

Hachi: Evaluating a new product initiative

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ABSTRACT

This fictional case is intended for undergraduate students enrolled in marketing courses, such as Product & Service Innovation. It provides an opportunity for students to apply theoretical concepts learned in class to analyze a business scenario and develop strategies to address significant business challenges. The case centers on a small business called Hachi, which specializes in producing and selling artificial plants. Kim Trishina, the newly appointed business development manager and central character of the case, is exploring a new product initiative to rejuvenate Hachi's operations amidst intense competition in a dynamic market. While the case draws inspiration from real products (artificial flowers made from fish scales), all details concerning Hachi and the characters are entirely fictitious. Similarities to real businesses, individuals, or events are coincidental, and the authors accept responsibility for such resemblances. Any queries or concerns about this case should be directed to the authors.

Keywords: product innovation, business idea, new product development, SWOT analysis, product life cycle, environmental sustainability

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INTRODUCTION

As the world evolves, businesses must continuously adapt and innovate to keep up with shifting customer demands. Understanding this dynamic, companies need to constantly monitor their products' life cycles, which typically consist of the following four stages:

1. **Introduction:** This initial stage begins when a new product is introduced to the market. Sales increase gradually, and costs are high due to promotion and distribution efforts.
2. **Growth:** Once the product gains acceptance, demand surges rapidly. Profits begin to rise due to surging sales, efficient distribution, and economies of scale. This stage is also known as the "Takeoff Stage."
3. **Maturity:** Sales growth begins to slow down and eventually stabilizes as the market's demand decreases. Although the product reaches its peak market penetration, profits may start to decline due to intensified competition and market saturation.
4. **Decline:** Sales and profits begin to fall as the product loses consumer interest, often due to technological advancements, changes in consumer preferences, or increased competition.

Once companies determine a product's lifecycle stage, they need to respond appropriately to make informed decisions that enhance organizational effectiveness. When introducing a new product is crucial for success, organizations must follow the New Product Development (NPD) process, which includes seven stages: idea generation, idea screening, concept development and testing, marketing strategy and business analysis, product development, test marketing, and product launch. Hachi, the company highlighted in this case, requires your recommendations for potentially introducing a new product amidst fierce competition.

HACHI: PRESERVING A LEGACY OF CRAFTSMANSHIP

Nestled in a picturesque island nation, Hachi is a local company specializing in producing artificial plants and flowers. Since its inception in the 1980s as a modest family business, the company has grown into one of the island's largest and most respected employers. Hachi offers a wide range of artificial plants, from petite bonsais and vibrant exotic flowers to larger plants like palm trees, ideal for decorating halls, offices, and buildings. Hachi serves a diverse clientele, including individual consumers, businesses, and retailers who buy its products for resale.

At its peak, the company employed about 300 local workers to meet increasing orders from domestic and international markets. A few years ago, Hachi began experiencing a steady decline in sales due to intense global competition. High labor costs in their home country have made it difficult for Hachi to compete on price, particularly against rivals from China. To improve its market position, Hachi has focused on emphasizing the quality of its products. Most of Hachi's products are handmade by well-trained and dedicated workers who take pride in their attention to detail and craftsmanship.

Artificial plants have been around for a long time, and with little innovation in this industry, many customers view artificial plants from different suppliers as relatively similar. In the past, Hachi's products stood out in the market for their quality and craftsmanship, attracting customers worldwide. However, with technological advancements and the widespread adoption of social media, many companies in the industry have significantly enhanced their product quality and variety while boosting consumer awareness, leading to improved financial

performance. Although some customers still recognize Hachi's strengths, many others see little difference between Hachi's products and those of its competitors.

When there is little perceived differentiation, customers tend to focus more on price as the primary factor in their purchase decisions. In addition to high labor costs, inflation, and government regulations have increased the costs of input materials for Hachi. Despite the island country being blessed with beautiful beaches, it lacks supporting industries to supply the necessary input materials for Hachi. Consequently, Hachi must import many materials from suppliers worldwide, further increasing production costs.

THE PROTAGONIST: PURSUING PASSION AND PURPOSE

Kim Trishina, a business graduate passionate about arts and craftsmanship, grew up familiar with Hachi's products in her island country. Her love for handmade crafts began at age ten when her parents gifted her a small artificial orchid for her birthday. Despite studying business administration, Kim pursued art collection as a hobby and aspired to work for a company with an artistic element.

Kim began her career as marketing staff for a local food company and gradually worked her way up to managing director. Recently, she applied for the role of Business Development Manager at Hachi, driven by her admiration for the company and love for the arts. After a successful interview and seeing the dedication of Hachi's employees, Kim knew she wanted to work there.

As the new Business Development Manager, Kim is tasked with helping Hachi to expand its business amid fierce competition. She understands that competing on price alone would hurt the company's bottom line and brand image. Determined to overcome the challenges ahead, Kim plans to highlight unique aspects of Hachi's products to attract customers and revamp the company's image among stakeholders.

A NOVEL PITCH: TURNING FISH SCALES INTO FLORAL ART

One Friday afternoon, Kim receives a phone call from William Phaminsky, a biology graduate student eager to pitch a new idea to Hachi. Intrigued by William's work on creating flowers from fish body parts, Kim schedules a meeting for the following Monday. During the meeting, William presents a beautiful yellow artificial flower made from fish scales. Initially skeptical, Kim is convinced after examining a petal closely.

William explains his process: he sources the scales from local fish markets, where they are typically discarded as waste, cleans them, and uses a special pineapple extract to eliminate the fishy smell. The cleaned scales are then dried, dyed, and assembled into flowers using transparent glue.

