HydroCan – StaGreen Case Study

Marketing for Advertising

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MTKG 16065

Sta-Green SWOT Analysis

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Statement of Problem

In this case study it is evident that the problem *HydroCan* is facing is whether or not to target the consumer market, commercial market or both. *HydroCan* needs to figure out how they would like to position their new product StaGreen and what type of launch strategy they will utilize. This will be determined through analysis of the markets, costs, price, and communication options. In order for *HydroCan* to launch just prior to peak season a decision must be determined by February.

Strengths:

Product Technology:

After reviewing the case study entitled *The launch of StaGreen by HyrdoCan* it is evident that *HydroCan* has specific internal strengths within their company. One key element is the technology behind their StaGreen product that reduces water usage by one half and fertilizer usage by one third. StaGreen is able to achieve this since the small pellets attach themselves to roots and attract and retain moisture requiring less watering. This technology not only helps the lawn but it also labels StaGreen as a quality product, which will also save the consumer money on their monthly water expenses. For example when looking at commercial applications, golf owners can save approximately $87,000.

Packaging Size:

HydroCan has done some preliminary market research and has determined that the most popular size packaging that consumers are looking for is a 10-kilogram bag. Thus they have decided that if they go with the consumer market they will package and advertise their 10-kilogram bag and sell it at a competitive price of $22.50.

Quality of People:

HydroCan is comprised of 4 agricultural engineers that were all apart of the team that came up with the technology behind StaGreen. By having 4 specialized engineers develop their product *HydroCan* was able to use their expertise, as they know the ins and outs of the fertilizing industry, and they were able to come up with a new innovative product.

HydroCan Margin:

Consumer: After analyzing the case study it was determined through calculation that *HydroCan* will be profiting 48%, which is almost half of what it costs for them to make their product. This is a strength for *HydroCan* because as a new company just starting out having a margin that is close to 50% is considered a fairly good start.

Commercial: *HydroCan* has the option to go in the direction of the commercial market and would thus have a relatively high contribution margin of 60% of sales. This due primarily because the size of the product would be increased to a 50-kilogram bag and since they would be charging a slightly higher price variable cost as a percentage of would drop to 40%.

Weaknesses

Limited Resources:

After analyzing the case study *The Launch of StaGreen by HydroCan*, it was evident that internal areas of the company were not doing well. One area of concern was the fact that *HydroCan* is a new start-up company. Being a new company there can be a lack of resources, which would otherwise help them to grow in the market. *HydroCan* can improve in this area by analyzing the suggestions contained in the case study with respect to marketing.

Low Market Share:

Also since *HydroCan* is a new company it has a low market share compared to those who have been in the industry for longer such as competitors Scotts Co. and Ortho Chemicals. This is caused by the fact that they currently are lacking a marketing strategy that ties in with the lack of resources mentioned previously. A way for them to improve this is by coming up with a unique and competitive marketing strategy to help get an equal market share.

Seasonal Demand:

Furthermore due to the fact that distribution is dictated by the seasonal nature of demand, *HydroCan* would have relatively high distribution costs and as such the four founding partners of *HydroCan* may have to forgo their salary in the launch year. This is typical for a start-up company to experience.

Shortage of Consumer Loyalty:

HydroCan, being a new company, unfortunately have zero consumer loyalty. The case study indicates that most consumers are very brand loyal and are not big on switching over from their current suppliers. Since *HydroCan* is in a position with no consumer loyalty it will be very difficult for them to draw in consumers that have already become loyal to another brand.

Shortage of Brand Awareness:

Similarly brand awareness is also a challenge for *HydroCan* as it is a new company with few consumers aware of the brand and the new product StaGreen. *HydroCan* is currently in a competitive market with large brands such as Scotts Co. and Ortho Chemicals which have been around for longer and are more well known causing difficulties for a new start-up company with limited marketing knowledge to get the word out about their new brand.

Opportunities

Economic

Consumer Market Size

In 2011, $1,202.2 million was spent on fertilizer in the consumer market in Canada. Since *StaGreen* is a new product this is an important consideration as there needs to be an opportunity to earn profits. With a large market like this there is room for *HydroCan* to possibly be profitable.

