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A STRATEGY ANALYSIS OF THE MARKETING GAME

1.0 INTRODUCTION

1.1 Current Position

The past five years has been extremely challenging for ActivMedia's team senior marketing managers. The team had worked long and hard to establish ActivMedia's dominant position in the market. It is January now and the financial year had just come to a close, ActivMedia's marketing team had been poring over the financial and industry reports that they have just received. The team was elated to discover that ActivMedia is the market leader in terms of units sold and revenue. But that was expected ..... but the decline of ActivMedia's profits was indeed shocking as it was only 23% of the forecast. The Director of Marketing was very concerned about ActivMedia's profits, which has been on a three year decline. ActivMedia's profit margin was reduced to a measly 1.7% of revenue compared the industry average of 3.2%. Its strongest competitor, Rainbow, now poses a significant threat with almost equal revenue while its profit margin was lofty 8.3% ! (Please refer to table 1 on page 3 for industry performance data)

The industry revenue shrank by 4.4% in the last period whereas the total industry profits has been declining between 42%-50% for the past 2 years (Kindly refer to Figure 2 : Industry Revenue). The marketing team anticipates competition to intensify amongst the four dominant players. Unless steps are taken to improve its current trend and position, ActivMedia could see its profit erode further and result in severe losses in the following period.

The intent of this report is to discuss, analyze and critically assess ActivMedia's marketing activities and performance for the past 5 years. Specifically, it will focus on ActivMedia's market strategy and its impact on market development, competitor response and how it had precipitated to the current situation. Recommendations will be made as to how ActivMedia can strategically reposition itself for future growth and profitability.

