

## D

## ALTERNATE CASES

**CASE D-1** Burton Snowboards: Building a Sport

At the age of 23, Jack Burton Carpenter quit a well-paid financial position to pursue his passion for snowboarding. He founded Burton Snowboards with a \$20,000 inheritance in Manchester, Vermont, in 1977.

Carpenter first became interested in snowboarding when he received a Snurfer for Christmas in the late 1960s. The Snurfer was essentially two skis bound together with a rope for steering. Although the Snurfer was never a commercial success, Carpenter never forgot the product and it became the basis for the Burton snowboard. The early years were rough. He sold fewer than 1,500 boards in his first three years in business. The big break came in 1983 when Vermont's Stratton Mountain became the first ski resort to allow snowboarding. Burton (he dropped the Carpenter to avoid confusion) sent employees out to more than 300 ski resorts to lobby to allow boarders on the hills. Burton Snowboarding has grown to be the leading snowboard maker with offices in Japan, Austria, as well as Vermont. Estimated 2000 sales were \$200 million.

**THE INDUSTRY**

Snowboarding is a wintertime sport that resembles surfing on a ski hill. The modern snowboard industry began around 20 years ago. Currently snowboarding is considered one of the hottest sports around. With an annual growth rate of 31 percent, snowboarding was the fastest-growing sport of the 62 sports and recreation activities surveyed in 2000 by the National Sporting Goods Association. There were over 4.3 million snowboarders in the United States in 2000. Much of snowboarding's popularity has seemingly come at the expense of alpine skiing which has dropped more than 30 percent in the past 10 years.

Snowboarding is achieving worldwide attention and acceptance. The International Olympic Committee and the International Ski Federation first accepted snowboarding as a medal sport in the 1998 Winter Olympics,



held in Nagano, Japan. In spite of growing acceptance, snowboarding still maintains a slightly edgy, rebel image.

**THE PARTICIPANTS**

Snowboarders are primarily male and young. More than 71 percent of skiers are men. The average age is 25, although over 60 percent of snowboarders are under age 25. Skiers, in contrast, are older—with an average age of 40—and more affluent. Snowboarders have an average household income of \$53,800 compared to \$92,600 for skiers.

There are about 3.7 million people in the United States that fit the description of “snowboarders only” in contrast to 10.5 million that consider themselves “skiers only.” However, there are about 14.2 million that participate in both snowboarding and skiing and the profile for this group shows characteristics intermediate to those described above—63 percent male and with an average age of 31.

## THE COMPETITION

Barriers to entry are relatively low so new entrants can be expected. Industry giants such as Burton, Sims, and Nitro account for the bulk of the market but companies such as Adidas-Salomon, K2, and others have made significant investments in the industry as well and there are a number of smaller companies.

Burton is not only the pioneer but has also been the trendsetter for snowboarding. Burton has the product line with the greatest depth and breadth with racing, free riding, park and pipe boards. Burton's line appeals to novice as well as professional boarders. Prices range from \$250 to \$800. In addition to boards, Burton offers helmets (through its wholly owned subsidiary, Red), bags, bindings, and boots. Burton offers more than 4,200 products under its name, more in the Red and Backhill programs. For information on Burton's product line, visit [www.burton.com](http://www.burton.com).

## THE ISSUES

Burton uses print advertisements in such magazines as *Snowboarder* and *Transworld SNOWboarding*. The ads are often tied in with reader service cards at the back of the magazine so that additional information can be requested. Burton also sponsors riders—a very important promotional tool and vital to the sport's success. These team members are often role models for young boarders and even well-known celebrity boarders couldn't survive financially without such sponsorship. Burton also sponsors snowboarding events such as the U.S. Open. Other promotional items include posters and stickers.

Snowboard design is constantly changing. Currently boards are becoming longer (for better landings), are trending toward unidirectional styles (rather than the blunt-nosed boards that can ride in both directions), and now have more side cuts and narrower stances than in the past.

Burton has been very loyal to the distributors that have helped build the business. While Burton tends to be distributed primarily in specialty shops, there may be increasing pressure to offer the boards at national chains and competitors may start to offer products at lower-price point outlets.

An increasing concern in the industry is safety. Although the number of participants worldwide has increased from 1 million to an estimated 12 million, the number of injuries has skyrocketed. Whereas the actual injury rates of four to six injuries per 1,000 snowboarding visits is comparable to alpine skiing, a bigger percentage of the injured are beginners—49 to 60 percent of snowboard injuries are beginners compared with 34 percent of skiing injuries occurring among beginners.<sup>1</sup>

### Questions

- 1 What are the environmental forces influencing the snowboarding industry?
- 2 What are the differences in marketing goals for Burton Snowboarding in (a) its early years while developing the industry and (b) today with growing competition?
- 3 Identify the elements of the marketing mix for Burton currently. What marketing mix would you recommend for Burton given the changes occurring in the snowboarding marketplace?
- 4 How will the image of snowboarding be affected if more skiers or older participants take up the sport?

