

## **Vicks Healthcare**

1. What needs do customers have in this market?
2. Why are customers so confused?
3. Would manufacturers like to resolve customer confusion?
4. How does the absence of verifiable information (that customers can interpret) affect competition?
5. What resources does Vicks have and what resources does it lack?
6. What factors reduce the profits that Vicks earns from its current branded products?
7. Is the proposed new product idea likely to succeed?

## 1. What needs do customers have in this market?

They want to feel better:

- Alleviate symptoms from 4 primary conditions
- Cure to cause

Low price sensitivity:

- Generics are 30%-50% cheaper and have less than 10% share
- No true differentiation: suggests customers should be price sensitive
- There is perceived differentiation: this reduces customers' price sensitivity

Convenience

- Purchase from nearest store
- *Would a customer go to a different store in order to find a preferred brand?*

Information about which products to use

## 2. Why are customers so confused?

*The benefits of search are high – why are customers not searching?*

Hard to search for information:

- Customers do not have sufficient expertise to interpret the active ingredient information on the back of the package

Although customers have extensive experience, the feedback about product efficacy is imprecise:

- Not easy to diagnose cause from symptoms
- Relief often comes from resolution of cause (i.e. you get well)
- Customers often take multiple drugs

Advertising is confusing

- No credible quality claims (e.g. no MIT research to prove it is more effective)
- Manufacturers make different claims for the same ingredients

### **3. Would manufacturers like to resolve customer confusion?**

*Customers are over-subscribing – it would be better if they were informed. Consider a hypothetical advertising campaign, which could effectively resolve customers' information need. Would manufacturers invest in such a campaign?*

Branded products have little to gain from resolving customer uncertainty: this provides the only source of differentiation

- Lack of objective information prompts customers to rely on past perceptions
- Brands have created artificial differentiation through perceptions
- Lack of objective information makes this differentiation sustainable (hard to change perceptions without objective information)

Manufacturers of generic products also have little to gain from resolving customer uncertainty:

- Advertising to inform customers will increase costs - raising prices
- Low entry barriers - if customers are informed other generics can enter and compete

### **4. How does the absence of verifiable information (that customers can interpret) affect competition?**

- Customers must rely on perceptions (expectations)
- Lack of verifiable information makes it hard to change perceptions

## 5. Resources Vicks Has

Favorable quality perceptions associated with the Vicks (and NyQuil) brands. Given the absence of verifiable information that customers can interpret, customers use brands to form inferences about product quality. Vicks' favorable quality perceptions result from the following cues (each of which are hard for new entrants to mimic):

- Age of brand
- Market share
- Amount of advertising (though not content of advertising)
- Your mother rubbing it on your chest

Well-established sales force and distribution

- Comparative advantage in food distribution outlets and mass merchandisers
- Not valuable in segments that shop in other markets

Demand information – learn from Slex failure

- Other firms probably do not have this information

Cash

- But competitors also have cash (one competitor is twice the size)

## Resources Vicks Lacks

No actual improvement over current formulations (although nor do other firms)

Competitors have established brands and perceptions in other segments

## 6. What factors reduce the profit that Vicks earns from its current branded products?

Profits would be higher if there was more surplus in their current segments:

- Increase number of sufferers
- Increase frequency of illness amongst sufferers

Profits would be higher if they had more market power at their level of the channel

- No competitors
- Real differentiation from existing competitors
- Maintain perceived differentiation without incurring advertising cost

Profits would be higher if retailers had less market power

- More competing drug stores located closer together
- *Customers will generally not go to another store to find preferred brand*

## 7. Is the proposed new product idea likely to succeed?

What will differentiate this new product from other products currently targeting this segment?

- Brand name: useful only for coughs/liquids?
- Cash for advertising
- Distribution: relationships with food distribution and mass merchandise retailers

### Summary

Is this sufficient to differentiate the new product from existing competitors? This is a decision with incomplete information, although we do have some information. The previous failed launch had the distribution and cash resources. Therefore, a test market would be helpful to investigate whether the use of the Vicks name will provide sufficient differentiation.

### *Postscript*

*Vicks test-marketed the product under the brand name Versus 3*

*The product was positioned as offering a solution to multiple conditions*

*Results of the test market were “inconclusive” due to implementation difficulties*

*The product was launched under the brand name Headway*

*The product was not successful:*

- *It was not a unique or superior product*
- *Customers did not perceive that it would satisfy their needs any better than existing alternatives*

# Vicks

## Half Page Write-Up

Key Issue: Is the proposed new product likely to succeed?

What will differentiate this new product from other products currently targeting this segment?

- Vicks brand name: useful only for coughs/liquids?
- Cash for advertising
- Distribution - relationships with retailers

Is this sufficient to differentiate the new product from existing competitors? This is a decision with incomplete information, although we do have some information. The previous failed launch had the distribution and cash resources. Therefore, a test market would be helpful to investigate whether the use of the Vicks name will provide sufficient differentiation.

Alternatively, you might discuss why the Vicks brand name is so important:

- Lack of objective information prompts customers to rely on past perceptions
- Brands have created artificial differentiation through perceptions
- Lack of objective information makes this differentiation sustainable (hard to change perceptions without objective information)