Legal and Regulatory

Denial of Permits

Some golf course developers are being denied permits to construct new courses because the fertilizers are causing ground water pollution. This is a major concern for the golf course developers, as a permit is needed for the developers to start or continue their business. This is an opportunity for *HydroCan*, as *StaGreen* will cut fertilizer use down creating less pollution, aiding golf course developers in demonstrating that ground water pollution will be reduced at the courses. This will hopefully lead to more golf course permits being approved, meaning more golf courses for *HydroCan* to gain as clients.

Social

Consumer Brand Loyalty

4 out of 10 consumers in the consumer market have no brand preference. Consumers who have no brand preference are more likely to switch to a different brand and are more likely to try a new brand. This means that *HydroCan* has a possible 40% of the market that they could convince to switch over to their product.

Technological

Golf Equipment

The development of better golf equipment has helped increase the popularity of golf. With better equipment more people are considering golf as their activity of choice. More people playing golf means more courses are needed to accommodate them. The number of golf courses is expected to increase by 22% by 2017. This creates an expansion in the commercial market, which creates new market shares. *HydroCan* as a new company has the opportunity to gain the new market shares.

Competitive

Division of Market Shares

In the commercial market the leader in market shares is Sierra Horticulture Products with a market share of 2.2%. In the big picture of a market, 2.2% is considered a small share. The market leader having a small share suggests that the market is made up of many small companies. This is an opportunity as 2.2% is not a controlling share of the market, which allows for new companies, such as *HydroCan* to come in and gain shares.

Demographic

Aging Population

The population of Canada is aging. The older population has an interest in golf as a hobby during retirement. This is forming a need for the creation of more golf courses to support the growing number of golfers, which means the commercial market for fertilizer is also growing. *HydroCan* has the potential to gain the new shares of the market that are being created.

Threats

Economic

Trends:

Gardening and lawn maintenance is a popular trend in Canada, however lawn care is a highly seasonal business, with 70% of sales occurring in the months of April to September. This could have a major impact on *HydroCan's* profits because there is not enough supply and demand throughout the year for their product. This could lead to unbalanced revenue for *HydroCan* and the possibility not reaching profitable margins.

Legal and Regulatory

Water Pollution In Reservoirs:

Even though *StaGreen* is environmental friendly, it is still classified as a fertilizer and could still be considered a threat to the environment. Consumers may not want to purchase *StaGreen* due to the bad reputation of fertilizers, which could lead to unsuccessful margins for *HydroCan*. Currently fertilizers are being publicized as a major source of ground water pollution, due to the high and frequent levels of fertilizers used to keep courses green. Although constant water is not needed for *StaGreen*, this does not completely eliminate the pollution caused by fertilizers but that it could decrease the amount of pollution more than other fertilizers. The Government will continue to test and analyze *StaGreen* to ensure that the product does not cause an effect on the environment.

Social

Consumer Buying Behaviour:

Market research has shown that six out of ten consumers are extremely loyal to existing brands and would be very unlikely to switch to a new product. In-store advertising, sale staff information and recommendation have been a strong influence on consumer's buying behavior. *HydroCan* will be entering a strong market and will have to work twice as hard to change the consumer's minds.

Brand Awareness:

Another threat within the consumer market is consumer behavior and attitudes towards certain products. Micro-Gro has the highest brand awareness in the market, although it is mainly associated with their plant foods rather than their lawn fertilizer. *HydroCan* could struggle with brand awareness when entering the consumer market and must create a strong push and pull strategy.

Brand Loyalty:

HydroCan may find it challenging when it comes to brand loyalty within the commercial market. Golf course owners are experiencing shrinking profits in the market which is influencing their purchase behaviour. The condition of the course is the most important attribute and course owners tend to be highly brand loyal. *HydroCan* would need to have a strong selling strategy to persuade golf course owner to switch to *StaGreen*. Owners prefer to test new products on their golf courses for a season or two before switching. This could be an issue for a new product entering the commercial market. *HydroCan* does not have enough time for consumers to try and test their product for a couple years before switching.

Competitive

Sierra Horticulture & Nu-Gro Corporation:

Sierra Horticulture is currently the market leader of the commercial market with a share of 2.2% and their biggest competitor is Nu-Gro Corporation. These firms engage in little advertising, preferring to spend their marketing fund on sales calls to golf courses. They provide free samples of their products to non-users and try to build a solid, long lasting relationship with course owners. This forecasts that it will be very difficult for *HydroCan* to build a strong relationship with golf course owners. *HydroCan* would have to have a great deal of dedication and effort to build new relationships with these golf course owners.

