watching Habits Sports Segment

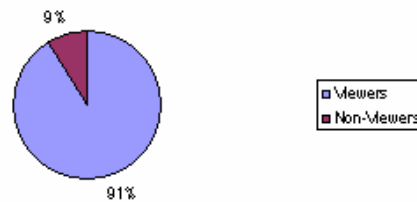


## STANDARD SEGMENT

Total television viewing by standard consumers more closely resembles the youth market than the sports segment. This relates to the fact that they devote a larger proportion of their free time to watching television than their sports counterparts, although total available free time is distributed over a greater number of activities than the youth segment. Note that television and newspaper advertising would form useful complements to one another in the standard segment. This relates to the fact that excellent product awareness is achievable through television, whilst newspapers provide a more cost effective, detailed medium through which an advertising message can be effectively presented to the intended audience.

Figure 27: Daily TV Watching Habits Standard Segment

Daily Television Viewers: Standard Segment




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## Sales Promotion Activities

In m2g, there are 6 types of sales promotion activities available to you to promote your products:

- Trade Shows
- Sales force Training
- Premiums (Gifts)
- Website
- Point of Purchase displays
- Rebates

Each promotional activity has particular relevance to certain stage of the product lifecycle as outlined in the material below.

### TRADE SHOWS

The appeal of consumer electronics trade shows is their efficiency. In one place and in a compressed amount of time you will be able to interact with a large number of retailers to promote your new products.

However trade shows are expensive, your trade show budget will need to cover the cost of a booth, living expenses for your company representatives attending the show and the transportation costs of sending your equipment and display material.

Assuming a sales promotion budget of approximately \$5 million the table below gives recommendations on how much to spend on your products in each stage of their product lifecycle.

Figure 28: Trade Show Budget Recommendations

Segment	Product Life Cycle Stage		
	Growth	Mature	Decline
Youth	15%	5%	5%
Sports	20%	5%	10%
Standard	20%	5%	10%

In m2g trade shows are particularly important for launching Sports and Standard PMPs as they are often more technologically advanced than earlier models and are a harder sell to retailers than Youth PMPs following new fashion fads.

## SALES FORCE TRAINING

Sales force training expenditure is money invested in training your sales staff on how to sell your products to retailers and money invested in training your retailers sales force staff to effectively sell your products. PMPs are a technology product and the Sports segment in particular demands that the person selling them a PMP must be able to adequately describe its features especially if they are shopping at a CE or Department store.

Assuming a sales promotion budget of approximately \$5 million the table below gives recommendations on how much to spend on your products in each stage of their product lifecycle.

Figure 29: Sales Force Training Budget Recommendations

Segment	Product Life Cycle Stage		
	Growth	Mature	Decline
Youth	25%	10%	5%
Sports	30%	20%	20%
Standard	20%	5%	5%

In m2g, training is one of the major sales promotion activities involved in launching new products. However, it is expected the Sports products will have their design updated on a regular basis and that sales force training will be required throughout the product life cycle.

## PREMIUMS (GIFTS)

Manufacturers are under pressure from retailers to provide attractive product prices/offers to secure prominent shelf space and from some consumers to lower price. Premiums are a way of enhancing the product offering without the concerns that discounting causes about damaging the products brand. Typical premiums for PMPs include carry cases and car kits.

Assuming a sales promotion budget of approximately \$5 million the table below gives recommendations on how much to spend on your products in each stage of their product lifecycle.

Figure 30: Premiums Budget Recommendations

Segment	Product Life Cycle Stage		
	Growth	Mature	Decline

Youth	15%	35%	25%
Sports	25%	40%	25%
Standard	25%	40%	25%

In m2g premiums are an important way of improving sales performance throughout the product lifecycle, but are particularly important during the mature phase when products are fighting to secure prominent shelf space.

## WEBSITE

A company website provides an opportunity to showcase your products, their features and their recommended retail prices. Your company has a strict policy of only supplying products B2B and does not do B2C sales directly to consumers.

Assuming a sales promotion budget of approximately \$5 million the table below gives recommendations on how much to spend on your products in each stage of their product lifecycle.

Figure 31: Website Budget Recommendations

Segment	Product Life Cycle Stage		
	Growth	Mature	Decline
Youth	10%	5%	5%
Sports	5%	10%	10%
Standard	5%	10%	10%

In m2g the majority of the retail, chains have their own retail web sites and have limited online sales of PMPs. The purpose of investing in your company website is to give your retailers a place to hyperlink consumers to so that they can find out more information about your products.

## POINT OF PURCHASE DISPLAYS

Point of purchase display allowances encourage your retailers to give your products more prominent shelf space than your competitors and it is also thought to make consumers choose your brand when they get to the point of purchase.

Assuming a sales promotion budget of approximately \$5 million the table below gives recommendations on how much to spend on your products in each stage of their product lifecycle.

Figure 32: Point of Purchase Displays Budget Recommendations

Segment	Product Life Cycle Stage		
	Growth	Mature	Decline
Youth	25%	25%	25%
Sports	15%	20%	20%
Standard	15%	20%	20%

In m2g point of purchase, displays are effective with all market segments throughout the product life cycle. However they are particularly effective in the youth market where younger shoppers are often impulse buyers and older shoppers are often searching of a gift for younger relatives, in both cases a point of purchase display is likely to influence them to choose your product.