## CASE D-2 Clearly Canadian: How Marketing Strategies Lead to Growth

Clearly Canadian Beverage Corporation CEO Douglas L. Mason has a good understanding of the importance of linking marketing and corporate strategies. As he explains, the company's success requires that "our energy and resources must be concentrated in the areas where we can produce the greatest value." Mason describes the company's goal as "finding more ways to bring Clearly Canadian products to more people." To accomplish this goal, Clearly Canadian's marketing efforts have focused on expanding current products, developing new innovative products, and meeting the needs of existing and new market segments.

## THE COMPANY

Clearly Canadian Beverage Corporation started as small entrepreneurial venture in Vancouver, British Columbia, in the late 1980s. Its first product, Clearly Canadian

Sparkling Flavored Water, was a huge success with consumers and led to extraordinary growth of the company. Today, Clearly Canadian is a leading producer of premium alternative beverages, the fastest-growing category in the \$11.7 billion alternative beverage industry. The company markets and distributes its portfolio of beverages throughout Canada, the United States, and numerous countries around the world. Maintaining its position in the marketplace, however, has been a challenge!

When Clearly Canadian entered the beverage market it wanted to capitalize on the consumer trend toward innovative, good-tasting beverages. It carved out a niche using premium pricing and distinctive packaging to create a very sophisticated image. Premium pricing helped position Clearly Canadian as a high-quality product, and distinctive packaging allowed the product to stand out on crowded retail shelves. The company also achieved widespread distribution for its product in Canada and the

United States, which was key to its early success. By 1992, Clearly Canadian was selling about 22 million cases of its beverage annually.

The following year, though, sales of Clearly Canadian dropped to 7 million cases. Experts observed that the beverage market had attracted many competitors. Although many of the new brands were positioned to compete directly in the premium-priced niche with Clearly Canadian, others were using low-price strategies to attract customers. In addition, consumers' tastes were changing as new beverage types, such as ready-to-drink iced tea, became available. Clearly Canadian found itself losing market share in the market it had helped create!

## THE STRATEGIC MARKETING PROCESS

Mason knew that if the company was to grow it needed a plan. A situation analysis revealed several strengths, weaknesses, opportunities, and threats. The company's strengths, for example, included a strong brand name that had pioneered the product category, distinct packaging, and a premium image. Its weaknesses were that it had been satisfied with its early success—reacting to market changes rather than being proactive, and it had limited resources compared to some of its competitors. Clearly Canadian's primary opportunity was that unlike the soft-drink market, which was mature and dominated by a few brands, the alternative beverage market was growing and dynamic. Threats included competition from other sparkling waters, iced tea, natural sodas, and "juice blends," and aggressive price discounting by many of its competitors.

The next step in Clearly Canadian's marketing plan was to consider growth opportunities in terms of its current products and markets, and possible new products and markets. Six months of research, for example, led to a new package design for its flagship brand. After the product's introduction in the United States and Canada, it was launched in international markets including the United Kingdom, Germany, the Netherlands, Denmark, and Kuwait. To better serve the variety of interests of its

existing customers, Clearly Canadian introduced Tré Limone, a lemon-ginger drink inspired by European café sodas, and Cascade Clear, a noncarbonated pure drinking water. New products designed to attract new market segments were also introduced. Orbitz, a fruit-flavored beverage with gel spheres was targeted at teenagers, while Clearly Canadian O+2, an oxygen-enhanced water, and Reebok Fitness Water, a water beverage with vitamins, minerals, and electrolytes, were targeted at active, health-conscious consumers.

Clearly Canadian designed its marketing programs to increase "consumer awareness and brand imagery" in each of the product-market combinations. National promotions, including joint sampling programs with 20<sup>th</sup> Century Fox, Warner-Lambert Co. (Trident Gum), and Speedo, and regional TV and radio campaigns were used to introduce products and to encourage consumers to try them. The marketing program for Reebok Fitness Water, for example, included sampling teams that drove vans to major sporting events, key grocery and retail outlets, and Reebok-sponsored events in initial launch markets including New York, Boston, St. Louis, Phoenix, Portland, and Seattle. The company also provided additional training for its salesforce and created stronger strategic partnerships with its distributors throughout the world.

Although not all of the product and market initiatives were a success—Orbitz has been withdrawn from the market—the result of Clearly Canadian's overall plan was dramatic, reestablishing the company as a leading producer of premium alternative beverages. In fact, BevNet.com picked Clearly Canadian Sparkling Water as its number 1 choice in the summer's Top Ten Hottest Beverages! John Craven, president of BevNET.com observes, "with literally hundreds of new age products making their way to the shelves each year, it's difficult to pick a few." Today's consumers are looking for beverages that provide a unique thirst-quenching experience and an image of health and style. Clearly Canadian believes it has a competitive advantage in its ability to identify and implement quick and effective changes to meet the changing demands of consumers.