Kim and the attending employees are impressed by William's presentation. After the meeting, the employees express their enthusiasm for incorporating fish scales into various Hachi products.

HACHI'S FUTURE: WEIGHING OPPORTUNITY AND RISK

Kim finds William's concept intriguing and intuitively feels it could significantly impact Hachi's business and the local community. In the community where Hachi is based, the fishing

industry is robust, with multiple large fishing companies and major fish markets. However, the increasing population and outdated infrastructure have led to environmental concerns, as waste from fish is often dumped at unregulated sites or into the ocean.

Kim values Hachi's heritage and aims to improve the quality of life for its residents in the beautiful island community. But first, Kim must carefully consider whether to proceed with William's proposal, weighing the potential benefits against possible risks.

QUESTIONS

1. Develop a SWOT analysis for Hachi.
2. Which stage in the Product Life Cycle are Hachi's current products most likely in?
3. What strategies could Hachi pursue to expand its business, given its current situation?
4. Why do firms pursue product innovations? Which reasons are the most relevant for Hachi?
5. If Kim decides to launch a new product line using fish scales:
 - a. Develop a SWOT analysis for this product line.
 - b. What is the next step for Kim and her team in the New Product Development (NPD) process?
 - c. What type of marketing research or market tests would you recommend for this product line? Why?
 - d. What factors do you think will influence consumer adoption of fish-scale-based flowers?
 - e. What recommendations do you have for their marketing strategy (e.g., the target audience, the marketing mix)?
 - f. Assume the variable cost per unit is \$9 and the total fixed cost for producing 1,000 units is \$10,000, and Hachi aims for a 25% profit margin on this new product, what should be the price based on target return pricing?

Appendix A: Teaching Notes

The case can be assigned as an individual or group project. Before presenting the case, instructors should ensure they are familiar with the Product Life Cycle and new product development. While students' responses may vary slightly, except for the math problem, they should generally fall into the following main categories:

1. Develop a SWOT analysis for Hachi:
 - a. Strengths: high-quality products, brand recognition, dedicated workforce, and product variety
 - b. Weaknesses: high labor costs, limited innovation, declining sales, and geographic location
 - c. Opportunities: product innovation, sustainability trends, market expansion, and environmental solutions
 - d. Threats: fierce competition, economic factors, regulatory policies, consumer perception
2. Product Life Cycle State: Hachi's current products are most likely in the maturity stage, characterized by high competition, little differentiation, and an emphasis on price as a crucial factor in purchase decisions.
3. Ways for Hachi to Expand Its Business: Hachi can expand its business through 1) product diversification (introducing new products such as fish-scale-based flowers), 2) market penetration (increasing market share in the existing market), 3) geographical expansion (entering a new market to expand its business), 4) partnership and collaboration (seeking business partners and alliances), and 5) sustainability initiatives (promoting eco-friendly and sustainable practices to attract environmentally conscious consumers).
4. Reasons for Product Innovation: Staying competitive, meeting consumer demands and expectations, expanding market reach, addressing environmental concerns, and more.
5. If Kim Decides to Launch a New Product Line Based on Fish Scales:
 - a. Develop a SWOT analysis for a fish-scale-based flower product line:
 - i. Strengths: Innovative and unique, sustainability, craftsmanship
 - ii. Weaknesses: Production complexity, learning curve, consumer acceptance, limited awareness, and supply chain dependency
 - iii. Opportunities: Product differentiation, environmental benefits, niche market segments, and new market expansion
 - iv. Threats: consumer rejection, supply chain issues, competition, regulatory policies such as exporting and importing certifications and permits for fish-scale-based products (animal products)
 - b. What is the next step in the New Product Development (NPD) process? Kim and her team will conduct the concept development and testing phase. This step involves refining and testing the product concept with target consumers to gather feedback and validate the product idea.
 - c. Recommended marketing research or market tests
 - i. Marketing research: Conduct interviews, focus groups, and/or surveys with potential customers to collect qualitative and/or quantitative data on perceptions and acceptance of fish-scale-based artificial flowers.

- ii. Market tests: Distribute prototypes to a select group of consumers, including retailers, wholesalers, and end users, to obtain feedback on quality and appeal.
- d. Factors affecting consumer adoption: Perceived quality, sustainability, pricing, marketing strategies, customer preferences, etc.
- e. Recommended marketing strategy: Hachi can target environmentally conscious consumers who value art and craftsmanship and are willing to pay a premium for high-quality, hand-made products. From the marketing mix perspective, Hachi should highlight its **products'** eco-friendliness and high-quality craftsmanship. **Price** should be set to reflect these unique features. Distribution should focus on eco-friendly, high-end, and online stores (**place**). **Promotion** should build connections through environmental initiatives and craftsmanship, utilizing social media and eco-focused marketing campaigns.
- f. Pricing based on target return pricing:

Given:

- Variable cost per unit: \$9
 - Fixed cost for 1,000 units: \$10,000
 - Desired profit margin: 25%
- i. First, calculate the total cost for producing 1,000 units:
 - Total Variable Cost = $1,000 \times \$9 = \$9,000$
 - Fixed Cost = \$10,000
 - Total Cost = Total Variable Cost + Fixed Cost = $\$9,000 + \$10,000 = \$19,000$
 - ii. Next, calculate the desired total revenue for a 25% profit margin:
 - Desired Revenue = Total Cost $\times (1 + \text{Profit Margin}) = \$19,000 \times (1 + 25\%) = \$23,750$
 - iii. Finally, calculate the price per unit:
 - Price per Unit = Desire Revenue \div Number of Units = $\$23,750 \div 1,000 = \23.75

The price per unit based on target return pricing would be \$23.75.