## REBATES

Coupons are the most frequently used form of sales promotion by manufacturers of low value fast moving consumer goods (FMCG). However, for higher value consumer electronics goods then mail in rebates are the preferred way to give consumers discounts. A mail in rebate provides the consumer with a discount and in return, the manufacturer gets the opportunity to learn who bought their product, when and where they bought it and some clues as to why.

Figure 33: Rebates Budget Recommendations

Segment	Product Life Cycle Stage		
	Growth	Mature	Decline
Youth	10%	20%	35%
Sports	5%	5%	15%
Standard	15%	20%	30%

In m2g, the Youth and Standard segments respond well to rebates and it is an especially effective means of promotion during the mature and decline stages of their product life cycle. However, the Sports segment views discounted items as being of poor quality and given their preference for products at the leading edge of technology only a small rebate budget is required mainly for purchases made through discount stores.

## CHAPTER 4

# Implementation

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## Decision Screen Overview

There are two types of decisions that you are required to make in m2g:

- **Product Management.** The marketing mix decisions for each of your products including; product development, price, advertising and sales promotion decisions for your products.
- **Distribution.** Firm level decisions about how large a sales force to maintain for each retail channel and what inventory levels to maintain for each of your products.

In the rest of this chapter, we will describe these decisions in more detail.

---

## Product Development

When you select the Product Development tree item you are given access to a series of reports about the performance of your product(s). See the Evaluation chapter for more information about reports.

Expanding the Product Development tree item gives you access to your product slots.

## Existing Product Screen

The existing product decision screen is used to make decisions regarding the redevelopment of your existing products.

The diagram on the right hand side of the screen displays a perceptual map for consumers in the m2g market. It shows the relative positions of the different segments in this overall market, based on a combination of two factors:

- **The Style Value,** which represents the aesthetic style and design of a product.
- **The Technical Value** that reflects the technical features and components incorporated in the product design. This includes factors such as construction materials and strength.

The center of each perceptual circle represents the point that satisfies as much of the given segment as possible. This is suggestive of an "ideal" product specification consistent with sales maximization for a given target market. For example, consider a product that exceeded the style and technical values of a segment that was sold at the same price as one that met the market needs exactly. The "better" product would sell less because it does not suit consumers' requirements as well as the other product. This reflects the fact that unnecessary features can be annoying to someone who wants a simple product, and extra style and design attributes can reduce a product's performance and functionality.

The existing products screen requires you to make up to two decisions.

### **CHOOSING A PRODUCT PLAN**

The Product Plan box at the top left of the screen is used to indicate your development intentions for this product. You have three choices:

- Keep the current design
- Update the product by changing it to a new design
- Abandon the product

Keeping the current design means doing nothing this year. You will continue to sell last year's model for another year.

Updating the product with a new design allows you to select a new improved design from below.

Abandoning the product means that you no longer want to sell this product any longer, it will be withdrawn from the market, and any existing inventory will be dumped at 80% of the price you paid for it. For example if you have \$1 million worth of inventory, then you will only receive \$800,000 and make a \$200,000 inventory disposal loss this year.

Deciding which choice to make should be part of your positioning strategy that you set in your strategic marketing plan.

### **SELECTING AN AVAILABLE DESIGN**

The Available Designs box lists all the designs that you can redevelop your existing product with.

Each design has a:

- Cost to develop
- Unit Cost
- Style Value
- Technical Value

Generally you will be offered three options each year:

- Productname\_spec\_year (improve the product's technical and style values)
- Productname\_cost\_year (reduce the product's unit cost)
- Productname\_spec\_cost\_year (do both)
- E.g. if next year is 2009 and your product's name is Sonic, then option 1 above would be Sonic\_spec\_2009.

- Note: In m2g Multi-Player some segments may overlap. If your product is positioned in the overlapped area between two segments then you might get as many as six options.

Generally, a specification improvement project costs the same as a unit cost reduction project and the combined project costs double. A specification project will make your product more attractive to the market but will still be a cost attributed to your marketing expenses, while a cost project will not improve your products attractiveness but will reduce your unit costs allowing you to make more profit per unit sold.

Choosing which project to implement should be clear from your marketing objectives in your annual marketing plan.

## Empty Product Slot Screen

For empty product slots you have two choices:

- Launch a new product
- Do nothing this year. (The product slot will still be available to you the following year)

The launch new product decision screen is used to make decisions to use empty product slots available to your m2g firm.

The diagram on the right hand side of the screen displays a perceptual map for consumers in the m2g market. For a detailed description of the perceptual map, see the description under the existing products screen above.

The launch a new product screen requires you to make up to three decisions.

### PRODUCT NAME

The Product Name box at the top left of the screen is where you need to type the name of your new product. Your product name can be any name up to a maximum of 12 characters. The product name you choose has no effect on product demand in m2g, but as marketing professionals you should be choosing a name that reflects your positioning strategy for this product.

### SEGMENT SELECTOR

The Segment Selector box at the top left of the screen is used to select the segment that you would like to see designs displayed for. If you would like all available designs displayed, select "All".

### SELECTING AN AVAILABLE DESIGN

The Available Designs box lists all the designs that you can redevelop your existing product with. Select the design you wish to launch and push the apply button.