## THE FUTURE

Clearly Canadian has sold more than 1.5 billion bottles of its products since it started business. Now its efforts are focused on selling the next billion bottles. To achieve this goal, the company must continue to utilize the strategic marketing process to maintain its position in the marketplace. New challenges include the expansion of the alternative beverage market to include sports beverages, ready-to-drink coffee, energy drinks, and vegetable/fruit blends. In addition, huge competitors such as Coke and Pepsi now offer water and sports drinks, and brands such as Snapple, AriZona, and SoBe have created new-product attributes for consumers to consider. Finally, new potential uses of the company's limited resources—such as new products for restaurants and offices (e.g., larger sizes), new beverage types (e.g., coffee), and national advertising campaigns—

continue to present themselves. So as long as the marketing environment continues to change, Doug Mason and Clearly Canadian will be asking “Where are we now? Where do we want to go? and How do we get there?”<sup>2</sup>

### Questions

- 1 Which phases and steps of the strategic marketing process does Clearly Canadian utilize to develop a plan that will lead to growth of the company?
- 2 Discuss the product-market strategies utilized by Clearly Canadian. Which of its actions represents market penetration? Product development? Market development? Diversification?
- 3 What recent changes in the marketing environment are likely to have an impact on Clearly Canadian? What new strategies would you recommend?

## CASE D-3 Jamba Juice: Scanning the Marketing Environment

What were you doing in 10th grade? Waiting to get your driver's license? Kirk Perron was thinking about his future and putting together a deal that would help launch the successful Jamba Juice chain. It sounds incredible but Kirk Perron bought the real estate for his first juice bar when he was in 10th grade. He borrowed money from a high school counselor, the librarian, and his school bus driver to put together the \$12,000 down payment.

### THE COMPANY

Kirk Perron opened up his first operation as The Juice Club in 1990 in San Luis Obispo, California. He hit on the idea for a convenient, delicious, healthful food store on a long weekend bike ride. An avid cyclist with a lifelong interest in health and nutrition, he wanted to offer an alternative to typical fast-food fare. The idea was a hit and quickly spread. In 1995, the company changed its name from The Juice Club to Jamba Juice. Today Jamba Juice has more than 325 stores nationwide offering a wide variety of healthy drinks and snacks. Jamba Juice is considered the industry leader in the smoothie market and Perron predicts that one day Jamba Juice will be as big a brand as Coca-Cola.

### THE IDEA

Jamba Juice is all about healthy food and fun. Jamba is from an African word that means “to celebrate.” Walk into a Jamba Juice store and customers can choose from a wide variety of Jamba Juice specialties including smoothies, fresh squeezed fruit and vegetable

juices, soups, breads, and pretzels. Jamba's offerings are healthy—for example its soups contain “5-a-day” servings of vegetables in each cup and are low in fat and calories.

Smoothies are the bulk of the Jamba Juice's business. They are made with juice and fruit and often yogurt, sherbet, or ice milk. A typical smoothie gets most of its calories from carbohydrates and protein providing a low or no-fat, nutritious meal. Jamba smoothies and soups are designed to meet “heart healthy” FDA requirements. Nutritional supplements called “boosts” such as “energy juice boost,” containing ginseng and ginkgo biloba, and “immunity juice boost,” with echinacea and antioxidants, are available and can be added to soups or smoothies. Learn more about Jamba at [www.jambajuice.com](http://www.jambajuice.com).

As you sit at the counter in a Jamba Juice, you can watch friendly, well-schooled Jamba Juice employees whip, beat, and blend your smoothie right before your eyes. Stores also feature nutrition centers where customers can get a complete nutritional breakdown for each product. Outlets also feature a merchandising area which has Jamba Juice juicers, mugs, hats, and T-shirts.

### THE COMPETITION

Juice bars have been part of a growing trend. Barriers to entry are fairly low. Single-store outlets or small chains within a city or region are common although there has been increased consolidation. For example, Jamba acquired its largest competitor, Utah-based Zuka juice, in 1999. New Orleans-based Smoothie King has 270 locations in 20 states and is planning to

expand in the Midwest. Atlanta-based Planet Smoothie has 125 stores in 25 states and continues to expand. Jamba has positioned itself as a replacement for typical fast-food fare. This means it also considers fast-food restaurants indirect competitors.

Jamba has had to fight to maintain its trademark in a competitive market. Several years ago a San Francisco Juice bar called Jamm'n Juice was forced to change its name after Jamba complained that Jamm'n Juice and its animated fruit and vegetables were too close to the Jamba trademark and logo.

## THE MARKET

Juice bars have existed for decades, often in health-food stores and gyms and were associated with what was a small group of intensely health-conscious customers. That small demographic group boomed in recent years fueling the market for fat-free foods, fitness equipment, and apparel. There has also been an increasing level of health consciousness among society generally. However, “the consumer always talks thin and eats fat” according to Allan Hickock, an industry analyst with U.S. Bancorp Piper Jaffray.