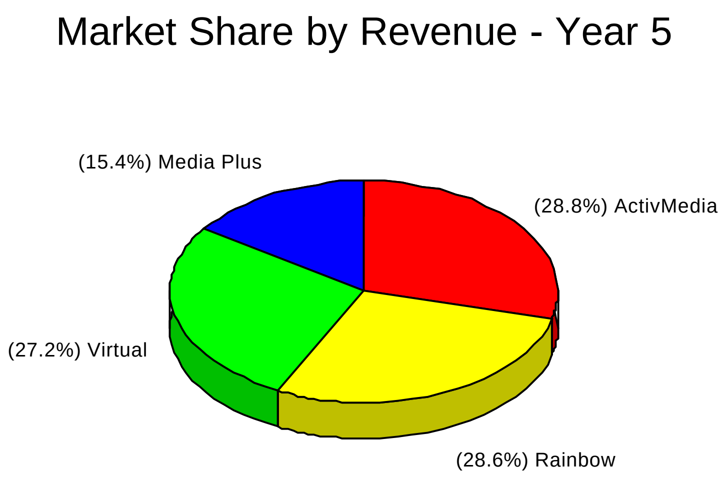


Figure 1 : Market Share by Revenue

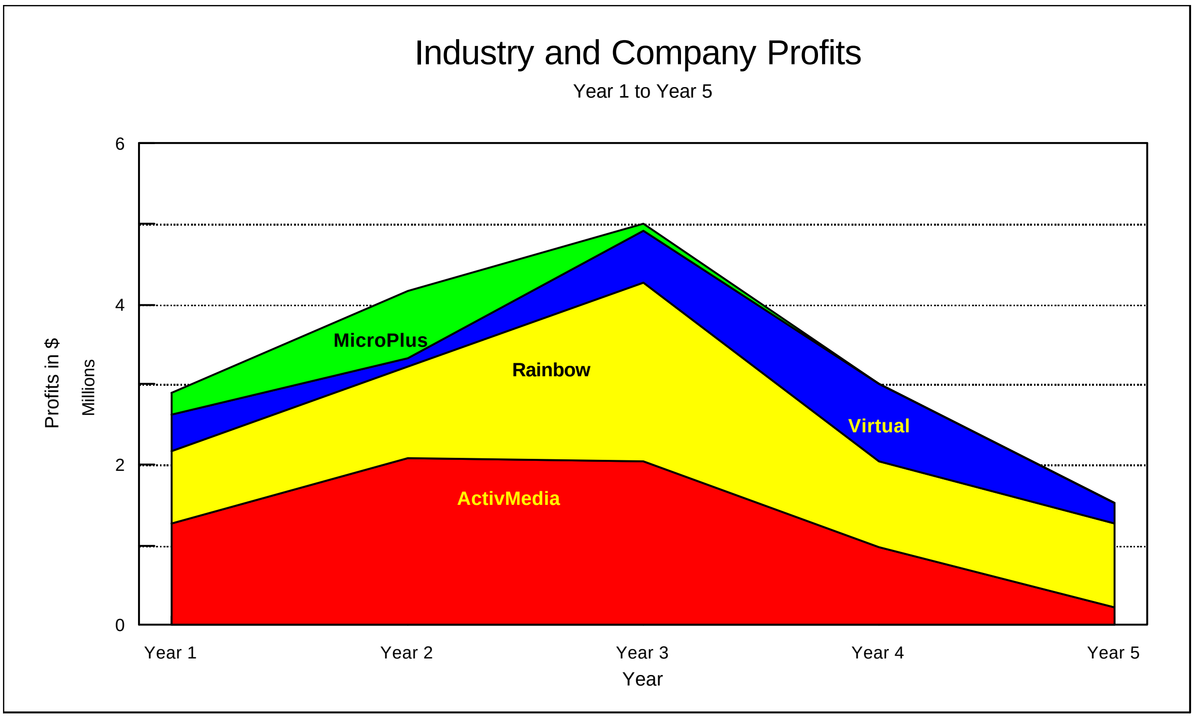


Figure 2 : Industry Profit Performance

Table 1 : Multimedia Software - Industry Performance

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Industry Performance						
Total Units Sold	100,604	126,747	156,786	171,449	183,456	191,745
Industry Revenue	17,171,856	27,125,764	37,700,968	46,066,573	46,041,745	44,016,898
Growth - Units	0	25.99%	23.70%	9.35%	7.00%	4.52%
Growth - Revenue	0	57.97%	38.99%	22.19%	-0.05%	-4.40%
Channel 1 - Units	56,296	64,264	78,247	79,276	85,512	94,415
Channel 2 - Units	44,308	62,283	78,539	92,173	97,944	97,330
Growth - Channel 1	0	14.15%	21.76%	1.32%	7.87%	10.41%
Growth - Channel 2	0	40.57%	26.10%	17.36%	6.26%	-0.63%
Channel 1 - Sales $	10,696,240	16,596,632	23,234,606	25,617,825	26,353,625	25,572,064
Channel 2 - Sales $	6,475,614	10,529,131	14,466,361	20,448,748	19,688,120	18,444,834
Growth - Channel 1	0	55.16%	40.00%	10.26%	2.87%	-2.97%
Growth - Channel 2	0	62.60%	37.39%	41.35%	-3.72%	-6.31%
Units Sold						
ActivMedia	25,151	22,811	36,000	50,174	43,011	**56,997**
Rainbow	25,151	34,198	**44,388**	**53,127**	**52,521**	49,191
Virtual	25,151	**37,199**	35,497	37,289	43,095	50,726
Media Plus	25,151	32,539	40,901	30,859	44,829	34,831
Revenue						
ActivMedia	4,292,964	**7,981,267**	**13,223,039**	14,460,595	12,490,482	**12,692,097**
Rainbow	4,292,964	7,570,681	10,331,734	**15,394,152**	**13,642,088**	12,573,250
Virtual	4,292,964	6,104,275	6,006,398	8,590,749	11,483,985	11,985,431
Media Plus	4,292,964	5,469,541	8,139,797	7,621,077	8,425,190	6,766,120
Profit						
ActivMedia		**1,263,000**	**2,089,000**	2,049,000	978,000	226,000
Rainbow		912,000	1,126,000	**2,229,000**	**1,066,000**	**1,056,000**
Virtual		445,000	115,000	623,000	956,000	239,000
Media Plus		275,000	825,000	107,000	(97,000)	(94,000)
Total		**2,895,000**	**4,155,000**	**5,008,000**	**2,903,000**	**1,427,000**
Industry Profit Growth		**0.00%**	**43.52%**	**20.53%**	**-42.03%**	**-50.84%**
Profit Margins						
ActivMedia		**15.82%**	**15.80%**	14.17%	7.83%	1.78%
Rainbow		12.05%	10.90%	**14.48%**	7.81%	**8.40%**
Virtual		7.29%	1.91%	7.25%	**8.32%**	1.99%
Media Plus		5.03%	10.14%	1.40%	-1.15%	-1.39%

Table 1 : Industry Performance

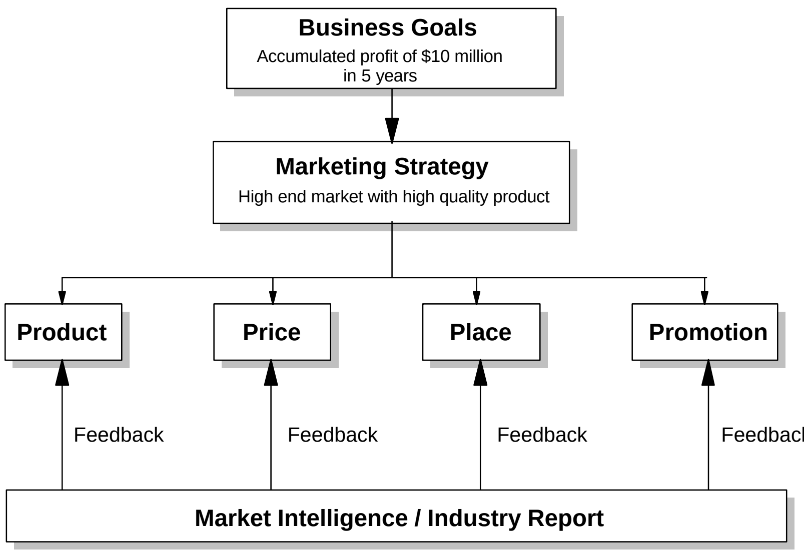
2.0 BUSINESS OBJECTIVES AND STRATEGY

2.1 Objectives

"To be the provider of high quality and reliable multimedia software."

ActivMedia's Mission Statement

The strategic marketing process consists of establishing a match between the firm and the environment [1] to gain competitive advantage and reap above normal profits. The firm in question here is ActivMedia, a multimedia presentation software company. The environment is the broad software market with 6 distinctive segments and three other competitors - Rainbow, Virtual and MicroPlus. ActivMedia's business objective was to achieve an accumulated profit of $10 million over a course of 5 years, which averages to $2 million each year.



ActivMedia was to achieve this goal by consistently delivering a high quality product that is targeted at business users who are willing and able to pay more. The strategy is aimed at the top end of the market with a differentiated product to reap above average profits. Having considered the user requirements, ActivMedia chose to be the leader in the commercial market, it has selected three key segments to serve i.e. the assistants, the managers and the artists. These segments were selected based on their similarity and overlapping requirements that allow ActivMedia to leverage on the cost of developing a single product that meet the needs of these users. The marketing strategy process dictates that the promotion, price and place/distribution strategies must complement the product strategy for maximum effect. Therefore a coherent and well executed marketing strategy with each of the 4 P's complementing one another is critical to ActivMedia's success.

3.0 MARKET DEVELOPMENT

3.1 The Set Up

The current marketing team came on board five years ago, at the third year of ActivMedia's establishment. At that time all four players had undifferentiated products and each commanding 25% of the market share. The broad market can be divided into 6 segments - Students, Parents and Home that make up the consumer market and the Managers, Assistants and Artist make up the commercial segment. ActivMedia’s plan was not to dominate the market in terms of units sales or total revenue, but in terms of profitability, which the team felt is more important to the shareholders.