Generally, you will be offered one potential design for each market segment. You will be offered designs based on what existing products you already have. E.g. If you already have a standard segment product then the new design project offered to you will be no worse than your existing product. If you only have a standard product and you upgrade its design this year then next year you will probably often be offered a better youth product design project than you were this year due to your product engineers increased experience of developing PMPs.

Choosing which project to implement should be clear from your marketing objectives in your annual marketing plan.

---

## Price

When you select the Price tree item you are given access to a series of reports about pricing and retailer margins of your products and your competitors. See the Evaluation chapter for more information about reports.

Expanding the Price tree item gives you access to your products. You start m2g with a single existing product, but will eventually be able to launch a maximum of six.

## Product Pricing Screen

The Product Price screen is used to enter retail pricing, retailers' margin, which retail channels to supply and retail channel sales forecasts decisions for your firm's selected product for the coming year.

This is the decision screen where you decide what decisions to make to implement your pricing and distribution strategy for your product from your annual marketing plan.

### RETAIL PRICE

The Retail Price is the retail price that you recommend to your retailers that they sell your product for. It is important to remember that while increasing price will increase the gross margin made on sales (and thereby increase profit per unit) the ultimate effect on total profit will depend on the responsiveness (fall) of market demand to this change in price (and vice versa). Similarly, the price choice of all products in the market will affect the relative market shares enjoyed by each competitor, so if you all reduce your price equally, then your relative market shares could remain the same.

### RETAILER MARGIN

The Retailer Margin indicates the percentage of a product's retail selling price that the retailer receives as commission for selling that product. The number of retailers that choose to stock your product is partly due to the absolute amount of money that they gain from selling your product.

The amount of money that retailers receive is equal to the sales volume that they sell times the commission they get per unit. So increasing your retailer margin will increase the number of retailers willing to stock your product provided that your sales do not decrease from last year.

### RETAIL CHANNELS

The Retail Channels box at the bottom of the decision screen requires you to make two decisions:

- Which retail channels to supply your product too?
- How many units you think you will sell in each retail channel?

The first decision you need to make is which retail channels to supply. The advantage of concentrating on one or two retail channels instead of all three is that you concentrate your sales promotional efforts and sales through fewer channels so you increase sales through the channels that you do supply. This can lead to you getting more stores stocking your product and better distribution coverage than if you dissipated your sales across all possible retail channels. The disadvantage of supplying a limited number of retail channels is that not all consumers shop for PMPs in all retail channels, so if your product is successful then you will be losing potential sales by not stocking in all retail channels.

One last point to bear in mind is that in m2g retailers would prefer to stock no more than one product per firm per market segment, if you ask them to stock two or more then some stores will choose to only stock their favorite leading to reduced distribution coverage for your products in that segment. So sometimes when launching multiple products into a single segment it is worth considering supplying them to different retail channels.

The second decision you need to make is to forecast how many units you think you will sell through each retail channel. If it is an existing product then you can find out how many units you sold last year by clicking on the Previous Year tab.

The purpose of the sales forecast is twofold. Firstly, to let you know how many sales you expect when you decide how many units to order on your Inventory decision screen. Secondly, to allow the m2g software to generate pro-forma financial statements for you under Forecast Results so you can tell how much net marketing contribution you will make if all of your sales forecasts are accurate.

---

## Advertising

When you select the Advertising tree item you are given access to a series of reports about the advertising budget of your firm and your competitors. See the Evaluation chapter for more information about reports.

Expanding the Advertising tree item gives you access to your products and your Advertising Strategy screen. You start m2g with a single existing product.

### Advertising Strategy Screen

The Product Advertising Strategy screen has two purposes:

- To enter the advertising budget for each of your firm's product(s) for the coming year.
- To decide what advertising strategy to employ; growth, mature, decline or custom.

The Strategy template section allows you to select a suggested advertising decision template for your product based on your analysis of which stage the product is in its lifecycle. Selecting a template ("Growth" for example) will fill in suggested advertising budget and media allocation values that are appropriate for a product in the initial "Growth" phase of its lifecycle. If you then want to tweak these suggested values, select the "Custom" template before doing so.

The Advertising field indicates the advertising budget for this product for the upcoming year. On another screen this budget will be allocated to the various media channels. A higher budget will generally lead to higher levels of awareness and demand for the product, but the extra sales may not cover the extra cost of advertising.

Choosing whether to implement a strategy template and how much budget to allocate should be clear from your marketing objectives in your annual marketing plan.

## **Product Advertising Media Allocation Screen**

The Product Advertising Media Allocation screen is used to allocate the product's advertising budget to the various media channels for the coming year.

You do not need to make any decisions on this screen if you chose to implement a growth, mature or decline advertising strategy for your product. If you change any of the allocations then your strategy template decision will be changed to custom.

Otherwise, you need to decide what percentage of your product's advertising budget to allocate to each media type. When choosing which media type you need to bear in mind how much budget you have and what the media preferences are of the segment that you are targeting.

## **Product Advertising Media Subcategory Screen**

The Product Advertising Media Subcategories screen is used to allocate product advertising to the subcategories within a particular media channel. Note that only Radio and Magazines require subcategory allocations.

You do not need to make any decisions on this screen if you chose to implement a growth, mature or decline advertising strategy for your product. If you change any of the allocations then your strategy template decision will be changed to custom.

Otherwise, you need to decide what percentage of your product's media budget to each subcategory type. When making your decision you need to bear in mind what the subcategory media preferences are of the segment that you are targeting.