However, Jamba Juice is optimistic about the opportunities for expanding the market by replacing fast food with good-for-you food. Retail sales of juice and smoothies are expected to reach \$663 million in 2001 compared with \$552 million in 2000. About two-thirds of Jamba's customers are between the ages of 15 and 25—not exactly the same demographic group as the traditional health-conscious baby boomer. Age and education level are important selection criteria for opening new Jamba Juice outlets. Kirk Perron believes that the more highly educated potential customers are, the more likely they will be to stop in for a nutritious smoothie. In fact, many of current and planned Jamba outlets are in college towns and partnerships have been formed to open outlets in universities and airports. You can find Jamba in both the Los Angeles and San Francisco airports and on campus at the University of North Carolina, George Washington University, and the Univer-

sity of Nevada—Las Vegas, among others. Jamba also has agreements with Barnes & Noble and Whole Foods Markets, two partners that share Jamba's values and commitment to healthy living.

## THE ISSUES

Purists insist that the best drinks come from completely fresh produce. Fresh produce can be hard to work with to provide consistent-tasting drinks. Also, the price of fresh produce can change drastically throughout the year.

With fairly limited menus, juice bars are considered great as an add-on rather than a stand-alone retail establishment because they are usually not strong enough to draw customer traffic on their own. Personnel are important to the success of a juice bar—described as “bar-tenders” they have to be able to put on a good show for the customer.

There is a seasonality effect for smoothie and juice operators. For example, in northern climates, operators in enclosed downtown skyways or mall locations often see their business fall off in the summer when people are outdoors walking around. Business surges in the winter. In order to offer a more winter-friendly fare, Jamba also offers a selection of soups and breads.<sup>3</sup>

### Questions

- 1 Conduct an environmental scan for Jamba Juice as it considers a new juice bar to open near your university. Identify factors that you think have an impact on the juice bar market, and indicate whether these factors would tend to enhance opportunities or represent threats.
- 2 Given your environmental analysis, which environmental force do you believe is most critical for Jamba Juice and why?
- 3 Examine the competitive environment for juice bars. Consider the likelihood of new entrants, barriers to entry, existing competitors, and substitutes. How would you summarize the current competitive environment?
- 4 Do you think that the juice bar phenomenon is a fad or rooted in some fundamental environmental and market forces? Why?

## CASE D-4 Ford and Firestone: Who's to Blame?

Ford Motor Company and Firestone Tire and Rubber enjoyed one of the longest running relationships in American business, built upon the friendship and business relationship among the founders, Harvey Firestone and Henry Ford. From 1908 when Firestone first outfitted the Model T Ford until 2000, Firestone was the primary tire supplier to Ford. A well-publicized

falling out over the “blame” for the deaths and accidents occurring in Ford Explorer vehicles equipped with Firestone tires buried the relationship. Firestone blamed Ford and consumers, whereas Ford blamed Firestone. Both companies have damaged their credibility and reputation among consumers. What went wrong?

## THE FORD EXPLORER

To understand how the entire situation unfolded, it is useful to focus on the development and launch of earlier Ford automobiles. The Ford Pinto was designed in the early 1960s under the leadership of then Ford president Lee Iaccoca under the “limits of 2,000.” To compete in the lower-priced auto segment, Ford’s goal was to design a subcompact that weighed under 2,000 pounds with a price tag under \$2,000 and that could be brought to market in under two years instead of the usual four to five years.

Ford engineers placed the Pinto’s gas tank in a location vulnerable to rear-end collisions to cut costs. A Ford cost/benefit analysis estimated it would cost \$11 per car to move the gas tank to a less vulnerable position. Given that Ford expected to produce 12.5 million Pintos over the life of the model, Ford decided not to redesign the car and spend \$137 million to move the gas tank. Using insurance company claim values at the time, Ford estimated that they would “save” about \$50 million in insurance claims by relocating the gas tank, netting an \$87 million loss. Hence, it was cheaper to leave the gas tank in its rear-end position. The decision proved fatal. Ultimately, the recall of the Pinto and related expenses cost Ford at least \$1.5 billion.

The history of the Explorer really begins with the Ford Bronco. The design of the Bronco was the basis for the Explorer. A line of light trucks using the “twin I-beam” suspension was developed to lift up the vehicle to travel over rough terrain. However, this meant that the center of gravity was higher and the vehicle became more prone to stability problems and rollovers. By the late 1980s, Ford faced more than 800 lawsuits from rollovers of the Bronco II and Ranger—forerunners of the Explorer.

The market was looking for a rugged vehicle that was primarily image and less performance in the mid-1980s. Ford delivered with the development of the Explorer. Because automobile manufacturing had a four- to five-year lead time for a new model, decisions were made about the Explorer before all the consequences of the earlier decisions on the Bronco and Ranger were in. Among the early decisions made—use of the same “twin I-beam” suspension of the Bronco II and manufacturing on the same assembly line used for the Ranger. Internal company documents of tests on the Explorer prototype showed a number of problems with rollovers and a tendency to lift its wheels and tip during turns made at speeds up to 55 mph—even worse performance than the Bronco II. As early as 1987, there were calls from designers to make changes in the design of the vehicle that would improve stability and that would maintain passenger safety.

