

NeoStrata- Case Study

NeoStrata and its Post-Recession Plans

December 5th, 2010 – Christina Smith, VP Marketing of NeoStrata, had just returned to the office after a hectic day to review all the reports waiting for her on her desk. It had been an interesting year for Christina and her company. Sales had dropped 5% during 2010, but that had to be considered a success given the realities of the global recession. However, the real challenge on her mind was how to move forward in 2011. The global economic crisis would no longer be allowed to be used as an excuse for lagging sales. There were multiple options being pondered by Christina. Brand Extension? Line Extension? Wait and see? Christina was eager to make a decision that would have great repercussions on the future of NeoStrata.

The History of NeoStrata

In 1975, a young couple named Louis & Sylvia Vogel showed tremendous entrepreneurial spirit by making their own dermatological products in their basement. While neither individual had a business background, they both were well versed in chemistry and knew many members of the Montreal medical community. After much trial and error, they finally made a product that they presented to some of their dermatological contacts. These doctors were so impressed with the results that they asked the Vogels to make more of these products and thus *Canderm Pharmaceuticals* was born.

By 1991, *Canderm Pharmaceuticals* was an established dermatological company when the Vogels bought the Canadian licensing rights to the NeoStrata brand. The NeoStrata Company was a dermatological firm based out of New Jersey and had been selling its products exclusively in the United States. By selling the branding rights to Canderm, this would be NeoStrata's first international entry. This was a significant step in the evolution of Canderm as this was the first time that the Vogels had the branding power to sell to retailers and not only to doctors. Now Canderm would be divided in two: half of its employees would build up the medical division while the other half would focus on the retail side under NeoStrata.

From 1992 to 2007, NeoStrata slowly build up its Canadian presence through word of mouth, product development and a reputation for skin care treatments that simply worked. In 2008, *NeoStrata Wrinkle Repair* was introduced. This product offered up to a 76% reduction in the length of wrinkles. Because of its clinical and critical success, it won numerous awards from well respected beauty magazines such as *Chatelaine* and from retailers such as *Shoppers Drug Market*. Through the success of this one SKU (Stock-keeping unit) alone, sales for NeoStrata increased by 39%. The biggest challenge in 2008 was simply keeping up with customer demand.

By the end of 2010, things had drastically changed. *Wrinkle Repair*, while still selling well, was no longer the “hot” item on the shelf. Overall sales for the brand were no longer at 2008 levels. In addition, there was no product in the R&D pipeline as innovative as *Wrinkle Repair*. The question for Christina was “How does NeoStrata recapture the 2008 magic”? Due to licensing agreements, Christina is only responsible for NeoStrata sales in Canada.

NeoStrata’s Products

NeoStrata offers a full line of skin care products at the retail level. Among the product categories are acne care, cleansing, exfoliating, multi anti-aging, anti-wrinkle, lightening, radiance, moisturizing, firming and sun care. From a pure product perspective, there’s not much that can be done to improve or add new products. Health Canada puts a limit on the number of active ingredients allowed in products at the retail level. Active ingredients enable skin products to perform specific functions. For example, glycolic acid is the main active ingredient to exfoliate the skin. Most of NeoStrata’s products are already on the upper to maximum limit allowed for active ingredients. Because NeoStrata already carries 10 categories that each has multiple SKUs, there isn’t a clear hole in its product portfolio to fill. Simply put, there isn’t much that can be done to improve NeoStrata’s product mix.

From a competitive standpoint, NeoStrata’s products are the most effective on the market as they contain the most allocated ingredients available. The majority of their products are backed by independent clinical trials which only re-emphasize the products’ effectiveness. All of NeoStrata’s products are fragrance free to distinguish the

brand from competitors that would choose style over substance. Adding odors won't change the quality of the product, so top management was concerned that doing so would be inconsistent with NeoStrata's brand image that promoted efficacy. Unfortunately, many users prefer skin care products that have a distinct scent so many consumers won't purchase NeoStrata products for this reason.

The NeoStrata Brand

The NeoStrata brand is based on three very simple principles: simple, clear, and effective. While other companies may try to impress or distract their audiences with flashy packaging while hiding their key ingredients, NeoStrata keeps everything simple and transparent. The ideology behind the brand is the following: "If our products work, we should have nothing to hide". Packaging and all communication pieces are very conservative in nature in order to stay consistent with those three principles. NeoStrata's core brand positioning is transparency and science. By focusing on ingredients and efficacy in a transparent manner, NeoStrata can compare and contrast products and demonstrate why its own are superior. The brand definitely appeals to the consumer's rational side rather than their emotional one.