---

## **Sales Promotion**

When you select the Sales Promotion tree item you are given access to reports about the sales promotion budget of your firm and your competitors and your current revenue per store per channel. See the Evaluation chapter for more information about reports.

Expanding the Sales Promotion tree item gives you access to your products and your Sales Promotion Strategy screen.

## **Sales Promotion Strategy Screen**

The Sales Promotion Strategy screen has two purposes:

- To enter the sales promotion budget for each of your firm's product(s) for the coming year.
- To decide what sales promotion strategy to employ; growth, mature, decline or custom.

The Strategy template section allows you to select a suggested sales promotion decision template for your product based on your analysis of which stage the product is in its lifecycle. Selecting a template ("Growth" for example) will fill in suggested sales promotion budget and subcategory allocation values that are appropriate for a product in the initial "Growth" phase of its lifecycle. If you then want to tweak these suggested values, select the "Custom" template before doing so.

The Sales Promotion field indicates the sales promotion budget for this product for the upcoming year. On another screen, this budget will be allocated to the various subcategories. A higher budget will generally lead to increased sales in each of the stores stocking the product, but the extra sales may not cover the extra cost of sales promotion.

Choosing whether to implement a strategy template and how much budget to allocate should be clear from your marketing objectives in your annual marketing plan.

## Sales Promotion Allocation Screen

The Product Sales Promotion Allocation screen is used to allocate the product sales promotion budget to the various sales promotion activities.

You do not need to make any decisions on this screen if you chose to implement a growth, mature or decline sales promotion strategy for your product. If you change any of the allocations then your strategy template decision will be changed to custom.

Otherwise, you need to decide what percentage of your product's advertising budget to allocate to each type of sales promotion activity. When making your decision you need to bear in mind what the sales activity recommendations are for the segment that you are targeting. E.g. the sports segment does not favor rebates.

---

## Sales Force Management

When you select the Sales Force Management tree item, it takes you straight to the decision screen. For reports relating to sales force management click on the Distribution tree item or the reports tab on the decision screen.

See the Evaluation chapter for more information about reports.

The Sales Force Management decision is made for your whole firm and not individual products.

## Sales Force Management Screen

The Sales Force Management screen is used to determine the number of sales representative (rep) that you will hire to promote your products to the retail stores in each retail distribution channel.

You are required to make two decisions for each retail channel:

- How many sales reps to employ?
- What size salary package to offer them?

Choosing which retail channels to target your sales rep budget at should be clear from your marketing objectives in your annual marketing plan.

### **SALES REPS**

The Sales Reps field is where you indicate how many sales reps you plan to have promoting your products to this retail channel. The more reps you have, the more stores you will be able to convince to stock your products.

### **SALARY PACKAGE**

The Salary Package field is where you enter the salary package you are allowing for each sales rep in this retail channel. Note that in this context the term "salary package" covers things like the base salary, commission, other benefits, and administrative support. In general, paying more will attract better sales reps and thereby both increase the number of stores stocking your product and same store sales.

---

## **Inventory Management**

When you select the Inventory Management tree item, it takes you straight to the decision screen. For reports relating to inventory management, click on the Distribution tree item.

See the Evaluation chapter for more information about reports.

The Inventory Management decision is made for your whole firm and not individual products.

### **Inventory Management Screen**

The Inventory Management screen is used to decide how many units of each product you want your firm to manufacture in the coming year.

For each product, given how much existing inventory you have and its forecasts sales, you need to decide how many to order. To do this you need to decide how accurate you think the forecast is, and how much safety stock (expected closing inventory) you are prepared to accept.

## CHAPTER 5

# Evaluation

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## Evaluation Overview

As stated earlier the management process for marketing consists of planning a marketing program, implementing it and evaluating its performance as shown in the figure below.

Figure 45: The Circular Relationship Among Management Tasks

The circular relationship among management tasks.



In simple terms, the purpose of evaluation is to measure how far you have progressed towards meeting your marketing objectives. Through evaluation, you can observe what strategies and programs have worked well, and which have not. Evaluating your current position will allow you go into the planning stage able to review your marketing objectives and strategies in an informed manner.

The aim of this chapter is to guide you through the types of information and reports available to you in m2g and to aid you with evaluating your performance.

Please note that all screenshots were taken from a pre-release version of m2g and may slightly differ from the version you have.

## Major Reports Available

In m2g there are seven major report tree items that evaluate the performance of the whole firm:

- The Year Ahead. A brief overview of changes in the scenario this year and your current marketing budget.
- Industry Overview. A comparison of your firm's performance versus its competitor(s).
- Firm Results. A summary of your firm's financial performance over the previous year.
- Market Research. An opportunity to buy market research reports to try and find a competitive advantage.
- Product Management. Summary reports about the individual performance of your products. It's sub-items; Product Development, Price, Advertising and Sales Promotion also provide reports about their respective decisions.
- Distribution. A summary of your distribution and inventory management performance.
- Forecast Results. Pro-forma financial results forecasting your firm's performance for next year based on your sales forecasts being accurate, given the decisions that you have made.

In a typical m2g year you will review your previous year's performance by reading the Industry overview and Firm results reports. In your planning phase, you will review the Year Ahead, Market Research, Product Management and Distribution reports as part of your situation analysis.