3.2 The Initial Game Plan

Having analyzed the data on customer behavior and requirements provided by Market-Views, Inc., the marketing team decided to channel of its resources towards product development and ensuring that the rest of the 3 P's - Place, Promotion and Price are consistent with the marketing strategy. The following sections describes the strategy in detail :

3.2.1 Product

The tactic was to focus on product development by significantly improving it in terms of features to match the needs of the target segments while significantly differentiating it from competitors' product. With reference to the mission statement, the strategy for the rest of the 3 P's were crystal clear, as described below :

3.2.2 Price

ActivMedia opted for skim pricing[3] tactic by doubling the original wholesale price from $95 to $199 for Channel 1 and from $99 to $149 for Channel 2 to account for the increase in product development and production costs. The intent was to promote ActivMedia as a premium product, focusing on the commercial rather than consumer segments. Having considered the decision-making units for these segments along with its product uniqueness strategy, the team believes that the demand will be relatively price insensitive.

3.2.3 Promotion

The advertising budget was maintained at $250,000 and corporate advertising was used to promote ActivMedia as a brand name. Decision for subsequent years will be dependent on competitive reactions. However, the team later discovered that corporate advertising was effective only in a multi-product environment. Sales promotion would be a more effective promotional tool compared to advertising as it can be targeted at a specific channel to enhance sales.

3.2.4 Place

The team anticipates that the majority of the commercial buyers will shop from full service dealers that provide the necessary marketing and technical support. The allocation of $100,000 for customer service and 70% distribution intensity for Channel 1 is consistent with the market strategy of providing quality products and complementing it with good support services to strengthen the brand image.

The table on the following page illustrates the relationship between the 4P's of marketing and market strategy. The analysis reveal that the market can be categorized into commercial and consumer markets.

Complementing Market Strategy with the 4 P's of Marketing

Market Segments	Price	Product	Place	Promotion
Market strategy considerations	*Price range need to consider decision making units and buying power. Corporate buyers are less price sensitive*	*Order of importance of each product feature and develop product to meet requirements*	*Distribution channel is dependent on consumer purchasing habits & behavior.*	*Use the correct promotion tactic to ensure reach and coverage. Need to provide good support to avoid negative publicity.*
Modern Students Projects and assignment Little Support Price is major concern	Low	1. Special Command 2. Error protection 3. Ease of Learning	More likely to buy from Channel 2 – price sensitive and lower need for support.	Word of mouth Advertising Sales Promotion in Channel 2
Concerned Parents Time poor, cash rich Children's education Simplicity is key.	Low to Medium	1. Ease of Learning 2. Error protection 3. Special Command	Likely to buy from channel 1 – Advice and willing to pay more	Advertising Sales Promotion in Channel 2
Home Producers Home videos Messages Novelty	Low	1. Ease of Learning 2. Error protection 3. Special Command	More likely to buy from Channel 2 – lower price	Advertising Sales Promotion in Channel 2
Harried Assistants Presentations for bosses Reliability DMU is the company	Medium to High	1. Error protection 2. Ease of Learning 3. Special Command	More likely to buy from Channel 1 – Reliance on support	Advertising Sales Promotion in Channel 1
Commercial Artists Professional work Save time Productivity tool	Medium to High	1. Special Command 2. Error protection 3. Ease of Learning	More likely to buy from Channel 1 – personal selling and support	Advertising Sales Promotion in Channel 1
High Tech Managers Own use in office/mobile Power users DMU is manager	Medium to High	1. Special Command 2. Error protection 3. Ease of Learning	More likely to buy from Channel 1 – perception that high price = high quality.	Advertising Sales Promotion in Channel 1

Table 2 : Complementing Market Strategy with the 4P's of Marketing

3.3 Market Intelligence

Market intelligence is critical as it functions as the feedback system which the team must gauge the strategic intents of its competitors and plan accordingly. It is also needed to confirm the consumer's preferences and the purchase of consumer preference study was to obtain a more current picture of the consumer needs and to monitor consumer behavior so that product features can be further fine tuned to market needs. The marketing effectiveness report will provide some feedback as to the effectiveness of ActivMedia's strategies.

4.0 COMPETITIVE PERFORMANCE

4.1 Introduction

This section describes and analyzes ActivMedia's performance based on industry reports and market intelligence. The following sections will describe in detail the events that led to the current position. Specifically, the analysis will attempt to interpret the actions and results of the competitors' behaviour whichis crucial in determining ActivMedia's strategy for recovery. It will seek to identify the opportunities which ActivMedia can exploit and threats that it can avoid or eliminate in order to obtain a favorable position in a declining market.

4.2 Corporate Performance

For the first three years of operations, ActivMedia did exceptionally well. AvtivMedia was the clear leader in terms of contribution and profit margins. Market share in units were unimportant, with the smallest market share of 18% in Year 1, ActivMedia commanded 43% of the industry profits. Profits were doubled in the subsequent year as the industry grew. By the third year, the unit sales began to plateau, unit sales growth was only 9% compared to 23% in the previous year, however, ActivMedia has managed to maintain its profit margin level.