Scotts Co. & Ortho Chemicals:

The consumer fertilizer market is highly competitive, with the top two firms, Scotts Co. and Ortho Chemicals, controlling approximately 50% of the total consumer market. Both firms are headquartered in the US and both have extensive international operations. *HydroCan* must emphasize their product differentiation in order to be successful in the consumer market. However if consumers are satisfied with their current product they may see no reason why they should take the risk and switch brands. These two direct competitors could jeopardize *HydroCan* goals for a successful margin.

Turf Builder & Miracle-Gro:

The market share leader is Scott Co, with their two powerful brands, Turf Builder and Miracle-Gro. Turf Builder's fertilizer is known for their innovation and unique technology that is relatively new and has only been available to the market for two years. Turf Builder fertilizer allows less application due to the slow-release technology, which consists of less application and could last for a maximum of two years. With the market already introduced to a unique fertilizer, *HydroCan* must create a strong marketing strategy in order to create brand awareness when entering the market.

The large manufacturers of fertilizer products generally spend approximately 20% of sales on marketing activities. Miracle-Gro is the most heavily advertised brand on the market, and they generally spend 4% of the sales on advertising. Scotts advertises Turf Builder, but only advertises during early spring when a demand of fertilizer is at the peak. Most companies run their advertisements for their existing brands and any new brands they may be launching during the spring and early summer months. Thus advertising expenditures are generally at the highest in March, April, May, and June, and zero at all other times. Only Miracle-Gro is advertised year-round, with different messages at different times of the year. Consumers will be bombarded with different types of advertisements during the prime season; *HydroCan* ads may not be recognized or could be mistaken for another brand if the ad is not carefully advertised. Ultimately *HydroCan* advertisements could be lost due to clutter in the popular advertising periods for fertilizers.

<u>Alternatives/Options</u>

<u>Option 1: Targeting the Consumer Market:</u>

The first option for *HydroCan* would be to target the consumer market. The consumer market is made up of three different retailers which all play a role within the market. There are the discount stores that buy direct from manufactures and include stores such as Canadian Tire and Wal-Mart and approximately 60% of all consumer fertilizer sales are made in discount stores. There are also specialty stores such as nurseries that are independently owned and 30% of their sales are of the consumer sales. Lastly there are home improvement stores, which are expanding in Canada such as Home Depot that has 24 locations in Canada. Home improvement stores currently have 10% of the consumer sales in the market.

<u>Pros:</u>

An advantage of being a part of the consumer market is that *HydroCan* would only need to gain 0.5% of the market share in order to break even. This amount of the market share is a reasonable goal to strive to achieve. *HydroCan* needs to make 267,982 bags in order to break even and they have the capacity to make 360,000 10kg bags.

Therefore another advantage to targeting the consumer market would be that *HydroCan's* facility could supply more StaGreen than needed to break even. *HydroCan* would be entering a market size of 1,202.2 million allowing for the potential of great profitability adding yet another advantage to targeting the consumer market.

<u>Cons:</u>

A disadvantage for *HydroCan* to target to consumer market is the strict requirements on the orders, price concessions and special support when distributing to three types of retailers. These three types of retailers are the major resources for consumers to purchase fertilizers, which stresses the importance for them to follow the strict requirements.

Another disadvantage to targeting the consumer market is the fact that competitors <u>Scotts Co.</u> and <u>Ortho Chemicals</u> control approximately 50% of the consumer market therefore dominating the market. Consumers are extremely loyal to their brands with a statistic showing that 6 out of 10 consumers would be very unlikely to switch to a new product no matter how good it was. Consumer's lawn maintenance is seasonal due to the poor weather conditions in Canada with 70% of sales occurring in the months of April to September.

Option 2: Targeting the Commercial Market:

The second option for *HydroCan* would be to target the commercial market. The commercial market consists primarily of Canada's 2800 golf courses, but also includes commercial properties such as office complexes and apartment buildings. Since the 1990's the game of golf has increased over the years due the growing number of public courses with reasonable fees, the continued aging population, and the development of better equipment has also contributed to this growth of popularity. The majority of golf courses are independently owned as opposed to the 4% that are owned by companies that own several courses.

