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# NextStep

# DECISIONS FROM YEAR 0 TO YEAR 1

## What happened in year 0 (starting situation)

In year 0, all companies within the Juliet industry started with an equal Share Price Index (SPI) of 1,000. NextStep only had Sonite brands in their product portfolio. The firm had produced 104,000 units of Noon and 80,000 of Nova. However, of both brands less was sold than produced, which meant an inventory for next period of 16,000 for Noon and 19,000 of Nova. The market share was 15% (%U) and 17% (%\$). In this year the brand revenue of Nova was higher than the one of Noon, namely 21M \$ compared to 18M \$, together 39M \$. In this period only a few market studies were available as consumer survey & panel, distribution panel and market forecast. These market studies were used to determine the objectives for the first decision round.

## The objectives for the next round

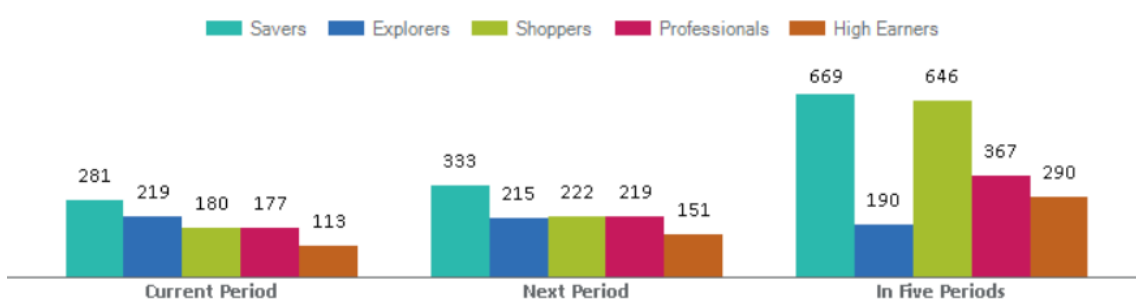
With the help of the market studies available we set the objectives for the first year. From the consumer survey & panel it could be concluded that the brand awareness for Noon was highest within the shoppers (59%) segment but lowest in the savers segment (40%), for Nova the highest brand awareness was

measured at the professionals (60%) and high earners (64%) segments. However, for both brands the purchase intentions within these segments could be improved. The market forecast showed that the most market growth over 5 years would be in the shoppers and savers segments. Therefore the objective for the next round was to increase the ratio between brand awareness and purchase intentions for Noon within the shoppers and savers segment (due to its growth potential) and for Nova within the high earners and professionals segments. The segmentation strategy for both Noon and Nova was set to a 50%-50% distribution over the two segments to be positioned in.

## Changes in allocation of spending

In order to reach the objectives changes in allocation of spending mostly involved advertising and commercial team. Within the allocation of spending we focused on Noon, since Noon had most potential to increase revenues and SPI due to its position in the market. The advertising budget was increased with \$400 for Noon, all put in media research, and lowered with \$400 for Nova. However, we kept the total advertising budget on \$4,000.

Market size broken down by consumer segment (in thousands of units)



Commercial team budget allocation was changed from \$1,224 to \$2,589. The distribution of this commercial team budget was higher for Noon than for Nova. No investment in R&D has been done. Because of our focus on Noon and believe in the fact that the changes in budget allocation within advertising and commercial team would lead to higher brand awareness-purchase intentions ratio

the budget allocated to the production of Noon was highered. Noon's production was highered from 104,000 to 150,000. In order to align our brands with the customer needs, market studies were ordered for \$422. All Sonite studies were ordered and 3 Vodite studies as semantic scales, industry benchmarking and market forecast.