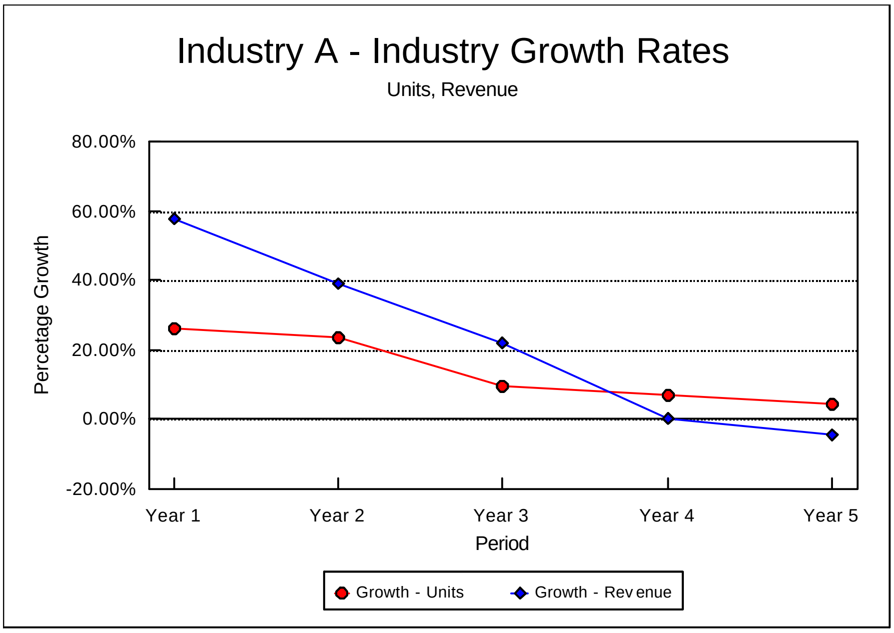


Figure 3 : Industry Growth Rates - Units Sold and Revenue

While ActivMedia remains the leader in terms of cumulative profit, its profitability has been adversely affected for the last two years. The initial game plan was very effective for the first three years, forecasts were very precise and ActivMedia was meeting its targets. However, in Year 4 and 5, the scenario seemed to have taken a turn for the worse. Year 5 ended miserably with ActivMedia's profits reduced to only $225,000, a far cry of its peak of $2.089 million ! So what went wrong in the last two years ?

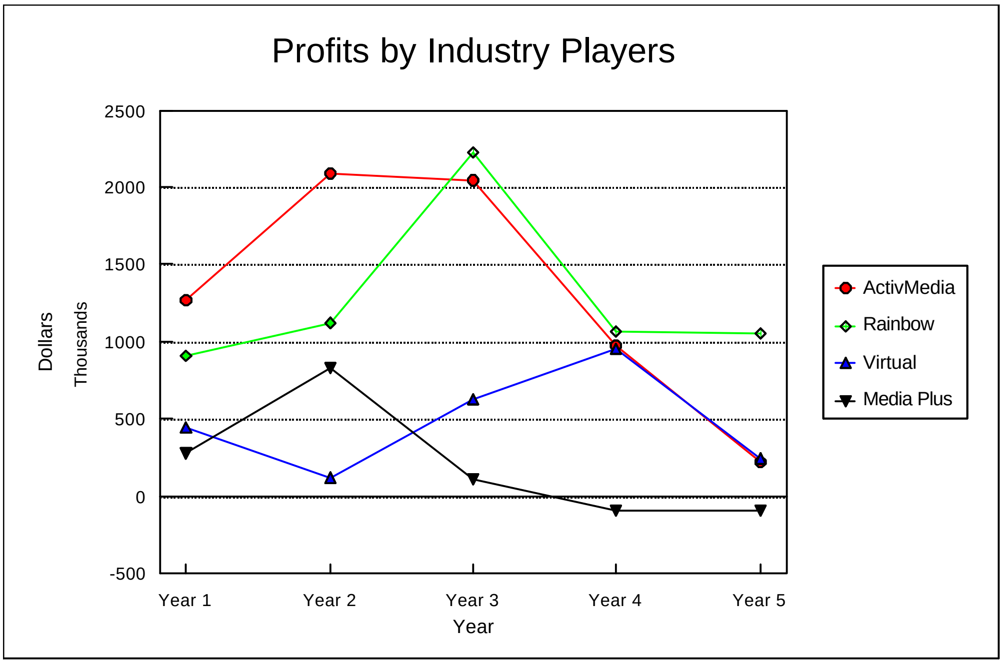


Figure 4 : Profits by Industry Players

4.3 Early Signs

The problem began shortly after ActivMedia decided to change its market strategy in Year 3. This action was prompted by a decline in growth rate in the commercial segments from 22% to only 1.32% while the consumer segments such as Students were experiencing greater growth rate of 40% in Year 2 and 3. Not wanting to miss out the opportunity to meet the $10 million target, ActivMedia decided to diversify into the consumer market.

The strategy was to develop Channel 2 dealers and with the its financial strength, ActivMedia invested heavily ($78,000) in sales promotion and tripled the number of sales personnel in Channel 2. ActivMedia's market penetration tactic proved very effective and managed gained the leadership position in all the consumer segments. Although the contribution remained above $2 million, ActivMedia's strategy to diversify did not improve the contribution at all. In fact, ActivMedia lost its leadership in the commercial segments. At the same time, Rainbow and Virtual had been penetrating the commercial segments while ActivMedia was preoccupied with the consumer segments. Rainbow in particular has significantly improved its position (by investing $50,000 on sales promotion in Channel 1) while ActivMedia had lost its leadership in terms of contribution.

4.4 The Crisis

Serious problems began to develop in Year 4 as Rainbow and Virtual continued their onslaught in the commercial segments. This is evident with the steady increase in sales promotion expenditure for Channel 1 where Rainbow and Virtual have consistently spent more than ActivMedia in these areas in Year 3 and 4. The result was a devastating to ActivMedia's commercial market share. In Year 4, ActivMedia had lost all its leadership in every segment of the commercial market.