*Consumer Reports* came out with a scathing review of the Bronco II in June 1989. *Consumer Reports* advised

consumers to “steer clear” of the product. At this point, the Explorer’s design, modeled on the Bronco II, was frozen, parts were ordered, and facilities were readied for production for 1990 delivery.

Another important design decision was that of the tires for the Explorer. Both Goodyear and Firestone tires were selected for the Explorer. Examining various Firestone models, a Ford engineer reported that there was a good probability of passing the Consumer’s Union testing for the Explorer with Firestone P225 tires, less confidence with the Firestone P235. Ford chose the P235. Ford’s engineer, Roger Stornant, claimed that “management is aware of the potential risk with the P235 tires and has accepted that risk. The Consumer’s Union test is generally unrepresentative of the real world and I see no ‘real’ risk in failing except what may result in the way of spurious litigation.”

Ford engineers suggested four ways to improve the stability of the Explorer: widening the chassis by 2 inches, lowering the engine, lowering the tire pressure, and stiffening the springs. Ford chose the latter two, reducing the recommended tire pressure from 30 to 35 psi to 26 psi. This produced more road gripping but also increased friction, increased the heat of the tires, and caused tread separations. The lower tire pressure also reduced fuel economy.

## BRIDGESTONE/FIRESTONE

Firestone had its own history of recalls. In 1978, between 13 and 14 million Firestone “500” tires were recalled because of faulty manufacture costing the company more than \$200 million. The National Highway Safety Administration (NHTSA) called for tougher new standards for tires and light trucks. If these standards had been in place in the late 1970s, the early and subsequent designs of SUVs would have been quite different—saving lives and money. However, the NHTSA was essentially dismantled by the Reagan administration that slashed the NHTSA’s budget and revoked several new regulations—including a warning light for tire inflation problems.

In 1987, Firestone became a subsidiary of Bridgestone Tire Co. Ltd. Bridgestone, a Japanese company, was named for its founder Shojiro Ishibashi, whose name means “stone bridge.” Bridgestone was proud of its technological leadership—innovations in tire performance and design—as well as its dedication to quality—all of its plants were QS 9000 and ISO 9000 certified. The Firestone subsidiary was relabeled the Bridgestone/Firestone Company in 1990 with headquarters in Nashville, Tennessee. This division represented about half of Bridgestone’s global profits in 1999.

The first tire separation lawsuits hit Firestone in 1992. This was followed by labor disputes and a strike at the Bridgestone/Firestone plant in Decatur, Illinois, following

attempts to cut costs. Testing of both Goodyear and Firestone tire models used on the Explorer showed that the Goodyear tires significantly outperformed Firestone. In some instances, Firestone tires wore out twice as fast as Goodyear. The Firestone Wilderness tire earned the lowest acceptable NHTSA heat resistance rating—a “C.” The comparable Goodyear tire received a “B.”

Ford began to pressure Goodyear to lower tire prices in 1995. Goodyear decided it could not manufacture tires at a price that Ford was willing to pay and actually asked for a price increase because of higher material costs. At this point, Ford discontinued using Goodyear tires on its Explorer, relying entirely upon Firestone.

## LAUNCH OF THE EXPLORER AND THE LAWSUITS

The Explorer was launched in 1990 and quickly became the best-selling SUV on the market. Granted, few consumers were using it for its off-road capabilities, but they looked adventuresome whizzing down the freeway to the mall. Ford engineers were well aware of the safety risk of the Explorer. Letters to dealerships warned of the dangers of failing to follow precautions on recommended tire usage stating that ignoring these precautions could lead to loss of control and vehicle rollover which could result in serious injury or death.

Ford also conducted a survey in 1993 of SUV drivers. They found that these drivers drove faster, were more likely to drive in bad weather, and followed other vehicles more closely—particularly troubling because the Explorer needed 20 to 30 feet more to stop when traveling at 60 mph than a typical family car.

By 1995, a Texas jury found Ford 100 percent at fault for the death of a 20-year-old college student driving a Bronco II that rolled over because of tire separation. The \$25 million verdict was the largest SUV rollover verdict at the time. In 1996, a trainee test driver lost control of an Explorer during a lane change at 52.5 mph. The driver, overcorrecting, found the car in a four-wheel slide and then a 360-degree flip.

State Farm Insurance, the largest U.S. automobile insurer, notified Firestone and NHTSA in 1998 that they were experiencing an unusual number of claims on Firestone tires. Ford quietly began replacing Firestone tires on Explorers in Venezuela and Saudi Arabia because of rollover deaths in those countries.

## POINTING FINGERS

An investigative report on a Houston television station started to blow the cover off the problems at Ford and Firestone in February 2000. The vice president of public affairs at Firestone accused the television station of unfairly characterizing Firestone radial ATX tires as dan-

gerous. She stated that the television station would better serve viewers by telling them how to properly maintain their tires and suggested that many of the crashes were caused by external factors such as punctures.

