JADE SHAMPOO (A)

Debbie Kennedy, assistant product manager for Jade Shampoo, was delighted with the results of the just-completed test market of her proposed change to the Jade bottle cap. From the beginning of the 18-month project, she had been convinced that replacing Jade’s traditional twist-off cap with a more convenient flip-top-dispenser cap would more than pay for itself in increased sales and profits. The test results confirmed her position—sales in the test market exceeded the break-even level.

The only remaining hurdle was to convince the product manager to endorse the national introduction of the change.

Shampoo Market

The shampoo market was one of the most competitive, highly fragmented markets in the health-and-beauty-aids (HBA) business. With retail sales exceeding $1.8 billion in 1986, it was the largest HBA category after analgesics. The category was very profitable, with high margins and simple technology, and it was fashion driven, with different additives and scents appealing to different consumers. As a result, there were over 200 national shampoo brands, most of them commanding less than 1 percent of the market.

Jade Shampoo was a relatively large, stable player in this volatile market. It was positioned as a basic, all-family shampoo and avoided the frequent formulation and fragrance changes of its more trendy competitors. The strategy had been successful: Jade commanded a steady 5 percent share of the market and was usually in the top five shampoo brands in sales.

Kennedy was forecasting 1987 sales to be $91,500,000 retail, $58,560,000 factory. At Jade’s average factory price of $1.28 per unit, the sales forecast translated into projected volume of 45,750,000 units. The current contribution of 36 cents per unit was not expected to change in the coming year.
The Dispenser-Cap Project

The dispenser-cap project had special significance for Kennedy; it was the first project that she had begun as a recently hired MBA, almost 18 months ago. She had come up with the idea while reviewing the results of the brand’s biannual Usage and Attitude Survey, in which consumers had been questioned as to their likes and dislikes about various shampoo brands. Kennedy noticed that several brands had improved their overall preference ratings since the previous study, with the strongest gains in the area of convenience. When she investigated any changes that these brands may have made in the last two years, she discovered that all of them had introduced flip-top-dispenser caps to replace their old-fashioned twist-off caps.

Although management had historically been reluctant to change Jade in response to market trends, Kennedy believed that this was one trend she could not afford to overlook. The study showed that convenient dispensing was especially important to Jade’s primary target markets, children and over-40 adults. A dispenser cap might help attract consumers in these groups who were now using another family shampoo. The product manager of Jade Shampoo, Marion Hoffman, to whom Kennedy reported, agreed with the assessment and suggested that Kennedy form a Dispenser-Cap-Project team. In addition to Kennedy, this task force included representatives of the departments in the company that would be involved in developing, testing, producing, and selling the new dispenser cap. After several meetings, the group agreed on a plan for testing and implementing the proposed Jade dispenser cap.

The cap would be the same color as the current Jade cap and, to minimize costs, would be of a standard flip-top design rather than a custom design. It would require the purchase of a new molding machine and a set of molds at a cost of $1.0 million. The new cap would use a different kind of plastic and would cost 1.5 cents more than the old cap. The team did not expect any other costs to increase with the new cap, nor did they expect the price to change in response to this product improvement.

There was general enthusiasm among the members of the project team for the new cap. The “product news” would help obtain better advertising and display support from retailers. The brand’s advertising agency was looking forward to incorporating the dispenser cap into a new “all-family-convenience” campaign. Both the Sales Department and the ad agency expressed confidence that the dispenser cap would increase sales for Jade. The only notes of caution came from the brand’s research-and-development technician, who suggested that the smaller aperture in the dispenser cap might lead to the use of less product on each application as well as a reduction in spillage, an often overlooked source of sales. Kennedy noted both points but was not overly disturbed by them. She believed that users would continue to dispense the amount of product they felt appropriate, regardless of the size of the opening, and that spillage could not be a significant portion of sales.

In a memorandum to Hoffman (Exhibit 1), Kennedy expressed her confidence that the dispenser cap would result in a sales increase substantially above her calculated break-even
increase of 7.8 percent. She also argued that the downside risk of moving ahead with the new cap was outweighed by the upside potential.

The Test Plan

The first step in testing the new cap was a product-use test, which was intended to determine if current Jade users would like the new dispenser at least as well as the current cap. It was a blind, paired comparison in which 100 current Jade users were given two bottles of Jade, one with the dispenser cap and one with the current cap. The bottles were not labeled, and the subjects were not told what product they had or if there were any differences between the actual products (there were not). The subjects were instructed to use one bottle for one week and the other bottle for the next week. At the end of the second week they were telephoned and asked which of the shampoos they preferred overall and how the shampoos compared on specific attributes such as convenience, cleaning, and manageability.

The results (Exhibit 2) were very encouraging to Kennedy. Consumers preferred the dispenser-cap product over the current-cap product for convenience. They also preferred the dispenser-cap product overall, even though there was no difference between the two products other than the cap.

With these successful results in hand, Kennedy obtained permission to proceed to a full-market test of the dispenser cap—a much more comprehensive test than the product-use test. The national plan for introducing the new cap would be replicated in a small portion of the country in order to measure the new cap’s effect on volume. The Market-Research Department recommended that the test be conducted in Phoenix, Arizona, and offered a long list of reasons. Phoenix contained almost exactly 1 percent of the U.S. population and represented about 1 percent of Jade sales. The size was large enough to yield statistically significant results but small enough to minimize test costs and the risk of disrupting brand sales should the cap prove to have problems. Phoenix was indicative of the U.S. market for Jade in both demographics and share trends. The managers of the 94 grocery stores were accustomed to test markets and were known to be cooperative. From an advertising point of view, the Phoenix market was well contained, in that advertisements for the dispenser cap would not be picked up on TVs in other areas where the new cap was not available. The market test began on June 1, 1986, at a budgeted cost of $500,000.

Thirteen months later, Kennedy received a phone call from a friend in the Market-Research department. The test results had just come in and average volume was 5,341 units per store with a standard deviation of 2,131 units. Kennedy was delighted with the news—the test-market performance would amount to 50,205,400 units (5,341×94×100) on a national basis. This was almost a million units above the break-even volume of 49,316,000 units. She could now push ahead with the national introduction of the change.