## DECISIONS FROM YEAR 1 TO YEAR 2

### *What happened in year 1*

In year 1, NextStep has had his first growth. the SPI has grown from 1,000 to 1,406. The same holds for NextStep's revenue, having a growth from 39M \$ to 59M \$. Earnings before taxes have grown from \$7,293,000 to \$12,428,000. Furthermore, the total market share has grown with 7% (%U) and 5% (%\$). Of both brands more has been sold than the production planning, but luckily NextStep did not have lost sales. The brand awareness and purchase intentions have grown within the targeted segments. Noon has the highest purchase intention in the shoppers segment (39.5%). Nova has the highest purchase intention in the high earners segment (30%).

### *The objectives for the next round*

In this year NextStep considered possible value disciplines for both of its Sonite brands. Noon was chosen to be a cheap product from good quality, targeted mainly on the shoppers and a bit on the savers. Nova was chosen to be a luxury

product with a higher price and good quality, targeted on the high earners segment. Therefore the value discipline of Operational Excellence fitted Noon and Customer Intimacy fitted Nova. Operational Excellence brought NextStep to the objective to minimise the base costs of both the product Noon. This can be done by the R&D department. Calculations made show us that this will result in a cost reduction of \$18.424.000 per period for Noon. In this way NextStep increases revenues and higher its budget. Because of a shifted focus to investment in R&D, less budget is left to pursue as much advertising and commercial team increase, however the objective is to increase brand awareness and especially purchase intentions. However the objective for the segmentation strategy is shifted more towards the shoppers for Noon, from 50%-50% shoppers and savers to 60%-40% shoppers and savers. For Nova the focus has shifted almost fully towards the high earners segment, with relatively 70% high earners, 30% professionals.

### *Changes in allocation of spending*

Since last year more has been sold than the production planning the allocation of spending on production has been increased for both Noon and Nova. Production of Noon has been increased with 100,000 units and Nova's production has been increased with 70,000 units. This, to overcome lost sales next period.

Noon's advertising budget has been kept on \$2400, but advertising research has been reduced with \$100 and advertising media has been increased with \$100.

However Nova's advertising budget has

been lowered in total with \$100. The advertising experiment had also proven that NextStep would create more growth with increasing Noon's advertising budget than Nova's.

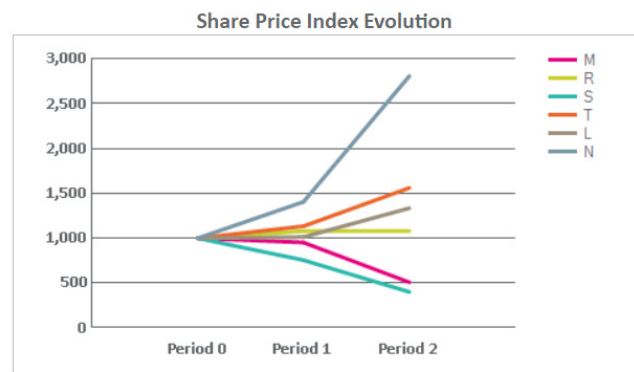
The commercial team size has been lowered, therefore the costs of this has been lowered from \$2,589 to \$2,207. \$670.000 has been allocated to the R&D department to minimise the base costs of Noon. Nextstep did not have enough money to minimise the base costs of Nova too, so this is planned to be done in the year 4.

## DECISIONS FROM YEAR 2 TO YEAR 3

### *What happened in year 2*

In year 2, all the inventory has been sold. Both brands, Noon and Nova, do have lost sales. Because of this, the advertising experiments did not work out. Our market share has been grown to 35% this round. The budget for coming period is 20 million \$ since NextStep received a loan this of 4 million \$. The first couple Vodite market research studies were ordered last year, market forecasts and semantic scales. Other studies were not available at that moment. With these studies, an estimation of the chances for NextStep in the Vodite market can be made in this period.

The first Vodite brand is released by a competitor, so from now on, the research studies of the Vodites market are important for NextStep. The SPI of NextStep has continued his growth, as can be seen in the figure. Our SPI has doubled, as can be seen at the figure.