By May 2000, NHTSA belatedly launched an investigation and sent a defect notice to Firestone. Ford accused Firestone of withholding data needed to determine which tires were defective. Ford accused NHTSA of sitting on Firestone data, and it was Ford that pinpointed where the bad tires were being produced and pressed for a recall. By late summer of 2000, the recall was announced.

Ford organized a “war room” of 500 people dedicated to the crisis—public affairs and media, engineering, legal, regulatory, purchasing, and finance people collecting and analyzing data, operating a 24-hour hot line for the public, and disseminating information with NHTSA and the public.

Meanwhile, Bridgestone executives in Japan had no real appreciation of what was happening with Firestone. There were few Explorers sold in Japan and very few tires subject to recall. The attitude was that the Japanese built better cars, therefore the problem must be Ford. The first public statement by Firestone’s president, Masatoshi Ono, seemed to hold the Ford Explorer responsible and advised car owners to check tire pressure every month—even better, every two weeks.

Ford’s CEO, Jacques Nasser, went on the offensive claiming that there were no problems with the design of the Explorer and that there was no data pointing to faults with the Explorer, insisting that this was a tire problem. Ford rolled out a \$5 million advertising campaign to protect its reputation and brand.

In May 2001, a second recall of 13 million Firestone tires was announced by Ford in an attempt to clear the path for the 2002 Explorer. Ford claimed it did not have enough confidence in the Firestone tires, while Firestone countered that the real issue was the safety of the Explorer. Firestone-equipped Explorers accounted for most of the 174 deaths and 700 injuries sustained in accidents reported at that time. In addition, Ford faced lawsuits seeking more than \$590 million in damages.

Congressional hearings were launched. Accusations and data flew back and forth. Bridgestone/Firestone announced its intention to close its Decatur, Illinois, plant in December 2001, laying off almost 1,400 people. The president of the local steelworkers union claimed that Ford blamed Firestone and then Firestone made a scapegoat of the Decatur plant.

Ford announced in July 2001 that it had taken an equity position in Top Driver, Inc., the largest chain of driver safety schools in the country, and would be developing a driver safety course for SUV owners. The implication was that accidents with Ford Explorers were due not only to defective Firestone tires but to driver error as well. Ford was criticized as hypocritical for presenting advertising images of invincible SUVs that can be driven with

abandon, weaving in and out of traffic, giving drivers a false sense of security, while at the same time claiming that SUV drivers needed safety training.<sup>4</sup>

### Questions

- 1 What moral philosophy appeared to guide the decision making at Ford? At Bridgestone/Firestone? Is there any evidence that either company changed its decision-making model as lawsuits mounted?
- 2 Do you see Ford's handling of the situation surrounding the development, marketing, and subsequent recall as ethical but illegal, ethical and legal, unethical but legal, or unethical and illegal? Why?
- 3 What actions would you recommend that Ford take to deal with the aftermath of this situation?

## CASE D-5 The Johnsons Buy a Food Processor

At 4:52 P.M. on Friday, January 11, 2002, Brock and Alisha Johnson bought a food processor. There was no doubt about it. Any observer would agree that the purchase took place at precisely that time. Or did it?

When questioned after the transaction, neither Brock nor Alisha could remember which of them at first noticed or suggested the idea of getting a food processor. They do recall that in the summer of 2000 they attended a dinner party given by a friend who specialized in French and Chinese cooking. The meal was delicious, and their friend Brad was very proud of the Cuisinart food processor he had used to make many of the dishes. The item was expensive, however—over \$300.

The following summer, Alisha noticed a comparison study of food processors in *Better Homes and Gardens*. The performance of four different brands was compared. At about the same time, Brock noticed that *Consumer Reports* also compared a number of brands of food processors. In both instances, the Cuisinart brand came out on top.

Later that fall, new models of the Cuisinart were introduced, and a model they liked was selling for \$200 in department stores. The Johnsons searched occasionally for Cuisinarts in discount houses or in wholesale showroom catalogs, even searching the Internet, hoping to find a lower price for the product. They were simply not offered there.

For Christmas 2001, the Johnsons traveled from Atlanta to the family home in Michigan. While there, the Johnsons received a gift of a Sunbeam Mixmaster from a grandmother. While the mixer was beautiful, Alisha immediately thought how much more versatile a food processor would be. One private sentence to that effect brought immediate agreement from Brock. The box was (discreetly) not opened, although many thanks were expressed. The box remained unopened the entire time the Johnsons kept the item.

Back home in Atlanta in January, Alisha again saw the \$200 Cuisinart advertised by Rich's, one of the major full-service department stores in Atlanta. Brock and Alisha visited a branch location on a Saturday afternoon and saw the item. The salesperson, however, was not

knowledgeable about its features and not very helpful in explaining its attributes. The Johnsons left, disappointed.

