Case 3: Dairy Research Incorporated: MooSoda II
An Advertising Budgeting Case

George Luksas was reviewing the results of MooSoda's first year on the market. He had predicted a 3% market share for the product, but to date MooSoda had only captured 2% of the soft drink market. Luksas wasn't complaining, since his profit for the previous year was $30 million. But he would have preferred to have the almost $60 million profits from the product in order to fund Dairy Research Incorporated (DRI) for the next decade, and hopefully come up with new hit products.

Luksas had worked closely with his advertising agency to generate the an effective campaign theme, and they had done so. With this message, and creative advertising copy, Luksas knew that if he could just set an optimal advertising budget, his profits would be exceptional. Also, Luksas had developed flavored MooSoda and was planning on introducing the new flavors within the next 24 months. New flavor would increase MooSoda's market potential even more.

Luksas called his good friend Gary Bell, (president his agency) and asked him to give some recommendations on the optimal advertising budget. Bell responded by visiting Luksas' office, with a copy of ADBUDG on a diskette.

Bell started, "This nifty little program helps all our Fortune 500 clients, and I think you'll find it very useful." As he placed his diskette in Luksas' IBM clone (Luksas may be wealthy, but he's still thrifty), Bell went on, "First we'll need to develop some managerial assumptions for this task." Together, they developed the following managerial assumptions, based on their knowledge of MooSoda and its market.

Justification of ADBUDG Managerial Assumptions

1. Current market share: 2%

2. Market share goal: 3%

Note though, that new flavors will increase market share starting in approximately two years.

Plan: Over a five year period, maintain a market share between 3-4%.

3. Copy effectiveness index: Will remain above market average due to the outstanding work of the agency.

4. Because of the newness of the product, the product sales rate will be 6.5.

5. At the end of the period, if no advertising was devoted to MooSoda, its market share would be 1%. If this rate were to be continued, MooSoda's market share would be .5%. (There were already some die-hard MooSoda lovers in the market.)

6. MooSoda will continue to be priced slightly lower than the industry norm.

7. Media efficiency would be optimized with the use of another nifty model that Bell recommended, MEDIAC.

8. To simplify the annual budgeting process, Bell and Luksas held constant all multi-period budgeting horizon conditions. They decided that they would gather more

information for their meeting next week, to polish their advertising budget decision, and check for sensitivity on these conditions.

Luksas and Bell ran the model, and calculated their market share, product sales, and contributions with the advertising budget of $23.4 million that Luksas suggested. As Bell was leaving, he instructed Luksas on how to develop a data table to assess the MOST profitable advertising budget for MooSoda.