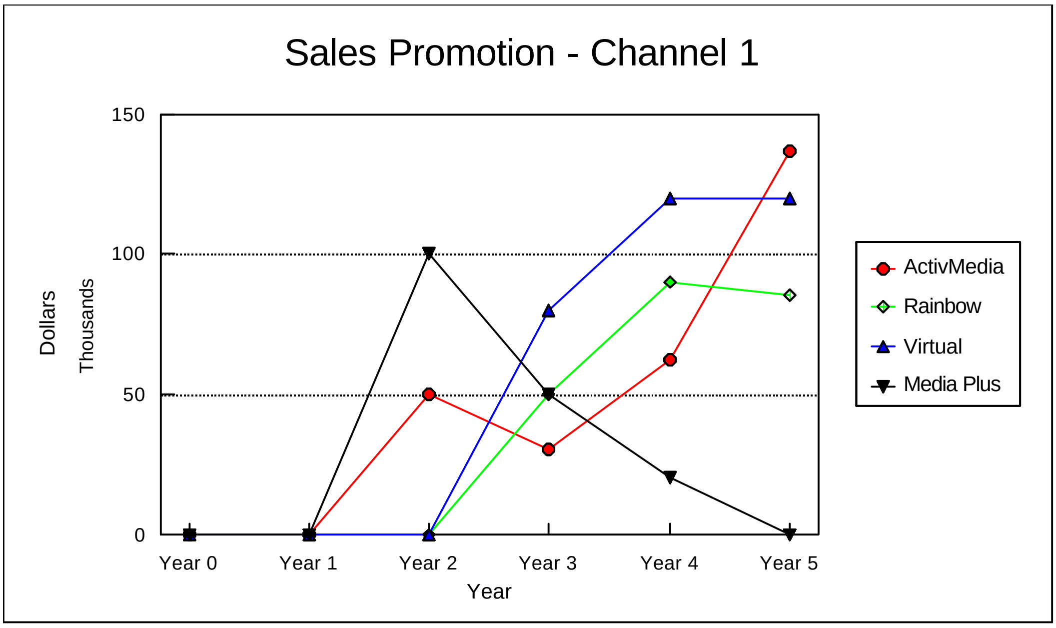


Figure 5: Sale promotion expenditure for Channel 1

In addition, ActivMedia had also lost its unique product position as competitors like Rainbow had already caught up in terms of product development. By the end of Year 3, Rainbow's product was at par with ActivMedia's. With a price of 20% less than ActivMedia's, Rainbow had effectively eroding ActivMedia's leadership.

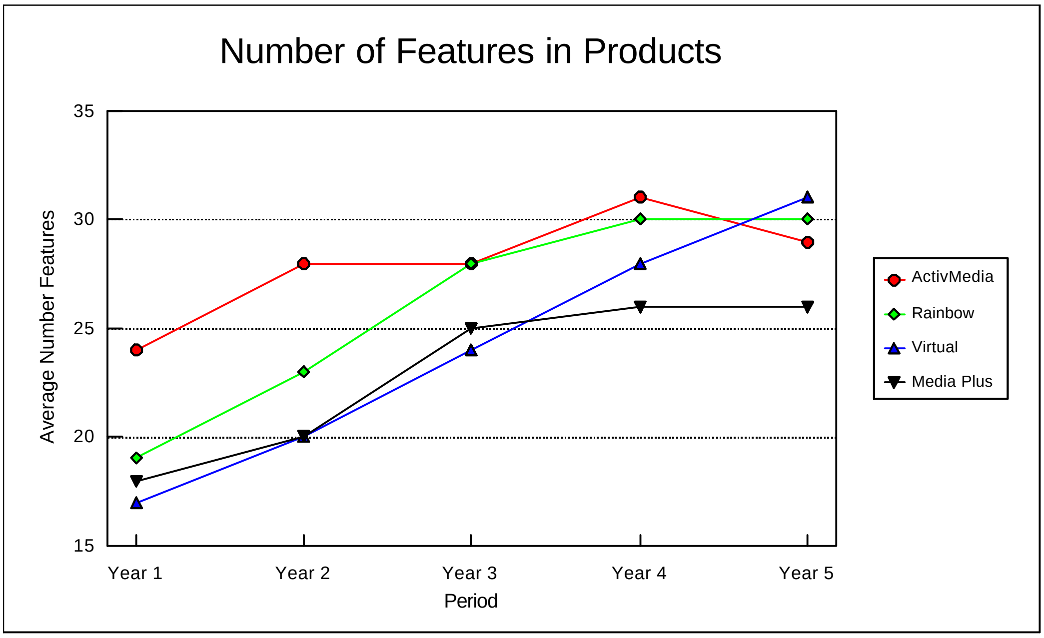


Figure 6 : Total Number of Product features of each firm

By diversifying in Year 3, ActivMedia had spread its resources too thin to defend its commercial market share. In Year 4, ActivMedia's attempt to regain its commercial market share was met with great resistance from Rainbow and Virtual. At the same time, the consumer market was already experiencing a negative revenue growth of –3.73%. With competitors having the more profitable segments of the market, ActivMedia began to lose its profitability. ActivMedia has miscalculated the potential of the consumer market and failed to anticipate Virtual and Rainbow's aggressive strategies. The only area that ActivMedia did right was increasing the number of sales person in Channel 1, however, that alone could not defend its commercial segments. Moreover, AcvtivMedia was putting far too much of its money into customer service, which contributions to improving market share and profitability remains dubious.

ActivMedia made another blunder and worsened the situation further by deciding to reduce the wholesale prices by a hefty 30% in Year 5 without due consideration for the high production costs. Having lost the market share, it had hoped that by cutting prices it could regain its profit level by a significant increase in market share, failing to realize that the increase in volume may not be large enough to be profitable in a declining market.