Finally, you will enter your decision set and your sales forecasts and then review your Forecast Results. If you are not satisfied with your forecast results then you repeat the process of planning your decision set and forecasting sales.

Read below for more detailed information about each of the major report tree items.

---

## Industry Overview

When you select the Industry Overview tree item you are given access to a series of industry level reports:

- Industry Reports Overview. A memo summarizing the reports available.
- Industry Benchmark Report. A summary of all firms' net marketing contribution reports so that you can benchmark yourself against your competitors.
- Segment Sales in Units. A line graph of total units of PMPs sold in each market segment. This allows you to see changes in total demand for each segment.
- Market Share. A pie chart of market share percentages for each firm based on retail sales revenue for the entire m2g market.
- Multi-firm Wholesale Sales Revenue. A line graph of all firms' wholesale sales revenue over time.
- Multi-firm Net Marketing Contribution. A line graph of all firms' net marketing contribution over time.
- Multi-firm Cumulative Net Marketing Contribution. A line graph of all firms' net marketing contribution over time. This is a measure of how consistently each

firm is maintaining high net marketing contributions over time. Note that it only tracks from the moment that you took over management of your m2g firm.

You should be able to interpret the line graphs and pie chart unaided, but further explanation of the Industry Benchmark Report follows below.

## Industry Benchmark Report

The Industry Benchmark Report is a summary of all firms' net marketing contribution reports so that you can benchmark yourself against your competitors as shown in the figure below.

In real life, this information would be difficult to obtain, but this report has been made available to you so you can learn from your competitors.

Figure 47: Industry Benchmark Report

<b>Industry Benchmark Report</b>			
Marketing Strategy - World - Period 2007			
	Firm1	Firm2	Firm3
<b>Sales</b>			
Sales Revenue	\$117,000,000	\$117,000,000	\$117,000,000
Less: Cost of Goods Sold	\$79,200,000	\$79,200,000	\$79,200,000
<b>Gross Margin</b>	<b>\$37,800,000</b>	<b>\$37,800,000</b>	<b>\$37,800,000</b>
<b>Inventory Costs</b>			
Inventory Holding Cost	\$0	\$0	\$0
Inventory Disposal Loss	\$0	\$0	\$0
Contribution Before Marketing	\$37,800,000	\$37,800,000	\$37,800,000
<b>Product Marketing</b>			
Product Advertising	\$4,000,000	\$4,000,000	\$4,000,000
Sales Promotion	\$4,000,000	\$4,000,000	\$4,000,000
	\$8,000,000	\$8,000,000	\$8,000,000
<b>Firm Marketing</b>			
Sales Force	\$9,624,000	\$9,624,000	\$9,624,000
Market Research Studies	\$0	\$0	\$0
Product Development Projects	\$0	\$0	\$0
	\$9,624,000	\$9,624,000	\$9,624,000
<b>NET MARKETING CONTRIBUTION</b>	<b>\$20,176,000</b>	<b>\$20,176,000</b>	<b>\$20,176,000</b>
<b>CUMULATIVE NET MARKETING CONTRIBUTION</b>	<b>\$20,176,000</b>	<b>\$20,176,000</b>	<b>\$20,176,000</b>

**HINTS AND TIPS**

1. Your goal is to increase your Net Marketing Contribution so that it is higher than your competitor(s).

There are several key parts of this report that you need to understand.

### SALES AND GROSS MARGIN

The Sales Revenue listed for each is the total wholesales sales revenue of all of the firm's products. The Cost of Goods sold is the total cost of goods sold of all of the firm's products that were sold, which is the number of units of a particular product sold multiplied by it's manufacturing cost. See the existing products decision screen for each of your products to see their unit manufacturing cost.

Gross Margin is the amount of profit that each firm made after the manufacturing costs were deducted. To increase your firm's gross margin you need to consider:

- Increasing sales revenue, i.e. increase sales volume (units) and/or increase price
- Decrease Cost of Goods sold per unit, i.e. invest in product development projects that improve unit cost.

## INVENTORY COSTS

There are two types of inventory costs:

- Inventory Holding Cost. Each year all firms are charged 5% of the value of their closing inventory for inventory holding costs to cover the cost of warehousing etc.
- Inventory Disposal Loss. If a firm updates a product with a new design or abandons it altogether then all existing inventory is dumped at 80% of what the firm paid for it. e.g. \$1m of inventory would be dumped for \$800K giving a loss of \$200K.

You can gather some valuable market research from looking at the figures for your competitors. Firms that have no inventory holding costs have stocked out, because they are under forecasting demand for their products. Firms with large inventories are over forecasting demand. If you see any inventory disposal costs, then you know that your competitor has either, updated an existing product's design or abandoned one.

## PRODUCT MARKETING

This section shows the combined Product Advertising and Sales Promotion budgets for all products that each firm is marketing. This allows you see how much money your competitors are spending on promotion but not how they are allocating it to individual products.

## FIRM MARKETING

The Sales Force management budget gives you an indication of the size of your competitors' sales force in comparison to yours.

The Market Research budgets lets you know whether your competitors are buying a little or a lot.

The Product Development budget lets you know whether your competitors have improved any of their products in the last year and/or launched new ones.

## NET MARKETING CONTRIBUTION

Net marketing contribution is the amount of profit remaining after manufacturing (cost of goods sold) and marketing expenditures have been deducted. The only costs still to be deducted are other functional overhead costs for your firm, e.g. finance, administration etc.