While this tactic is effective with older customers (50+), it's far less effective with those less than 50 years of age. Older consumers are more conservative and practical. They prefer buying products that work rather than brands that offer empty promises. More importantly, they often want to know how a certain product works. Younger consumers are more brand conscious. As such, it's more important for them to buy a cool brand rather than reap the benefits of a product. This makes it very difficult for NeoStrata to capture a younger target market who simply don't care that some of their products contain 10% glycolic acid. It's more important for this target market to feel better, rather than know why their skin will be healthier.

Overall that puts NeoStrata on shaky ground. Its main consumers are baby boomers and senior citizens. In the short-term, everything is fine as sales are steady. In the long-term, there will be no growth and sales will eventually decline if NeoStrata fails to reach a younger audience.

Competitive Landscape

In beauty care, there are three main segments of skin care products: mass, luxury and active. The most basic level is “mass”. These products contain ingredients with no practical benefits. They simply smell and feel good on your skin; common brands include: *L’Oreal Paris*, *Maybelline* and *Garnier*. Their brand communication strategies all focus on images of models and fashion trends.

The “luxury” category includes brands like *Lancome*, and *Biotherm*. In reality, they are simply higher end “mass” products with more expensive packaging and higher price points. The products themselves are fairly similar, but the advertising behind them make them appear higher quality than they are. The products, chemically speaking, are to be considered higher quality than those in the mass category.

The final category is “active”. All these brands contain active ingredients that can affect the skin at the cellular level. For example, most exfoliating products in the active category contain glycolic acid which is a small α -hydroxy acid with a pH as low as 0.6. Once applied to the skin, glycolic acid reacts with the upper layer of the epidermis, weakening the binding properties of the lipids that hold the dead skin cells together. This allows the stratum corneum to be exfoliated, exposing live skin cells.

Popular brands in this category include: *Vichy*, *La-Roche Posay*, *Bioderma*, *Clarins* and *Avène*. *Vichy*, owned by *L’Oreal*, positions themselves as the up-scale active brand by using celebrities to endorse their products. *La-Roche Posay*, also owned by *L’Oreal*, has an approach similar to *NeoStrata*’s; they both focus on ingredients rather than aesthetics. However, *NeoStrata* focuses more on medical benefits while *L’Oreal* emphasizes beauty. *Bioderma* should be considered a lower-end *La-Roche Posay*. *Clarins* is the active brand that most resembles the brands in the “luxury” category. Finally, *Avène* puts its European heritage at the forefront of their campaigns.

While *NeoStrata* has its own position, it’s very difficult to make the brand stand out due its lack of capital. Many of its main competitors are owned by *L’Oreal* and *Johnson and Johnson*. Both firms have access to better distribution channels, more financial capital and recruit the best talent. To put it into perspective, *NeoStrata*’s sales are smaller than

L'Oreal Canada's marketing budget. Maximizing NeoStrata's resources to maintain a competitive edge is thus very difficult and essential to survival.

Pricing & Distribution

Despite having products that are among the best, if not the best, in the market, NeoStrata's products aren't priced to reflect this high quality. Certain NeoStrata products were 10-50% less expensive than competitor's products. NeoStrata's weak brand equity prohibits it from raising prices. In this industry, the brand dictates price, not product quality. Furthermore, management felt raising prices was a risky proposition that would anger current consumers. No previous attempts to raise price points have ever been made.

Drugstores are the main distributors of NeoStrata products. More than half of its total sales come from *Shoppers Drug Mart* (Pharmaprix). Because of this, all promotional, pricing and product decisions are communicated to *Shoppers Drug Mart* before launching. Other distributors include *Familiprix*, *Jean Coutu* and *London Drugs*. Shelf-space is extremely competitive, so gaining more space is extremely unlikely. Any new product launch or line extension must take a current SKU off the shelf. Given NeoStrata's rather small size, it's impressive how much shelf-space it actually owns.

NeoStrata does not offer direct distribution. There is a very limited online presence on www.well.ca, which is an online personal care website. Some consideration was given to begin selling online through NeoStrata's website, but the operations department vetoed the idea stating that production issues as well as high costs made this an unprofitable venture.