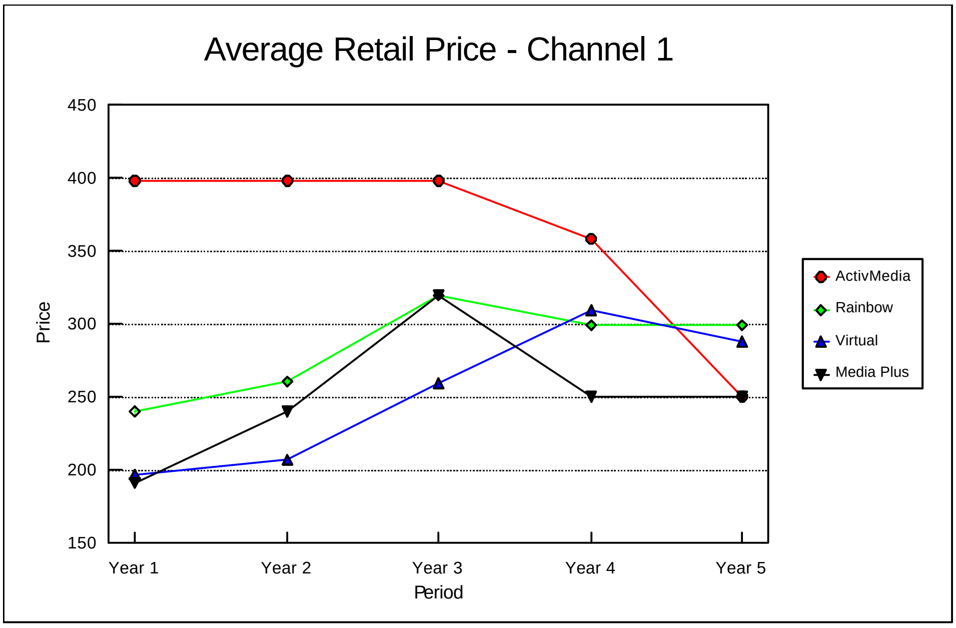


Figure 7 : Average Retail Price for Channel 1

By far, the drastic reduction in price was the single largest contributing factor to ActivMedia's decline. The decision to diversify made perfect sense at the time, however, ActivMedia failed to pay serious attention to its competitors and that gave them the opportunity to penetrate its markets and resulting in the decline of profitability. The table on the following pages is the chronology of ActivMedia's strategy development and competitive responses for the past five years.

Chronology of ActivMedia's Strategy Development

Year	Strategy	Key Decisions	Results	Observations & Comments
1	Focus on product development to leap frog competition while delivering what the **commercial** market wants at a premium price.	1. Increase Channel 1 whole sale price from $95 to $199 and from $95 to $149 for Channel 2. 2. Increase Special Commands by +3 to 11 3. Increase Error Protection by +4 to 7 4. Increase Ease of Learning by +3 to 6 5. Increase Channel 1 intensity from 40% to 70% 6. Decrease Channel intensity to 30%, not targeting this area. 7. Increase non-selling time from 5% to 10% for Channel 1 and Channel 2 8. Increase customer service from $92,000 to $100,000 9. Corporate advertising to promote brand but budget is maintained as previous level. 10. Production level of 20,000 units	1. Sales volume and profit forecasts were highly accurate 2. Lowest market share (18%) in units but highest share sale revenue and profits 3. Product with highest average number of features - 9.33 (Refer to Table 3 Product Development and Retail Pricing)	1. ActivMedia's price was the highest in the market, double that of closest competitor, commanding the industry's best profit margin of 15.82% 2. Advertising was at par with the rest 3. Rainbow spent the most in advertising 4. Rainbow's product features are very similar, indicating that it is targeting the commercial markets. 5. Need information on market segmentation report on competitors. 6. Purchase of product Features and Prices Report , Customer Preference Report allowed ActivMedia to fine tune product and pricing strategies.
2	Go for Growth - Increase market presence and revenue through Channel 1 by intensifying promotional activities. Differentiated product with good customer service.	1. Increase Sales Personnel from 17 to 20 persons, increase commission from 5% to 6%. 2. Increase advertising budget to $325,000 and sales promotion budget is set to $50,000 3. Using Direct Competitive advertising. 4. Increase Non-Selling time from 10% to 15% - improve dealer satisfaction. 5. Maintain wholesale prices for Channel 1 6. Increase budget for Customer Service by 20%. 7. Increase wholesale price for Channel 2 from $149 to $179 – Sales Reps too overloaded, increase price to reduce demand. 8. Increase Special Commands from 11 to 15, maintain Error Protection and Ease of Learning – differentiate product from Rainbow –> Add value by increasing features but maintain price. 9. Decrease Channel intensity from 30% to 15%, results show 71% of sales is from Channel 1.	1. Performance is consistent, profit margin is maintained at 15%. 2. Jumped to the second position in market share (units) and maintained leadership in profits. 3. Unit sales grew by 57% and profits grew by 65% 4. Channel Strength leadership. 5. Dealer satisfaction increased by 30% (Refer to Table 5) 6. Channel 2 Sales Rep Overload factor was reduced to a reasonable level (from 333% to 176%). 7. Advertising was effective – brand awareness has improved significantly from 4th position to the 2nd.	1. Performance has greatly improved, meeting all forecasted targets with pin point accuracy. (Refer to Table 7 : Actual vs. Forecast). 2. Rainbow is catching up in terms of product features. 3. Managers and Assistant markets is declining, while Student market in on the rise.