Net marketing contribution is a measure of how profitable your firm is as a result of your strategic marketing plan. There are two ways that you can increase your net marketing contribution:

- Increase Gross Margin without increasing your marketing expenditure
- Reduce Marketing Expenditure without reducing your Gross Margin.

How you achieve that is the challenge of m2g.

## The Year Ahead

When you select the Year Ahead tree item you are given access to a series of three reports:

- The Year Ahead. A brief overview of changes in the scenario this year.
- Strategic Marketing Planning. A reminder of the key steps involved.
- Forecast Marketing Budget. Your available budget for this year's decisions.

The first two reports are self-explanatory but further explanation of the Forecast Marketing Expenditure Budget report follows below.

## Forecast Marketing Expenditure Budget

The forecast marketing expenditure budget shows you how much money you have available to spend this year as shown in the figure below.

Figure 46: Forecast Marketing Expenditure Budget Report

### Forecast Marketing Budget Expenditure 2008

Marketing Strategy - World - Firm1

	Current decisions (2008)	Previous decisions (2007)
Original Base Budget Limit	\$25,000,000	\$25,000,000
Adjusted Budget Limit	\$25,000,000	\$25,000,000
<b>Budgeted Expenditure</b>		
Product Advertising	\$4,000,000	\$4,000,000
Sales Promotion	\$4,000,000	\$4,000,000
Sales Force	\$9,624,000	\$9,624,000
Market Research Studies	\$0	\$0
	<u>\$17,624,000</u>	<u>\$17,624,000</u>
<b>AVAILABLE TO SPEND</b>	<b>\$7,376,000</b>	<b>\$7,376,000</b>

#### HINTS AND TIPS

1. Your base budget is set at either 50% of last year's gross margin or \$25,000,000, whichever is higher.
2. If you launch a new product this year then your base budget will be automatically increased by \$10,000,000 to fund the launch campaign. This additional funding only lasts for one year.
3. If you overspend your budget, your Advertising and Sales Promotion spending will be reduced. If this is insufficient, the number of sales reps will then also be reduced.

There are three key parts of this report that you must understand.

### BUDGET LIMIT

Your original base budget limit is set at either 50% of last year's gross margin or \$25 million; whichever is higher. See the Industry Overview section below for a more detailed discussion of gross margin.

Your adjusted budget limit is that actual budget that you have available for this period. This is your original base budget plus any adjustments. There are only two possible types of adjustments:

- If you launch a new product then you are given a one year \$10 million budget increase to fund the launch costs.

- In m2g Multi-Player your course instructor is able to increase or decrease your budget.

### **BUDGETED EXPENDITURE**

The first column in this section shows how much money you currently have allocated to product advertising, sales promotion, sales force management and market research. Changing any of your decisions in these areas will automatically update this report.

The second column shows you how much you spent last year.

### **AVAILABLE TO SPEND**

This is how much unallocated budget you have left, i.e. how much money you still have available to spend if you want to. Any money you spend will be deducted from your net marketing contribution, so you should only spend money on activities where you think the return will more than cover the cost.

If this number is negative that means that you have exceeded your budget and you need to choose which marketing activities to cut back. If you do not do so yourself, then the m2g will automatically reduce your Advertising and Sales Promotions budgets during the rollover to bring you back within budget.

---

## **Firm Results**

When you select the Firm Results tree item, you are given access to a series of firm level financial performance reports:

- Firm Reports Overview. A memo summarizing the reports available.
- Net Marketing Contribution Versus Forecast. A comparison of your actual results for the current period against your forecast result. The purpose of this report is to review the accuracy of your forecasting so that you can evaluate and improve your forecasting technique.
- Net Marketing Contribution Versus Last Year. A comparison of your actual results for this year versus last year. You may or may not have achieved your forecast result, but this report will tell you whether your actual results have improved on last year. Note that this report is unavailable in the first year of m2g.
- Net Marketing Contribution History. A table providing a history of your actual net marketing contribution reports since you took control of your firm.
- Marketing Budget. Shows you what your final marketing budget was for the previous period. If you attempted to overspend your budget then this will also show you which decisions were automatically reduced.
- Last Year's Decisions. A report detailing the decisions that you entered last year.

You should be able to interpret most of these reports unaided but an example of the Net Marketing Contribution report is shown below to discuss forecasting.

## Net Marketing Contribution Report

This report is a comparison of your actual results for the current period against your forecast result. The purpose of this report is to review the accuracy of your forecasting so that you can evaluate and improve your forecasting technique. An example is shown in the figure below.