Pros:

An advantage of being a part of the commercial market is that *HydroCan* would only need to gain 0.95% of the market share in order to break even. This amount of the market share is a reasonable goal to strive to achieve. *HydroCan* needs to make 39,314 50kg bags in order to break even and they have the capacity to make 72,000 bags.

Therefore another advantage to targeting the commercial market would be that *HydroCan's* facility could supply more *StaGreen* than needed to break even. *HydroCan* would be entering a market size of 623.7 million allowing for the potential of great profitability adding yet another advantage to targeting the commercial market.

The popularity of golf has been increasing dramatically over the years due to the growing number of public courses with reasonable fees, the continued aging of the Canadian population, and the development of better equipment. Predictions have been made that the estimated number of golf courses will increase by 22% by 2017. *HydroCan* has a huge advantage of building relationships with new course owners as well as current golf course owners.

If *HydroCan* was to target the commercial market they would have an extremely good margin, earning 60% of the sales and only 40% goes to variable costs. The size of the product will increase to a 50kg bag, and would be charging a slightly higher price. Another advantage when targeting commercial market is the distribution cost, consumers purchasing directly from the manufacturer decrease the cost of distribution. *HydroCan* would only have to pay $225,000 for freight, warehousing, and storage.

Additionally *HydroCan* will also experience when selecting commercial as their target market is saving golf course owners expenses on fertilizer and water usage. On average course owners spend $300,000 to maintain their golf course during the year, which 42% represents water usage costs and 24% represents fertilizer purchases. However the costs could vary with larger and more complex courses. Golf course owners could expand their courses or open new golf courses with savings they make on *StaGreen*. This could also have an impact on office and condo owners expanding their real estate from the savings. With the reduction in the amount of fertilizer need and water usage, golf course owners and real estate owners could gain a green footprint reputation and avoid fee charges for polluting the environment.

Cons:

A disadvantage for *HydroCan* to target commercial market is the shrinking profit for golf course owners. While golf is growing in popularity, and more courses are being built to accommodate demand, the actual number of golfers that can be accommodated on any one course cannot be expanded.

Another disadvantage to targeting commercial market is golf course owners are highly brand loyal. Since the conditions of their courses are the most important attribute in a consumer's selection of a course to play, course owners tend to be highly particular about the brand they select and then stick to it building strong brand loyalty. Also golf course owners prefer to see the results of the new product applied to test area on their course for a season or two before switching. *HydroCan* does not have enough time to demonstrate their product to golf course owners and cannot afford to give owners time to see results.

HydroCan will also experience the disadvantage of higher fixed costs when targeting the commercial market. The size of the sales force will increase to 40 to handle the lengthy sales calls necessary to golf courses, increasing the cost to $2,000,000. *HydroCan's* most expensive fixed cost would be sales force if targeting commercial market.

Option 3: Targeting the Consumer & Commercial Market:

The third option is for *HydroCan* to target both the consumer and commercial markets. This would include the 2800 golf courses and commercial properties such as office complexes and apartment buildings in the commercial market, as well as the $1,202.2 million consumer fertilizer market.

Pros:

An advantage of being in both markets would be that *HydroCan* would have access to both markets at a total of $1,825.9 million. *HydroCan* would be entering markets with a great potential for profitability.

The ability to target a wider range of consumers, including business to business with the commercial market allows for a wider variety customers to persuade into switching to *HydroCan*. More customers means the potential for more profits.

Cons:

A negative to targeting both markets is that production would be more challenging. *HydroCan* would have to format the production facility to make both the 10kg and 50kg bags. This could be costly to the company, as the machines would have to be altered for each size.

Also, *HydroCan* would need to determine the amount of staff required to work both markets. *HydroCan* would also have to decide how to go about training the sales representatives. It would be time consuming to train each staff member on both markets, but it would be costly to hire more people that are trained on individual markets. *HydroCan* may not have the time to train sales representatives on both markets and still launch on time.

If *HydroCan* plans on targeting both markets, two different promotional strategies would need to be created. This process would be both time-consuming and costly. *HydroCan* may not be able to get both done in their limited time before the launch and they also may not be able to afford the excess cost associated with having two different promotional plans.