Promotional Mix

With a total national marketing budget of \$1,000,000, the VP marketing has her work cut out for her. Optimizing her advertising budget is one of her priorities. Television and radio are simply too cost-prohibitive to use. Beauty magazines such as *Chatelaine*, *Elle*, *Vita* and *More* have been the main communication tool for NeoStrata. Those magazines have an older readership interested in beauty, making it a perfect fit for the brand. Approximately 75% of the budget went into this medium. The remaining 25% was split

between in-store promotions (10%), website (5%), events (5%) and contests (5%). That 25% represents brand “maintenance” more than brand “promotion”, but lowering it is out of the question. Christina would love to create campaigns, but feels handicapped by a low budget and a simple brand.

Packaging was another important element to consider. NeoStrata’s products have a pure white packaging with a small colored stripe representing the product category. This was originally done to stay consistent with NeoStrata’s “simple” and “clear” brand image. However the end-result is packaging that is frankly “boring”. To change packaging for the entire line would take a considerable investment (0.5-2% of the marketing budget) as it would necessitate changes in every other tool of the communication mix. Perhaps finding a middle ground is possible?

Canadian Market

The Canadian Market as a whole is very different. According to NeoStrata’s sales reps based on their own market research and experience, Quebecers seek what’s new and stylish, Ontarians seek value, while Western Canadians seek what’s practical. The larger issue is that NeoStrata deals with national retailers, so selling regional products is not feasible. Ironically, despite being headquartered in Montreal, NeoStrata’s brand is a better fit outside of Quebec . Ontario’s sales represent approximately 45% of NeoStrata’s sales. Is there an effective way to capture the attention of all the different provinces?

The Future of NeoStrata

Christina had all the information she needed to make a decision, but it was now time to choose a direction. She understood that if she maintained the status quo for the next couple of years, her sales would likely be maintained at current levels. Eventually though, sales would decline. Something needed to be done.

The idea of creating an entirely new brand to specifically target younger consumers had been discussed before. Christina felt that she could probably convince her president to

invest an extra \$250,000 into this particular project. While this had the biggest profit potential, it also had the highest likelihood of failure.

Using the current NeoStrata brand to target younger consumers was also a viable option. However, there were clear concerns. Would it be possible to do so without alienating current customers?

Finally, perhaps simply tweaking the brand was the correct direction. Perhaps only raising prices? Or changing packaging to appeal to a broader consumer base?

On her immediate agenda was creating a detailed marketing plan that would properly segment the market, create the appropriate marketing mix, increase both the visibility and popularity of the brand, and position NeoStrata for success in the future.

Your mandate is to present strategic marketing recommendations to the VP Marketing.

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Exhibit 1:
Canadian Population by Age & Gender in 2009

	Canada	Male	Female	Canada	Male	Female
Age group	Persons (thousands)			% of total of each group		
Total	33,739.90	16,732.50	17,007.40	100	100	100
0 to 4	1,837.70	943.4	894.3	5.4	5.6	5.3
5 to 9	1,799.30	925.7	873.6	5.3	5.5	5.1
10 to 14	1,974.60	1,011.80	962.8	5.9	6	5.7
15 to 19	2,252.10	1,153.30	1,098.80	6.7	6.9	6.5
20 to 24	2,321.40	1,192.60	1,128.90	6.9	7.1	6.6
25 to 29	2,347.90	1,185.60	1,162.30	7	7.1	6.8
30 to 34	2,261.70	1,131.70	1,130.00	6.7	6.8	6.6
35 to 39	2,303.00	1,160.60	1,142.40	6.8	6.9	6.7
40 to 44	2,484.70	1,251.80	1,232.90	7.4	7.5	7.2
45 to 49	2,790.10	1,402.80	1,387.30	8.3	8.4	8.2
50 to 54	2,575.40	1,282.90	1,292.50	7.6	7.7	7.6
55 to 59	2,216.80	1,093.20	1,123.60	6.6	6.5	6.6
60 to 64	1,887.60	925.9	961.7	5.6	5.5	5.7
65 to 69	1,407.10	681.7	725.4	4.2	4.1	4.3
70 to 74	1,080.80	507.3	573.5	3.2	3	3.4
75 to 79	908	408.8	499.2	2.7	2.4	2.9
80 to 84	675.6	275.2	400.4	2	1.6	2.4
85 to 89	412.7	143.4	269.3	1.2	0.9	1.6
90 and older	203.3	54.6	148.6	0.6	0.3	0.9
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Source: StatsCan, http://www40.statcan.ca/l01/cst01/demo10a-eng.htm						