MARKETING STRATEGY FOR PROFIT MAXIMIZATION AND INCREASE IN MARKET SHARE

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ABSTRACT

Profit maximization is the fundamental need of every company but the way in which this objective can be achieved is quite underrated till date. In this paper, we analyse the business strategy of a toothbrush producing company and demonstrate a case study regarding profit maximization by initially reaching the breakeven condition and later enhancing the business strategy for profit maximization. Using data from the previous quarters, with sales ranging over 5,00,000 units, we find that the company is adept in finding the total number of units to be produced to meet the current needs but is still not able to maximize the profit. Virtually all models of production start with profit maximization. The company's inelastic pricing in the previous quarters leads to loss of opportunity. The simplicity of business and the transparency of company's model is quite useful in devising a new business strategy.

Keywords: Business Strategy, Case Analysis, Marketing Strategies, Profit Maximization.

1. INTRODUCTION

The company OHnC, producing toothbrush, is situated in the state of Maharashtra. The company has a market share of 5% and is one of the many companies producing this product. This company, since its advent, has made a remarkable progress by minimizing the cost in the market. Survival is an implicit objective of most companies. Survival gains more value and prominence during the initial stage of the establishment of the company and during general economic adversity. The ability to survive in economic adversity is majorly depended upon the nature of ownership, nature of business competence of management and financial strength of the company.

In the first quarter of 2013, the company produced 18,00,000 units of toothbrushes and catered to 5.536% of the population of Maharashtra, making a profit of 2.7 crores. In the second quarter, producing the same number of toothbrushes, the company witnessed a drop in profit from 2.7 crores to 2.298 crores.
In this case study, we find the reason for the drop in profit and devise a new marketing strategy to achieve profit maximization.

2. QUESTION 1

What is the reason behind the drop in profit in the second quarter?

2.1 Statistical Analysis

![Chart 1: Amount of Profit in first two Quarters](chart1)

Figures 1: The details of profit revenue cost formula.
Table 1: The cost per unit of the raw material that company imports

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost per unit (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stick</td>
<td>0.2</td>
</tr>
<tr>
<td>Bristles</td>
<td>0.2</td>
</tr>
<tr>
<td>Rubber</td>
<td>0.3</td>
</tr>
<tr>
<td>Packaging</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Table 2: The amount of money the company spends on workers' salary per quarter

<table>
<thead>
<tr>
<th>Domain</th>
<th>No. of Workers</th>
<th>Quarterly salary per worker (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery Work</td>
<td>80</td>
<td>30,000</td>
</tr>
<tr>
<td>Packaging</td>
<td>20</td>
<td>30,000</td>
</tr>
<tr>
<td>Quality Assurance Team</td>
<td>6</td>
<td>75,000</td>
</tr>
<tr>
<td>Transportation</td>
<td>25</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Table 3: Company’s fixed and variable cost per quarter

<table>
<thead>
<tr>
<th>Entities</th>
<th>Expenditure per Quarter (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worker’s Salary</td>
<td>37,50,000</td>
</tr>
<tr>
<td>Machinery</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Quality Assurance team</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Transport</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Rent</td>
<td>15,00,000</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>16,20,000</td>
</tr>
<tr>
<td>Electricity</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Advertisement</td>
<td>60,00,000</td>
</tr>
</tbody>
</table>

Figure 2: Share of various cost factors in the total cost.
2.1.1 SWOT Analysis

**Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

**Weakness:** Weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

**Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.

**Threat:** A threat is an unfavourable condition in the organization's environment which causes a risk for, or damage to, the organization's position.

![SWOT Analysis Diagram]

**Figure 3:** SWOT analysis for the company

Total investment by the company, in the first quarter, was Rs. 1.452 crores and the number of units produced is 18, 00,000. This means that the cost per unit is Rs. 8.07

In the first quarter, company sold 16, 60,800 toothbrushes with the price of each toothbrush being Rs. 25 hence making the revenue 4.152 crores.

Profit = Revenue – Cost

Hence, profit in the first quarter was Rs 2.7 crores.

In the second quarter, all the cost requirement remained the same but the profit dropped to Rs 2.298 crores which makes it clear that the revenue went down by Rs 40.2 lakhs i.e 1,60,800 items were sold less as compared to the first quarter.

Hence, the reason behind the drop in the profit in the second quarter is decrease in sales.
3. QUESTION 2

How do we increase profit and company's market share?