Recommendation

HydroCan should target the commercial market with their new product *StaGreen* and as there is a smaller risk than the other markets. *HydroCan* would be entering a market size of 623.7 million allowing for the potential of great profitability and a wide variety of potential prospects.

The popularity of golf has been increasing dramatically over the years due to the growing number of public courses with reasonable fees, the continued aging of the Canadian population, and the development of better equipment. *HydroCan* will help golf courses maintain reasonable fees that will allow both the owners and consumers to be happy.

Statistics have predicted that the number of golf courses will increase by 22% by 2017; this would allow *HydroCan* to prospect new golf course owners with no brand preference. *HydroCan* would only need to gain 0.95% of the market share in order to break even, which is a reasonable goal to strive to achieve.

HydroCan needs to make 39,314 50kg bags in order to break even and they have the capacity to make 72,000 bags. *HydroCan* would have an extremely good margin, earning 60% of the sales and only 40% goes to variable costs. *HydroCan* would need to produce 50kg bag and charge a slightly higher price to break even.

The distribution cost would be decreasing when targeting a commercial market, allowing consumers to purchase directly from the manufacturer. *HydroCan* would be paying $225,000 for freight, warehousing, and storage. *HydroCan* would allow golf course owners to expand their courses and open new golf courses from the savings made by switching to *StaGreen*. This would also impact office and condo owners expanding on their real estate throughout Canada.

With the reduction in the amount of fertilizer needed and water usage, golf course owners and real estate owners could gain a green footprint reputation and avoid fees charges for polluting the environment.

Calculations

Consumer Market Size:

$2,312 million spent on lawn maintenance. 52% is on fertilizer.

$2,312,000,000 x 0.52 = $1,202,240,000 = $1,202.2 million

Consumer B/E:

Fixed

$700,000

+$80,200

+$20,650

+$12,350

+$426,000 (distribution)

+$655,000 (Marketing)

+$1,000,000 (Sales Force 20 x $50,000)

= $2,894,200

Variable

$22.50 x 0.52 = $11.70

Margin

$22.50-$11.70 = $10.80

B/E= $2,894,200 / $10.80 = 267,981.48 = 267,982 10kg Bags

Consumer Market Share to B/E:

$22.50 x 267,982 bags = $6,029,595 / $1,202,240,000.00 = 0.0050 = 0.5% market share

Capacity- Consumer 10kg Bags:

300,000kg a month facility capacity

300,000kg/10kg = 30,000 bags a month x 12 months = 360,000 10kg bags a year

Commercial Market Size:

$300,000 spent on average by each golf course. 2800 golf courses. 24% spent on fertilizer and 42% spent on water.

Fertilizer: $300,000 x 0.24 = $72,000 x 2800 golf courses = $201,600,000 = $201.6 million

Water: $300,000 x 0.42 = $126,00 x 2800 golf courses = $352,800,000 = $352.8 million

Golf Course Total: $201.6 million + $352.8 million = $554.4 million

Office/Apartments are around an eight of the golf course market.

$554,400,000 / 8 = $69,300,000 = $69.3 million

Total Commercial Market: $554.4 million + $69.3 million = $623.7 million

Commercial B/E:

Fixed
$700,000
+$80,200
+$20,650
+$12,350
+$225,000 (distribution)
+$500,000 (Marketing)
+$2,000,000 (Sales Force)
= $3,538,200

Variable
$150.00 x 0.4 = $60.00

Margin
$150.00-$60.00 = $90.00

B/E= $3,538,200/ $90.00= 39,313.33 = 39,314 50kg Bags

Commercial Market Share to B/E:
$150 x 39,314 bags = $5,897,100 / $623,700,000.00 = 0.0095 = 0.95% market share

Capacity- Commercial 50kg Bags:
300,000kg a month facility capacity
300,000kg/50kg = 6,000 bags a month x 12 months = 72,000 50kg bags a year

Golf Course Savings
Water Usage reduced by 1/3
Fertilizer Usage reduced by 1/2

Fertilizer: $72,000.00 x (1/3) = $24,000.00
Water: $126,000.00 x (1/2) = $63,000.00

$24,000.00 + $63,000.00 = $87,000.00 savings