Figure 48: Net Marketing Contribution Report

<b>Net Marketing Contribution Report 2007</b>			
Marketing Strategy - World - Firm1 - Period 2007			
	Forecast 2007	Actual 2007	Variance
<b>Sales</b>			
Sales Revenue	\$117,000,000	\$117,000,000	0%
Less: Cost of Goods Sold	\$79,200,000	\$79,200,000	
<b>Gross Margin</b>	\$37,800,000	\$37,800,000	0%
<b>Inventory Costs</b>			
Inventory Holding Cost	\$0	\$0	
Inventory Disposal Loss	\$0	\$0	
Contribution Before Marketing	\$37,800,000	\$37,800,000	
<b>Product Marketing</b>			
Product Advertising	\$4,000,000	\$4,000,000	
Sales Promotion	\$4,000,000	\$4,000,000	
	\$8,000,000	\$8,000,000	
<b>Firm Marketing</b>			
Sales Force	\$9,624,000	\$9,624,000	
Market Research Studies	\$0	\$0	
Product Development Projects	\$0	\$0	
	\$9,624,000	\$9,624,000	
<b>NET MARKETING CONTRIBUTION</b>	<b>\$20,176,000</b>	<b>\$20,176,000</b>	<b>0%</b>

### HINTS AND TIPS

1. Demand forecasting is difficult, both in this simulation and the real world. If you can consistently achieve an actual sales revenue within 20% of your forecast then you are doing well.

The key components of this report (Sales, Inventory costs etc.) are explained in detail above under the Industry Benchmark Report discussion. The purpose of the discussion below is to clarify what data is used for each of the columns.

### FORECAST RESULT

Your forecast sales revenue is based on the sales forecasts that you entered for each of your products for each retail channel last year. The inventory holding cost was forecast based on the amount of closing inventory that you forecast. All of the other numbers are drawn from the decisions you entered.

### ACTUAL RESULT

Your actual result is obviously the results that you actually achieved. If your actual sales revenue is less than your forecast then you should:

- Check your existing product decision screen on the previous year tab for each of your products to see what your actual sales in units were for each retail channel.
- Consider purchasing Market Research to try to find out what impact competitors' actions had on your sales

- Read the product management reports for information on the individual performance of each of your products.

### **VARIANCE**

Is a simple percentage of how much different your actual is compared to your forecast, e.g. (26)% means that it is 26% less than your forecast.

---

## **Market Research Reports**

When you select the Market Research tree item it takes you straight to the decision screen. This decision screen allows you to choose which market research reports to purchase.

The Market Research decision is made for your whole firm and not individual products.

### **Market Research Report Screen**

The Market Research screen is used to decide which market research reports you wish to purchase to help you make decisions for the coming year.

Clicking on the report, then clicking the 'Add' button selects reports. This will flag the report, as selected for purchase and the cost will be added to the "Selected Purchases" figure. Conversely, selecting a selected report and clicking the remove button, removes it from the "Selected Purchases" figure. Once you have chosen all the reports you want, press "Purchase" and the reports will be made available to you via the decision tree on the left side of the screen and the money will be deducted from your available funds.

Purchasing market research is an instant decision and cannot be undone. Once you have purchased the report(s) and spent the money, it will no longer be available to you for your other marketing activities this year.

### **Market Research Reports Available**

There are two levels of market research available to you, Budget and Premium. As indicated by their names, budget research is provided by cheaper companies and tends to be of lesser quality, while premium research is of a higher quality and price.

The following reports are potentially available each year.

#### **INDUSTRY OVERVIEW**

The following Industry level reports are available for purchase:

- All Product Details Report. A complete comparison of all products in the m2g market including price, sales volume, product awareness, distribution coverage, and design rating.
- Some Product Details Report. A comparison of all products in the m2g market including price, sales volume and design rating.
- Segment Size and Price Range Report. An estimate of the current potential size of each market segment and its recommended retail price range.

- Segment Media Advertising Preferences. Media viewing habits for each segment including advertising sensitivity and a recommendation for an ideal product awareness.
- Segment Distribution Preferences. Shopping habits for each segment including distribution sensitivity and a recommendation for an ideal distribution coverage.
- Perceptual Map of all Products. A perceptual map for the m2g market showing all segments ideal points and all products.

### **ADVERTISING PERFORMANCE**

The following Advertising performance reports are available for purchase:

- Product Awareness Increase Due to Media Advertising. The increase in product awareness of each of your products due to each media type that it was advertised in last period.

### **DISTRIBUTION PERFORMANCE**

The following Distribution performance reports are available for purchase:

- Consumer Electronics - Product Stocking. How many consumer electronic stores are stocking each product in the m2g market.
- Department Stores - Product Stocking. How many department stores are stocking each product in the m2g market.
- Discount Stores - Product Stocking. How many discount stores are stocking each product in the m2g market.
- All Products Sales Promotion Effectiveness. An analysis of the effectiveness of your sales promotion strategy for each of your products.

---

## **Product Management Reports**

When you select the Product Management tree item, you are given access to a series of reports about the individual performance of your products. It's sub-items; Product Development, Price, Advertising and Sales Promotion also provide reports about their areas.

- Product Management Reports Overview. A memo summarizing the reports available.
- Product Contribution. A detailed side-by-side comparison of all of your products results for the previous year.
- Product Contribution History. A report per existing product giving a table of its product contribution over time.

You should be able to interpret most of these reports and the sub-item reports unaided but an example of the Product Contribution report is discussed in more detail below.

### **Product Contribution Report**

The Product Contribution report is a detailed side-by-side comparison of all of your products results for the previous year. Its purpose is to allow evaluate the performance of your products individually. Often you will be able to attribute the failure to reach sales forecast to the poor performance of one particular product.

An example of this report is shown in the figure below.