3.1 Strategic analysis

Profit maximization can be done by increasing the sales. This basically satisfies both, profit maximization and increase in company's market share. By using Ansoff's matrix tool, we can use product development to introduce new product in the already existing company's market to achieve growth.

![Ansoff's Matrix Diagram]

**Figure 4:** Representation of the strategy used by company from Ansoff's matrix.

3.1.1 Product development

The new product to be developed is a tongue cleaner which can be incorporated on the backside of the toothbrush. The raw material cost would increase by 2,58,000.

Along with this strategic tool, we can use Five Force Model to analyse the competition with the industry and business strategy. Five Force framework helps us to determine the intensity of competition and hence we can determine the attractiveness and credibility of introducing the new product in the market. The cost per unit increases by Rs. 0.2 which makes the cost of production per unit Rs. 8.27. Company produces 1,80,000 units so now company's total investment is Rs 1.4886 crores in the third quarter of 2013.
3.1.2 The five forces identified by Porter are

- **Threat of new entrants**
  The arrival of new entrants depends on the size of the market (economy of scale), the reputation of a company already installed, the cost of entry, access to raw materials, technical standards and cultural barriers. It is in a company’s interest to create barriers to prevent its competitors to enter to market.

- **Industry competition**
  The competition between firms determines the attractiveness of a sector. Companies struggle to maintain their upper hand in the market share. The competition changes are based on sector development, diversity and the existence of barriers to enter. In addition it is an analysis of the number of competitors, products, brands, strengths and weaknesses, strategies, market shares.

- **Bargaining power of buyers**
  If the bargaining power of buyers is high, they influence the profitability of the market by imposing their requirements in terms of price and quality. Targeting perfect group of clients is crucial because a firm should avoid being in a situation of dependence. The level of concentration of customers gives them more or less power. Generally their bargaining power tends to be inversely proportional to that of the suppliers.

- **Bargaining power of suppliers**
  The bargaining power of suppliers is very important in a market. Powerful suppliers can impose their conditions in terms of price, quality and quantity. On the other hand if there are a lot of suppliers their influence is weaker.

- **Threat of substitutes**
  The substitute products can be considered as an alternative compared to supply on the market. These products are due to changes in the state of technology or to the innovation. The companies see their products be replaced by different products. Many managers understood the industry as a whole much better with the model that was
introduced by Michael Porter as it helped a particular company to analyse its position in the industry more effectively. A company can know where exactly it stands in an industry besides knowing how to further improve their position by increasing barriers to entry, lowering threats of substitutes, lowering supplier power, lowering buyer power and lowering rivalry of competitors. This has caused companies these days to compete more intensely in trying to gain a significant advantage over their competitors.

3.2 Statistical analysis
3.2.1 Strategy 1
Owing to elasticity being -5, if company decreases the price of each product by 4%, the number of products sold will rise by 20%.
Thus, the number of products sold will become 18,00,000 and price of each product will be Rs 24 which will make the revenue of the company Rs 4.32 crores. Company's total investment was Rs. 1.4886 crores, so the profit, according to the profit revenue cost equation, will be Rs 2.8314 crores. This profit is Rs 0.1314 crores more than that in the first quarter.

3.2.2 Strategy 2
Basically, the risk in strategy 1 is that if the company decreases the price by 4%, the competitors may notice this price drop and may reduce prices of their product also. This will lead to the profit maximization initially, but gradually the company will face fierce price competition at such lower price. Hence Strategy 1 has the risk of competition in the future.
If the company decreases the price by just Rs. 0.76 i.e. 3.04%, the change in the price is not that noticeable and owing to elasticity of -5, the sales will increase by 15.19% making the total revenue Rs 4.1886 crores. Cost being the same Rs 1.4886 crores, gives the profit of Rs 2.7 crores. This is the profit breakeven condition.
Applying strategy 2, the company can gain market share and keep the profits high without the threat of immediate or gradual competition.

![Chart 2: Illustration of output of Strategy 1](chart2.png)
4. CONCLUSION

In this paper, we did a case study of a toothpaste producing company. In the initial segment, we found out the reason why the company suffered a drop in profit in the second quarter of 2013. In the last segment, devising two marketing strategies, we not only determined the breakeven profit condition, but also introduced a new product in the already existing market and increased the market share for the company, hence increasing the profit in the third quarter of 2013.
5. REFERENCES