Two days later, Alisha called the downtown location, where she talked to Ms. Evans, a seemingly knowledgeable salesperson who claimed to own and love exactly the model the Johnsons had in mind. Furthermore, Ms. Evans said that they did carry Sunbeam mixers and would make an exchange of the mixer, which had been received as a gift and for which no receipt was available.

On the following Friday morning, Brock put the mixer in his car trunk when he left for work downtown. That afternoon, Alisha and six-month-old Brock, Jr., rode downtown with a friend to meet Brock and make the transaction. After meeting downtown, they drove through heavy rainy-day traffic to Rich's to meet Ms. Evans, whom they liked as much in person as they did on the telephone. After a brief, dry-run demonstration of the use and operation of the attachments for all of the models, the Johnsons confirmed their initial decision to take the \$200 Cuisinart model (DLC-85). They then asked about exchanging the Sunbeam mixer that they had brought with them. "No problem," said Ms. Evans.

After making a quick phone call, Ms. Evans returned with bad news. Rich's had not carried that particular model of mixer. This model mixer was a single-color model that is usually carried at discount houses, catalog sales houses, and jewelry stores. The one carried by the better department stores, such as Rich's, was a two-tone model. Ms. Evans was sorry she could not make the exchange, but suggested that other stores might carry the item. She even offered to allow the Johnsons to use her phone to verify the availability of the item. The Johnsons did exactly that.

Alisha dialed several of the suggested stores, looking for a retailer who carried both the Cuisinart and the Sunbeam model, but she quickly learned that they were distributed through different types of retail stores. A young man who answered the phone at one store, however, seemed friendly and helpful, and Alisha was able to obtain his agreement to take the item as a return if she could get there that afternoon.

The store was about 1/2 mile away. Brock volunteered to babysit for Brock, Jr., at Rich's while Alisha returned the mixer. She took the downtown shoppers' bus to the store with the still unopened mixer box under her arm.

About an hour later, Alisha returned, cold and wet, with a refund. Brock, having run out of ways to entertain a six-month-old, was very happy to see her. Together they bought the Cuisinart at 4:52 P.M. and proudly took it home.<sup>5</sup>

### Questions

- 1 Which of the Johnsons decided to buy a food processor? The Cuisinart?
- 2 When was the decision to buy made?
- 3 What were the important attributes in the evaluation of the Cuisinart brand?
- 4 Would you characterize the Johnsons' purchase decision process as routine problem solving, limited problem solving, or extended problem solving? Why?

## CASE D-6 Honeywell, Inc.: The Optoelectronics Division Studies Buying Behavior

After several years of developing fiber-optic technology for U.S. Department of Defense projects, executives in the Optoelectronics Division of Honeywell, Inc., decided to pursue commercial applications for their products and technology. The task would not be easy because fiber optics was a new technology that many firms would find unfamiliar. Fiber optics is the technology of transmitting light through long, thin, flexible fibers of glass, plastic, or other transparent materials. When it is used in a commercial application, a light source emits infrared light flashes corresponding to data. Millions of light flashes per second send streams through a transparent fiber. A light sensor at the other end of the fiber "reads" the data transmitted. It is estimated that sales of fiber-optic technology could exceed \$3 billion in 1997. Almost half the dollar sales volume would come from telecommunications, about 25 percent from government or military purchases, and about 25 percent from commercial applications in computers, robotics, cable TV, and other products.

Interest in adapting fiber-optic technology and products for commercial applications had prompted Honeywell executives to carefully review buying behavior associated with the adoption of a new technology. The buying process appeared to contain at least six phases: (1) need recognition, (2) identification of available products, (3) comparison with existing technology, (4) vendor or seller evaluation, (5) the decision itself, and (6) follow-up on technology performance. Moreover, there appeared to be several people within the buying organization who would play a role in the adoption of a new technology. For example, top management (such as the president and executive vice presidents) would certainly be involved. Engineering and operations management (e.g., vice presidents of engineering and manufacturing) and design engineers (e.g., persons who develop specifications for new products) would also play a major role. Purchasing personnel would have a say in such a deci-

sion and particularly in the vendor-evaluation process. The role played by each person in the buying organization was still unclear to Honeywell. It seemed that engineering management personnel could slow the adoption of fiber optics if they did not feel it was appropriate for the products made by the company. Design engineers, who would actually apply fiber optics in product design, might be favorably or unfavorably disposed to the technology depending on whether they knew how to use it. Top management personnel would participate in any final decisions to use fiber optics and could generate interest in the technology if stimulated to do so.