Year	Strategy	Key Decisions	Results	Comments
3	Develop Consumer Market while maintaining Commercial Market Share.	1. Reduce wholesale price from $179 to $149 to penetrate the top end consumer market. 2. Increase number of Sales Reps from 3 to 9 in Channel 2 and sales promotion from $0 to $78,000. 3. Increase Channel 2 intensity from 15% to 50%. 4. Increase advertising budget from $325,000 to $370,000. 5. Reduce number of Sales Reps from Channel 1 from 20 to 18, and sales promotion from $50,000 to $30,000. 6. Increase Customer Service budget to $150,000.	1. Maintain 2nd position in unit sales and revenue. Profits were still high, but margin is down to 14%. 2. Managed to top market share in Channel 2 – penetration was very effective. 3. Leadership in Brand Awareness 4. Rainbow has captured a significant share in Channel 1 – poses a significant threat to ActivMedia's market share.	1. Rainbow has caught up in terms of product features but its product price is significantly lower. Concerns over price competitiveness, under pressure to reduce prices. 2. Availability of Report 1 : Market Share by Segment will help in analysis / positioning. 3. Although ActivMedia has quite successfully penetrated the consumer market, at has done so at the expense of the commercial market share.
4	Recapture Market Share in Channel 1 to Respond to Threats from Rainbow.	1. Increase number of Sales Personnel from 18 to 22 in Channel 1 2. Increase channel intensity from 70% to 80% in Channel 1. 3. Increase Sales Commission from 6% to 7% 4. Increase customer service from $150,000 to $171,000 5. Increase Special Commands by +1 to 16 6. Increase Ease of Learning by +2 to 8 – Identified a shift in consumer preferences in commercial segments (Channel 1). 7. Increase Sales Promotion from $30,000 to $62,000 for Channel 1. 8. A 10% reduction on Channel 1 wholesale price to $179 to capture market share. 9. Use Reminder advertising of $250,000.	1. **The Year of the "Double Whammy" !** Profits were badly hit – made a strategic error and competition capitalized on the opportunity. 2. Unit sales dropped by 14.2% and way below forecast. 3. Profits declined by 52% as a result of intensifying competition. 4. However, still lead in channel strength for Channel 1. 5. Brand awareness – fell to No. 2. 6. Inventory Transfer charges of $108,283 – eroded profits !	1. Failure to realize that increasing features also mean increase in productions costs, a reduction in price effective erodes most of the profit margin 2. Ineffective promotion resulted in excess stocks and inventory transfer charges of 108,283 was incurred, further eroding profits. 3. Rainbow intensified Sales Promotion in Channel 1 and 2. Sales promotion budget was 30% higher in Channel and 50% higher in Channel. Advertising was comparable – Rainbow has effective taken away ActivMedia's market share. 4. At the same time Virtual has intensified its efforts in the commercial market.
5	Competing on Price in a Declining Market	1. Reduce wholesale price by 30% to $125 for C1 2. Reduce wholesale price by 23% to $115 for C2 3. Reduce Special Command from 16 to 15 4. Reduce Error Protection from 7 to 6 5. Reduce Sales Personnel from 22 to 18 for C1 6. Reduce Sales Personnel from 9 to 4 in C2. 7. Increase advertising to $310,000 – Direct Advt. 8. Increase Sales promotion budget from $62,000 to $137,000 for Channel 1. 9. Increase Sales promotion budget from $40,000 $50,000 for Channel 2. 10. Reduce purchase of reports.	1. Mkt leader in revenue and unit sold 2. Unit sales grew by 32% 4. Profits declined by 77% !! 5. However, still lead in channel strength for Channel 1. 6. Brand awareness and dealer satisfaction improved but still remain in No. 2 position	1. Channel 1 market segments seems to be over crowded with Rainbow and Virtual being the main competitors in this area. 2. Industry reports reveal that Rainbow and Virtual has deployed more sales reps in Channel 1. Competition is becoming very fierce, ActivMedia's profit was very significantly eroded. 3. In the mean time Rainbow is also putting focus in Channel 2. Its intent is likely to cover both channels well.

5.0 RECOMMENDATIONS

5.1 Environmental Considerations

To make an effective recovery, ActiveMedia must first examine the market conditions and attempt to make a reasonably accurate forecast and plan its action accordingly.

The market have shown signs of decline as industry revenue fell by 4.4% in Year 5 while the unit sales grew by a marginal 4.52%, mainly due to the ferocity of competition. There is also very little gap in terms product features offered by all vendors, as a result ActivMedia have lost its initial position of product uniqueness. Without the possibility of increasing the types of features for vendors to differentiate their products, (other than Special Commands, Error Protection and Ease of Learning) resulting in a more homogenous market and therefore increasing tendency for price war. These are the early signs of a declining market. ActivMedia must avoid the threat of price war at all cost if it is to achieve its original $10 million target within the next 3 to 5 years. Competing in price is not only damaging to ActivMedia but also to the entire industry.

5.2 The Choice of Strategy

It is unfortunate that the simulated environment does not allow the exploration of means of reducing unit production cost other than reducing the number of features. This factor has limited the pursuit of a cost leadership strategy for the high end product market as the unit production cost is directly linked to the number of product features, which in reality may not be the case. Even, the 3% reduction in unit production cost for economies of scale is not viable option as

ActivMedia's production reached only 70,000 at its peak. Unlike Media Plus, it is not ActivMedia's intention to flood the market to increase contribution. That leaves the cost leadership option out of the picture.

In light of the increased homogeneity of the products ActivMedia must therefore focus its marketing efforts at the commercial market segments and attempt to differentiate itself in areas other than product and price, i.e. place and promotion.

5.3 Place

Base on channel growth rates in Table 1, Channel 1 growth rate (in units) was consistently higher than Channel 2 for the last two years and the large portion of industry revenue is from Channel 1. Moreover, the unit sales in Channel 2 are showing signs of a impending decline. In terms of sales revenue, Channel 1 revenue seems to be declining at a lower rate than Channel 2 i.e. -2.97% versus -6.31%. This makes Channel 1 a relatively more attractive and ActivMedia should leverage on its strength in Channel 1 to distribute its product. As the SWOT analysis on the page 18 reveal, ActivMedia's should capitalize on its dealer relationship in channel 1 segments which surprisingly, grew at 10.4% last year.

