

P&M Products Ltd.

P&M Products holds the world-wide licences to Blitzzer and Blowpen, children's pens that create airbrush effects. It was set-up in 1992 by Doug Eaton and now has sales of over £10 million, 80% coming from exports to over 45 countries. This sales growth was derived from a simple strategy of selling the product into these countries through distributors, thus reducing the financial risk of expansion abroad. P&M simply exhibited and signed up distributors at overseas Toy Fairs.

In 1999 its own growth and the emergence of a global retail market influenced by mergers and the demand for a consolidation of suppliers forced it to rethink its strategy. In particular a benchmarking exercise underlined the differing performance of distributors. Whilst a highly committed Finnish distributor achieved a 60% penetration amongst its target market of 5 to 13 year olds, its US distributor achieved only 3% and its average was 20%. Upon investigation it emerged that the US distributor had many other products in his portfolio and viewed P&M's products as marginal. After a six month search P&M could not find a distributor that might be more committed to their products and decided to change strategy and set up its own subsidiary in this vital market. It adopted a strategy of direct response television promotions and spent some £650,000 on 'infomercials', which appeared at prime time on kids' channels giving an 0800 telephone number and web site address. The campaign was successful and big retailers like Toys 'R' Us and Wal-Mart started to take interest. US sales rose from \$1 to \$5.5 million in 1999.

The experience P&M Products had in the USA forced it to realise that, as large retailers rationalised their suppliers, they would continue to be squeezed as they did not offer a range of products that was large enough to be attractive. Consequently P&M decided to reposition itself as a pan-European supplier that could also sell products from other, smaller producers. Part of this strategy involved acquiring other, smaller firms so as to increase its product range. It now intends to get to a position where 25% of sales are generated from new lines.



Case questions:

1. What do you think of this new strategy?
2. What are the advantages and disadvantages of it?
3. What risks does the company face in pursuing it?