Figure 50: Product Contribution Report

<b>Product Contribution 2007</b>	
Marketing Strategy - World - Firm1 - 2007	
<b>Product</b>	Sonic1
State	Normal
Product Devpt Project	Sonic1
<b>Production</b>	
Starting Inventory (Units)	0
Ordered (Units)	1,800,000
Max Possible Sales (Units)	1,800,000
Closing Inventory (Units)	0
<b>Sales</b>	
Forecast Sales (Units)	2,500,000
Actual Sales (Units)	1,800,000
Est. Lost Sales	267,184
Revenue	\$117,000,000
Less: Cost of Goods Sold	\$79,200,000
<b>Gross Margin</b>	<b>\$37,800,000</b>
Gross Margin (%)	32%
<b>Inventory Costs</b>	
Inventory Holding Cost	\$0
Inventory Disposal Loss	\$0
Contribution Before Marketing	\$37,800,000
<b>Product Marketing</b>	
Product Advertising	\$4,000,000
Sales Promotion	\$4,000,000
	\$8,000,000
<b>CONTRIBUTION AFTER PRODUCT EXPENSES</b>	<b>\$29,800,000</b>

Each part of this report will now be described in more detail.

## PRODUCT

The product name tells you what the name of your product is. The state tells you whether it was upgraded last year, and the product development project tells you what design this product is based on.

## PRODUCTION

Starting inventory and Ordered (units) are taken directly from your Inventory Management decision. Together they total the maximum possible sales that you could have made last year. The closing inventory is how many you actually had left.

## SALES

Forecast sales came from your sales forecasts for each retail channel last year. Actual sales are obviously your actual sales for last year. Estimated lost sales lets you know if you lost any sales due to stock-outs (running out of inventory).

The "revenue", "cost of goods sold" and "gross margin" are for this particular product. These terms are discussed in more detail above in the Industry Overview section.

## INVENTORY COSTS AND PRODUCT MARKETING

These costs are the ones that relate directly to this product. For a more detailed discussion of these terms and concepts read the Industry Overview section above.

## CONTRIBUTION AFTER PRODUCT EXPENSES

This is the contribution that this product made to your firm - i.e. how profitable this product is.

Summing the total contribution for your products and then deducting the sales force management, product development and market research expenditures calculates net marketing contribution for your firm.

---

## Distribution Reports

When you select the Distribution tree item, you are given access to a series reports about your distribution and inventory management performance.

- Distribution Reports Overview. A memo summarizing the reports available.
- Multi-Firm Sales Force Budgets. A line graph of all firms' sales force management budgets over time.
- Product Channel Distribution Table. A table showing the individual distribution performance of each of your products. Use this information to analyze the distribution coverage of each of your individual products.
- Product Inventory Line Chart. A line chart showing your inventory levels of each of your products over time.

You should be able to interpret most of these reports unaided but an example of the Product Channel Distribution table report is discussed in more detail below.

## Product Channel Distribution Table

The Product Channel Distribution Table report is a table showing the individual distribution performance of each of your products. This information can be used to analyze the distribution coverage of each of your products individually. An example of the report is shown in the figure below.

Figure 51: Product Channel Distribution Table Report

<b>Product Channel Distribution Table</b>			
Marketing Strategy - World - Firm1 - 2007			
<b>Product</b>	<b>Consumer Electronics</b>	<b>Department Stores</b>	<b>Discount Stores</b>
<b>Sonic1</b>			
Retail Price	\$100.00	\$100.00	\$100.00
Retailer Margin	35%	35%	35%
Wholesale Price	\$65.00	\$65.00	\$65.00
Forecast Sales Units	1,000,000	750,000	750,000
Actual Sales Units	778,034	540,238	481,727
Retail Sales	\$77,803,450	\$54,023,812	\$48,172,739
Retailer Margin	\$27,231,207	\$18,908,334	\$16,860,459
No. Stores Stocking	<b>1003</b>	<b>817</b>	<b>779</b>
% Change on Previous Year			

Each product is listed individually down the page and most of the fields should be straightforward for you to understand. However we will discuss the last three rows in more detail.

**RETAILER MARGIN**

This is the total amount of money that all of the stores in this channel stocking your product earned last year. It is calculated by multiplying Retail Sales by the Retailer Margin percentage above.

**NO OF STORES STOCKING**

This is the number of stores in this channel stocking this particular product. Unless this is your best selling product then it is highly likely that this number is less than the total number of stores in this channel stocking any of your products. See the section on retail channels under the Product Pricing Screen section for more information on what affects the number of stores stocking a particular product.

**% CHANGE ON PREVIOUS YEAR**

This is the percentage change in the number of stores stocking this particular product in this particular retail channel. Generally you want this number to be positive, unless perhaps you are trying to reduce distribution coverage for your product to reduce costs.

---

**Forecast Results**

When you select the Forecast Results tree item you are given access to a series of pro-forma firm level financial performance reports for next year based on your current decisions and assuming that your sales forecasts are completely accurate:

- Forecast Results Overview. A memo summarizing the reports available.
- Forecast Marketing Expenditure Budget. This report is repeated from the Year Ahead above and highlights what your remaining budget is for this year.
- Forecast Net Marketing Contribution. Compares your forecast results for next year versus your actual results for this year so that you can review how much your current decisions are predicted to improve your net marketing contribution.
- Forecast Product Contribution. A detailed side-by-side comparison of all of your individual products forecast results for the next year.
- Current Decisions. Details of all of the decisions that you have entered for next year.

The content of all of these reports has been explained in earlier sections so you should be able to interpret them effectively unaided.

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