

Distribution Channels

Chic Soap

You are asked to help formulate the marketing plan for the entrepreneur starting Chic Soap. The concept behind Chic Soap is simple; it sets out to incorporate fashionable perfumes such as Obsession, Raffinee and Opium into a high quality white soap base. The product would then be packaged using the logo of the perfume plus a Chic Soap common background. The advantages for the perfume supplier are: a guaranteed outlet for its perfumes at full retail prices; and a low cost trial route for potential customers. The advantages for Chic Soap are: the use of already established perfume concepts to promote the soap; and access to the distribution achieved by the perfumes. You are asked to identify the segment towards which the product is directed, the product benefit that is on offer, the way in which the segment will be serviced; how the distribution channel will be supported, what promotional planning will need to be included and an outline cash flow.

1. The distribution channels available for the sale of toilet soaps of various qualities are independent chemists, department stores, multiple chemists, supermarkets, and grocers. There were an estimated 200,000 outlets selling soap in the United Kingdom. Most of these sold mass market products which retailed at £0.25 per 150 gm bar. Premium soaps made up only a small proportion of the market and were available in a limited number of outlets which included independent chemists and department stores.
2. The main competitive products in the premium sector were soaps such as Roger and Gallet, Penhaligon range, Yardley, Morley and three internationally available premium soaps. The prices for the 150gm bar for the 5 main ranges were: £1.60, 1.75, £1.85, £1.95, £1.45. There was some evidence that the price elasticity of the premium product sector was fairly low. Consumers bought the product primarily on perfume and image rather than any other product attribute. Very high prices were charged for soaps that were part of ranges such as Rive Gauche; around £3.00 for the 150 gram equivalent. As the companies sold very little soap in these ranges they were not particularly worried about the effects of other products cannibalising brand sales. They were prepared to see Chic Soaps take on the sales of perfumed soap to a wider market.
3. The size of the total toilet soap market was around £190 million at retail. The top quality premium soap market was estimated to be 7 per cent of the total; it was growing slowly as the deodorant market came under pressure because of the environmental problems associated with aerosol sprays; other growth factors included the expansion in showers, and the expansion in the number of single homes.
4. Retail outlets made about 20 per cent gross on premium soaps. They tended to hold only limited stocks, and did not therefore want the product in as large a quantity as mass market products which were available in cartons containing 50 or 100 bars.
5. Many of the independent chemists were serviced through wholesalers. Such wholesalers accounted for about 70 per cent of the market. Wholesalers expected to make around 8 per cent. There were about 100 wholesalers that serviced the independent chemist; of these around 20 national chains accounted for 80 per cent of the total business. The national department stores (around 350) bought product direct.
6. Research suggested that the main consumer of premium soaps was female 35+, socio-

economic group A, concentrated in the South East of England and in large cities elsewhere. The average purchase of the 150 gramme soap was once every 3 weeks. An increasing proportion of the soap was bought as gifts, especially at Christmas. In the previous year, around 25 per cent of the total premium soap sector was purchased during the period early November to late December.

7. Most advertising in the sector was in women's magazines. It was estimated that it would cost around £100 to reach every 2000 consumers in the appropriate socio-economic group. The competition advertised heavily; average expenditure for the leading companies was around £400,000 per annum.

8. A sales representative would cost around £12,000 per annum; a company car would be £3,000 per annum. Such a sales representative could visit either 500 outlets direct or deal with 15 chains of wholesalers.

9. The costs of packaging would be high. High quality packaging with the appropriate perfume design on the label would cost £0.14 per unit; with a minimum print run of 40,000 units. It was anticipated that gift packs of the five perfumed soaps for the Christmas season would be an additional £0.45 to produce with a minimum production run of 25,000 units.

10. The company had access to five of the leading perfumes in the country. These accounted for approximately 20 per cent of total fragrance sales - the market has been and will remain highly fragmented. The costs of incorporating the perfume in the soap was £0.40 per unit based on a minimum annual quantity of 300,000 units; £0.65 per unit based on an annual quantity of 200,000 units, and £0.80 on an annual quantity of 100,000 units.

11. The soap base was widely available from a number of alternative suppliers. Costs varied considerably from year to year depending on the commodity market; in the year of the plan the base costs for a 150 gram bar were £0.08 for the highest quality.

12. Filling, molding and packing machinery could be bought from a variety of sources. A small but complete production line would cost around £25,000; it would be able to produce 1200 units per hour, and would occupy 2000 square feet of factory space. Changing the perfume and the packaging for each new production run would take around 2 hours.

13. The production process would require skilled staff to monitor quality. It was estimated that three individuals would be needed, with an annual base salary of £35,000.

14. Research showed that the typical consumer perceived premium soap as 'a touch of luxury'; an element of sophistication in an otherwise boring existence; a low cost way of giving a gift which would be appreciated. The main consumer interested in a changing range of exotic soaps was the working woman aged 25 - 45; over that age purchase patterns tended to become static.

15. The company could use national parcel carriers to distribute the products to the customer. It would cost on average £0.50 per kilo; though deliveries outside the immediate area would be considerably more expensive. The company had initially decided to locate near to the main source of demand in the South East of England.

16. There were a number of sites that had proved suitable for the location of the factory. The costs for the required 4000 square feet were on average £25000 per annum. The new

business rate would add £5000 to these costs.

17. Variable production costs per soap bar - in excess of raw materials and labour - were estimated to be £0.02, consisting of energy and maintenance costs.

Action

How are you as the potential investor in Chic Soaps, intending to reach the target audience?

What is the target audience?

What is the product benefit that you will be providing?

Which distribution channels will be most appropriate? How are you intending to support such channels?