### *The objectives for the next round*

One objective is to get a huge market share in the segment of High earners for Nova. Since the purchase intention of High earners is 60.1%, while the purchase intentions of Professionals reaches stays under the 7%. In addition, the competitive intelligence research study shows us that the competitors spend a lot to High earners, this can be seen in the figure. Although, NextStep has a market share of more than 60% at High earners. In

conclusion, if NextStep should spend more on advertising, and the competitors less (what is expected because they do not make a lot of profit unless the spendings), then could NextStep get the full segment in hands.

Another objective is to minimise the base costs of both the products, Nova and Noon. This can be done by the R&D department. Calculations made show us that this will result in a cost reduction of \$18.424.000 and \$19.856.000 per period for Noon and Nova respectively. This can be calculated by multiplying the difference in base costs with the expected amount of sales for the coming period. Since the R&D project of minimizing Noon's base cost has been finished at the end of year 2, the objective is to increase more revenues because of this change. For Nova the objective is to start the R&D project to minimise its base cost, which can be used next period to increase revenues.

The biggest objective for year 3 is to launch a product in the Vodites market. Since mean has entered it, the research studies have become more reliable. The objective is not to be the first in the Vodites market, but to be the best. By usage of the semantic scaling, an R&D project will be started to create a product with the characteristics that are matched

with the consumer needs of the segment Innovators. The segment innovators is chosen because at this moment it is the biggest segment, and because this segment has an exemplary role for the other segments. In a later stage, the product could be changed with R&D to focus more on the followers, since this segment is expected to grow by great numbers. As can be derived from this paragraph, NextStep wants to use the Customer Intimacy strategy for the Vodites market, in combination with Operational excellence, since the base costs of the new Vodite product will be minimized too.

#### *Changes in allocation of spending*

The allocation of advertising for Nova has been changed for the coming year. Now, Nova focuses purely on High earners. In other words, the distribution of segments is 100% for High earners. 1,200 K \$ is allocated to the R&D department to start the project to minimise the base cost of Nova. 10 Million \$ is allocated to the R&D department to enter the Vodite market, by the project PENEED. In this way, the product NEED can be created and launched next year. The characteristics of NEED are fully adjusted by the needs of the followers which were obtained in the Semantic scales.

Estimated Brand Advertising Expenditures (in thousand dollars) – Total and by Consumer Segment

Brand	Explorers	Shoppers	Professionals	High Earners	Savers	TOTAL
TONE	350	350	750	1,270	290	3,010
ROCK	390	330	830	830	330	2,710
SOFT	240	240	240	240	1,620	2,580
NOON	230	1,030	230	230	740	2,460
TOPS	1,040	470	310	260	210	2,290
LOOP	170	170	610	620	170	1,740
NOVA	120	120	400	690	120	1,450
LOCK	170	280	110	110	670	1,340
MOST	0	0	0	0	150	150
TOTAL	2,710	2,990	3,480	4,250	4,300	17,730

## DECISIONS FROM YEAR 3 TO YEAR 4

### *What happened in year 3*

In year 3, some products of Noon have been produced too much. NextStep was happy to see that there were no lost sales last year for Nova and Noon. The market share has stayed on the same level, while the earnings before taxes went from \$39.815.000 to \$60.244.000. The project to minimise the base cost of Nova has been finished, which now can be used to increase revenues. The project PENEED is finished, so the new product NEED is ready to be launched in the Vodite market. The budget is 21 million \$ for the coming year.

### *The objectives of the next round*

NextStep wants to maintain the strategy of costs reduction, discussed in the previous year. It can be said that they have chosen for the operational excellence strategy, where costs are reduced and the focus lays on Convenience.