5.4 Promotion

ActivMedia should maintain its sales promotion expenditure for Channel 1 in order to defend its share of the Channel. It should also increase the number of sales personnel to better serve the dealers and attempt to improve its dealer satisfaction ranking from the second position to the first while maintaining the distribution intensity at the 60-70% range. ActivMedia should seek to gradually increase the intensity to 90% in the next few periods, assuming that the commercial market purchase behaviour remains. ActivMedia should purchase the Customer Shopping Habits report to monitor and verify the market trend. ActivMedia should also explore the possibility of colluding with other vendors to jointly use pioneering advertising to stimulate the growth of the market. Continuing with direct competitive advertising will not improve the industry revenue growth. The only catch here is that this is the classic case of the prisoner's dilemma[5]. (Perhaps the teams involved may submit their decisions immediately after they confirm each other's commitment on the decision forms!)

5.5 Price

ActivMedia will need to refocus its marketing efforts in securing the top end of the market. It must revise its wholesale prices upwards by 20% and 65% for channel 1 and 2 respectively in order to achieve a reasonable level of contribution and cover its costs. The higher price increase for Channel 2 is to reduce demand and allow ActivMedia to redeploy its sales representatives to service Channel 1 dealers. The 20% increase in wholesale price for Channel 1 is to maintain a market price that is slightly above Rainbow's.

5.6 Market Forecast

ActivMedia expects the overall market to shrink by a further 4% next year in terms of units sold to approximately 184,000 units. Based on estimated data in Appendix C, ActivMedia expects a 1% unit sales growth for Assistants and Artists and a 1% decline in unit sales for the Manager segment. Since ActivMedia is targeting the top end of the market, it expects the market share of the above segments to be 15-20%. Base on the forecast, ActivMedia sholud expect a contribution of approximately $1.071 million.

Contniue next page ….

5.7 Decisions for Year 6

The figures below are based on the market forecasting using the TMGSTRTA.XLS spreadsheet. Kindly refer to Appendix C for a copy of the report.

:

	Channel 1	**Channel 2**
Number of Sales Reps	20	2
Distribution intensity	70%	20%
Percent Non Selling Time	15%	5%
Sales Commission	8%	
Customer Service	$90,000	
Brand Features :		
Special Commands	16	
Error Protection	6	
Ease of Learning	8	
Production Order Qty	27,908 units	
Advertising	Direct	
Type of Advertising	$190,000	
Wholesale prices	$179	$190
Sales Promotion	$170,000	$1,000
Marketing Reports : 1, 2, 4, 6 -	$59,000	

SWOT Analysis Matrix – ActivMedia

Notes	**STRENGTHS**	**WEAKNESSES**
	• Market leader in terms of revenue and unit sold. • Well established reputation of quality product and service • Consistent leader in channel strength rating in Channel 1 • Currently commands 39% of unit sales in Channel 1 – a 61% growth from Year 4 ! • Second position in dealer satisfaction • Second position in brand awareness (Ranked 1st or 2nd for the past 5 years). • Above average consumer rating on Customer Service	• Inconsistent pricing, product, promotion and distribution strategies – price to low + cost too high = low profit ! • Weak controls and forecasts for the last 2 years. • Retail price too low in year 5 – 16% lower than Rainbow and lowest in the market in Channel 1 and 21% lower than Rainbow in Channel 2 ! • Lack of data on competitors' unit costs and market shares by segment (Report #2) of Year 5. • Failure to monitor unit costs and market share by segment.
OPPORTUNITIES	**STRENGTHS TO CAPITALISE ON OPPORTUNITIES**	**OPPORTUNITIES TO OVERCOME WEAKNESSES**
• At the industry level, commercial segments handled by Channel 1 grew by 10.41% in terms of units sold with only a marginal drop in revenues. • Rainbow has allocated more resources toward channel 2 (advertising and sales representative), exposing Channel 1. • Commercial segments have experienced relatively higher growth rates than consumer in Year 3 to 4. Refer to Table 8.	• Focusing resources such as sales promotion expenditure and sales personnel for Channel 1. • Maintain 15% non selling time to retain dealer satisfaction in Channel 1. • Intensify advertising to create / maintain brand awareness, especially in commercial segments. • Reduce spending on customer service and redirect resource elsewhere.	• Increase prices of product to the level of Year 3 to regain profit margin of product • Purchase Report #2 – Market Share by Channel • Reduce unit production to cut down total cost while increasing margin for profitability.
THREATS	**STRENGTHS TO OVERCOME THREATS**	**AVOID THREATS AND MINIMISE WEAKNESSES**
• Overall market is experiencing negative growth of 4.4% • Strong competitors – Rainbow and Virtual encroaching into commercial and consumer segments.	• Focusing scarce resource to improve Channel 1 strength and gain a strong foothold in commercial segment. • Capitalize on channel strength in Channel 1 to regain the commercial market share.	• Ensure that the 4P's are consistent • Focusing on niche market to avert a price war • Closely monitoring competitive behavior to identify their weaknesses

6.0 CONCLUSIONS

6.1 Opportunity for Improvement

With the new strategy, ActivMedia hopes to accumulate a further $4 million in profits to achieve its $10 million profit target within the next 3 to 5 years, assuming that it is able to maintain an average of $1 million profit each year. Much of outcome also depends on how the rest of the players react. Rainbow and Virtual still remain the biggest threat to ActivMedia's success. From market data Virtual's strategy seems to be moving towards the commercial segments as it attempt to dominate Channel 1. Whereas Rainbow seems to be targeting the broad market without specific focus, this may be ActivMedia's only opportunity to get ahead of Rainbow.

6.2 Epilogue

While the Marketing Game had been highly educational and challenging, it remains a simulation where the conditions of the "market" were predefined and quite limited in its scope. In the real world however, it is an open playing field where changes in the economic and technological environment are getting more and more chaotic, making the planner's tasks ever more difficult. The simulation also does not cover implementation and timing aspects of the strategy, which is also crucial to the success of the strategy itself.

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APPENDICES

Appendix A : Marketing Game Decision Forms

Appendix B : Marketing Game - Industry and Firm Results for Year 1 to 5

Appendix C : Marketing Game Strategy Spreadsheet - Years 1 to 6

Appendix D : Other Relevant Charts and Data