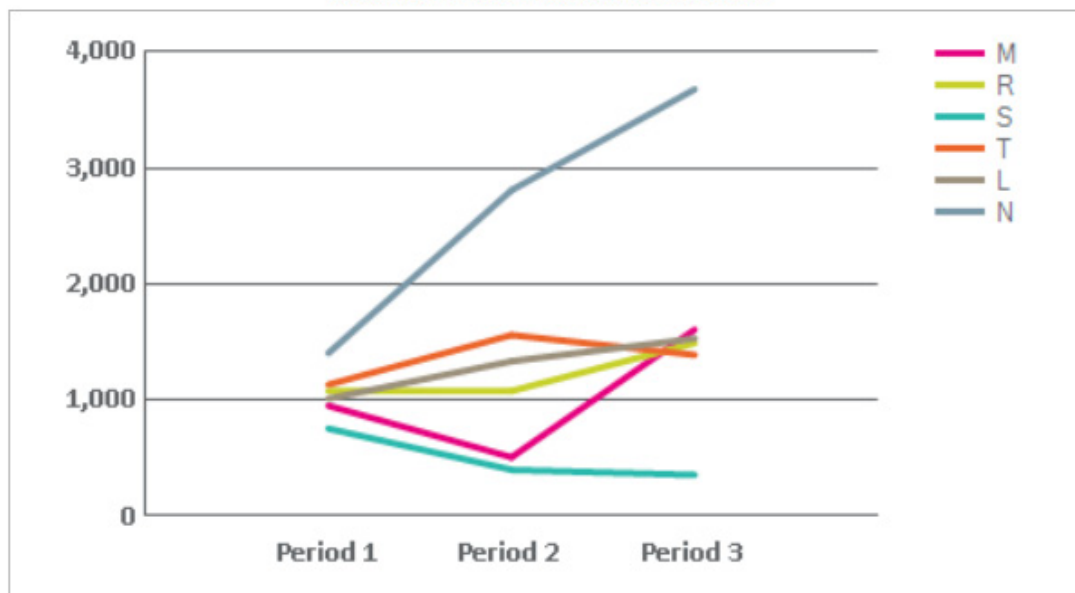
The second objective is to launch the Vodite, since PENEED is finished.

NextStep wants to take over the Vodite market and start with focusing on the Innovators. This will be done by making a lot of advertising, so Need will be the only choice they have. The competitors do have less budget so this is a reasonable objective.

### *Changes in allocation of spending*

The R&D department is used to minimize the base costs of Nova in this period and cost \$900.000. In this way, the operational excellence strategy is continued by NextStep. Another big change in the allocation of spending is the amount of spending on advertising and the commercial team. For coming period, more than 13 million \$ is reserved for these two departments for the Sonites, and 6 million \$ for the Vodites. This is done since the Advertising Experiments has shown that more profit can be made by allocating more budget to these departments.

Share Price Index Evolution



## DECISIONS FROM YEAR 4 TO YEAR 5

### *What happened in year 4*

The fourth year was the year where the first Vodite brand, NEED, of the company NextStep was launched with big success. Even though NEED had to compete with three other brands in the new market it came out on top with an unexpected turnover market share of 82%, meaning that the demands could not be met by production. However, NextStep conquered more ground in the Sonite market too, with a turnover market share increase of 3%, from 37% to 40% of the whole market. On a smaller scale the market share for NOON in the shoppers segment stayed about the same at 46.2%. However, the market share dropped gigantically in the savers segment from 26.4% to 18.5% as a result of switching the focus of NOON's advertising from shoppers and savers to just shoppers. NOVA's market share in the high earners segment stayed constant at about 81.1%. The revenues of NextStep increased from 137 million dollar to 254 million dollar, the Share Price Index increased by almost 63% from 3677 to 5982.

### *The objectives for the next round*

After releasing a completely new product to enter the emerging Vodite market, the R&D department now focusses to improve the product NOON to make it more attractive to the shoppers segment. The display size and power will both be increased at the lowest possible base cost.

However already in this round the goal is to increase the market share of NOON in the shopper segment, with the help of targeted advertising and strategically placed sales force. As NOVA already holds most of the high earners segment, the goal realistically is to hold the current market share or slightly increase it still. The current objective for the Vodite market is to sell as much as possible of the product NEED to the innovators and early adopters while the followers group is still small. To ensure no sales will be lost this time the production will be drastically increased. A repositioning is planned for later years when the follower group outgrows the others. To play into the followers needs, NEED will be modified in R&D. The advertising for NEED will be shifting more towards the followers to increase brand awareness, for a successful relaunch.

### *Changes in allocation of spending*

A loan reimbursement of about 990 thousand dollars with an interest of an additional 61 thousand dollar will be paid in this round. In the previous period 800 thousand dollar was spent on R&D, for the coming period the budget has been raised to 2.4 million dollar. The advertising expenditures have increased by 30 thousand dollar staying a bit above 10 million dollar. The commercial costs will stay virtually unchanged around 9.5 million dollar.

## DECISIONS FROM YEAR 5 TO YEAR 6

### *What happened in year 5*

In the fifth year the second improved version of NOON was launched with improved display and power features. As a result the market share of NOON in the shopper segment rose from 46.2% to 57.3%, the market share in the savers segment went down again from 18.5% to a mere 3.4%. The market share of NOVA in the high earners segment stayed constant at 81.2%. The total market share in the Sonite market is 38%. The market share of the Vodite brand NEED decreased from 82% to 71% of the complete market, possibly explained by the entrance of an additional two brands in this market. Most of the sales made for NEED are in the Innovator and Adopter group of the market. The Share Price Index of NextStep has risen again in year 5 from 5982 to 6566 and also the revenues have increased by 20 million dollar to 274 million dollar.

### *The objectives for the next round*

The objectives for the brands NOON and NOVA are unchanged, the goal is to increase sales and the market share in the shoppers segment for NOON and hold the market share in the high earners segment for NOVA. In the Vodite market NEED is in the process of a total repositioning, all of the advertising will be targeted to them and sales effort will be directed proportional to followers preferences.

### *Changes in allocation of spending*

A loan reimbursement of about 1 million dollars with an interest of an additional 41 thousand dollar will be paid in this round. In the previous period 2.4 million dollar was spend on R&D, this round no R&D will be necessary so no money will be spend for R&D. The advertising expenditures will increase by 3 million dollar to 13 million dollar. The commercial costs will go up from 9.5 million dollar to around 10.1 million dollar.

## DECISIONS FROM YEAR 6 TO YEAR 7

### *What happened in year 6*

The sixth year was a year of exponential growth and lost sales, the demand for the two products NOON and NEED could not be met by the production plan, exceeding the already optimistic expectations. For NOVA everything went according to plan, selling products to 83.5% of all high earners and 13% in the whole market.

NOON has become the biggest brand on the whole Sonite market with a total product market share of 26%, caused by holding 66.2% market share in the shoppers segment alone an increase of 9% market share. In the Vodite market NEED holds a total market share of 58%, selling mostly to adopters and a growing share of followers. The Share Price Index now sits



at 6829 and the revenues have risen by 49 million to 323 million.

#### *The objectives for the next round*

This round holds no new objectives, the goal is merely to continue the plan made in the previous rounds to continue the successful results of the past.

#### *Changes in allocation of spending*

A loan reimbursement of about 1 million dollars with an interest of an additional 21 thousand dollar will be paid in this round. This round no money will be spend on R&D again. The advertising expenditures will increase by 1 million dollar to 14 million dollar. The commercial costs will go up to around 10.7 million dollar.

## KEY LEARNING POINTS

#### *Importance on the consumer*

During the USE learning line of New Product Development and Marketing, there is a clear focus on the customer. In the course New Product Marketing, a more theoretical approach was taken, which taught us about customer needs, target markets and how to analyze these to discover which are most profitable. The customer is the point of focus in order to be successful. In the second course, Marketing Research and Design Methods, we were taught the importance of the customer too. We listened to the user and incorporated their opinions in the redesign of the MiBand. We were taught that by listening to the user's needs, a product's features can be developed or chosen to offer the most value to the customer.

In this course, Marketing in Action, we were shown, again, the importance of the customer. By analyzing the customers and their behaviour, we were able to focus our brands on certain customer groups. By listening to their needs, we were to develop the product's features to offer

the most value to certain target group. We also adapted our strategy according to the analyzed data and eventually had a market share of 83.5% regarding high earners with Nova and 66.2% regarding Shoppers with Noon. These high numbers were achieved through our focus on certain customer groups. This showed us that researching a target group, listening to their needs and having a strong focus can help a brand grow immensely.

#### *How to handle competition and changes in the market*

One of the most difficult aspects of the course was the change in the game according to the actions done by competitors or the changes in the market. Although the change in the market can be analyzed with the given data, we never truly knew what to expect in the next round as well as what to expect from our competitors. All our decisions were completely thought through, so our growth was not unexpected. However, the size of our growth was. It was difficult to quickly adapt to our size, which resulted in the

production of too little products to sell. We have learned that this can be a big problem, as we did not want to disappoint any customers by sending them home empty-handed. Although it is nearly impossible to determine the exact change in the market for the future, we could have tried to do extra research regarding the growth of the brands to determine the amount of goods we were going to sell in future rounds. For the game, this might have been a little over-ambitious, but we have learned the importance of the production of the right amount of goods in the real world.

Additionally, the same problem arose in our choice of advertisements. To be ahead of the competition, we could have advertised more. Because of the size of our brand, much more advertisement was needed and could have been done. As mentioned previously, it was nearly impossible to know how much the competition would advertise in the next round, but we have learned the importance of advertising in the real world.

#### *Reflection head office meeting*

When the head office meeting was coming, NextStep was doing great. We made a strong growth in SPI, but the market was also very fluctuating. We had to come up with a plan that could sustain our growth after the successes we already had. For example Nova already had an impressive market share of 80% in it's target group "High Earners". A core element of this plan was to launch a new product "NEED" in the vodite market. Since it is an entirely

new market there was lots of growth potential. We launched our product in the 4th period. Unfortunately, we were not the first to launch our product but we still arrived quite early on this market. Our plan was to have a very controlled launch of our product by immediately focussing on what customers wanted from this vodite product. We used our research studies and found out that Connectivity and Resolution were perceived as important. They also both had a high ideal value on those aspects for the Innovators and Early Adopters. We therefore, made sure that our new product was optimized on those levels. We made use of the market information of our predecessor (MEAN) on the vodite market. It allowed us to make a better estimation in pricing/production/distribution. This controlled launch exceeded our expectations. We made in this period the largest SPI growth and we got a Value and Unit Share of 82% with our new product NEED. After this period we kept changing NEED with R&D in order to slowly switch towards followers. During these periods we still sustained a growth. In the last round we could really start to profit from the followers since this segment had grown much and our product had changed towards the characteristics that followers favored. As one can see this resulted again in a more steep growth and showed the potential NEED would still have had after the 7th period

On the sonite market we planned to reduce the base cost of our products and spent some extra budget on advertising and distribution coverage. We also planned to

pay attention to all the research studies and adapt where needed. We wanted to focus with NOON more on the savers and stop advertising our product to the shoppers. We followed our plan and it worked out quite well. As NOVA already had 80% market share on the high earners, it was an easy way to generate more profit. We brought its base cost from \$217 to \$171. We had to adapt NOON to target the “savers” more. This resulted in a higher base cost as initially was the case.

Fortunately it did result in NOON having retail sales of 251,696 in period 7 which is more than doubled in comparison to the retail sales of 92,758 in period 3. It turned out that deciding to focus on the “savers” was a great choice.

This makes us reach the conclusion that the plan we made worked out great. Our largest bottleneck was estimating the number of sales we were going to make. We were often a little bit too careful which resulted in us missing potential sales