This review of buying behavior led to questions about how to penetrate a company's buying organization and have fiber optics used in the company's products. Although Honeywell was a large, well-known company with annual sales exceeding \$8 billion, its fiber-optic technology capability was much less familiar. Therefore the executives thought it was necessary to establish Honeywell's credibility in fiber optics. This was done, in part, through an advertising image campaign that featured Honeywell Optoelectronics as a leader in fiber optics. For more information about Honeywell and its fiber-optics products, visit the company website at [www.honeywell.com](http://www.honeywell.com).<sup>6</sup>

### Questions

- 1 What type of buying situation is involved in the purchase of fiber optics, and what will be important buying criteria used by companies considering using fiber optics in their products?
- 2 Describe the purchase decision process for adopting fiber optics, and state how members in the buying center for this technology might play a part in this process.
- 3 What effect will perceived risk have on a company's decision of whether to use fiber optics in its products?
- 4 What role does the image advertising campaign play in Honeywell Optoelectronics' efforts to market fiber optics?

## CASE D-7 Callaway Golf: The Global Challenge

Callaway Golf got its start when the late Ely R. Callaway purchased one-half of a hickory-shafted golf club company called Hickory Stick in 1982 for \$400,000. Callaway–Hickory Stick, later renamed Callaway Golf, made golf history with the introduction of its stainless steel, oversized driver, the Big Bertha in 1991. The Big Bertha driver was followed by a Big Bertha line of irons and fairway woods, the Great Big Bertha oversized driver, and then in 1997, the Biggest Big Bertha. This club was so big, and for many golfers at that time, so cumbersome or awkward, that it did not catch on in popularity like the previous two Big Bertha driver products. Even so, Callaway sales were \$800 million in 1998, compared with \$22 million in 1990.

### BUYER BEHAVIOR

Most golfers, pros and amateurs alike, probably experiment more with new drivers, fairway woods, and putters than other clubs. In fact, many top professionals and amateurs choose to play with their favorite irons for years and years before changing. Callaway Golf was extremely smart to enter the club market the way it did by introducing drivers and then following up with specialty clubs that golfers enjoy tinkering with more than irons.

### THE GLOBAL GOLF MARKET

The golf industry has a strong worldwide appeal. The game is extremely popular in countries around the world including Scotland (golf's birthplace), England, Sweden, Spain, South Africa, South America, Australia, New Zealand, and Japan, where golf enthusiasm rises to unheard-of levels. Many countries and continents from around the world are represented both professionally and at the amateur level in worldwide competitions. The golf tours around the world have done much to link golf as a global sport. The Ryder Cup and the Solheim Cup, for example, have matched the European and U.S. PGA and LPGA tour players in competition for many years. And the recently formed Presidents Cup matches the best of the PGA Tour against the best of the international players from outside of Europe. The newly formed World Golf Championships pits the best players from around the world in match play and stroke play competitions. The Five World Professional Golf Tours, the PGA, the European PGA, the Japan PGA, the Australasian PGA, and the South African PGA tour are all represented in these newly formed World Golf Championships.

Golf enthusiasts from around the world follow the sport through televised tournaments, daily newspaper

coverage, golf magazines, weekly golf journals, sports reports, as well as Internet websites. Golf-related websites are among the largest categories of Internet sites.

Golf is truly a global sport. Courses and competitions are held in many countries and on almost every continent—except Antarctica. Professional and amateur players from around the world compete and interact with a high degree of etiquette and sportsmanship. Professional players represent equipment manufacturers from around the world. International players may use and represent American golf equipment manufacturers, whereas American players may choose to endorse and represent international equipment manufacturers. Golfers, at both the professional and amateur levels, share ideas and experiences from the game they play.

The golf equipment market is a highly congested and very competitive marketplace. Many players exist and the field is constantly changing with new start-ups, mergers, and acquisitions. Major players today include Fortune Brands (Titleist), Karsten Manufacturing (Ping), Taylor Made Golf, Mizuno, Adams Golf, Orlimar Golf, Cleveland, Spalding Holdings, and others that fill niche markets.

Adams Golf and Orlimar Golf had successful launches capturing a significant market share in the fairway wood and specialty club market offering unique technological innovations and premium products. Other well-established club manufacturers have followed Callaway's "bigger is better" philosophy. Taylor Made Golf, Titleist, Ping, and others have designed oversized drivers that have caught on in popularity. In many respects, today's design and engineering for golf club manufacturing have led to a contest of who can make the biggest and longest driving club that technology and the rules of golf will allow. Premium clubs today not only offer technical innovation, forgiveness, power, distance, and accuracy but also are pushing the limits of the rules and the laws of physics.

### CALLOWAY'S INTERNATIONAL MARKETING

For Callaway Golf, one of the largest American golf club equipment manufacturers, the world market is a very big part of its total market for clubs. Global sales were \$837.6 million in 2000 with 40 percent of all sales coming from golfers in countries outside the United States, up from 35 percent in 1997. The severe downturn in the Japanese market, the second-largest economy globally and a huge golf market, hit Callaway and other equipment manufacturers hard. Japan's economy is not the

only one experiencing a downturn. The U.S. and European economies have also slowed considerably. With many avid golfers tempted by new technology, improved products, and the next big thing, many golfers will forgo new club purchases during periods of tough economic times because golf equipment expenditures are discretionary.

International professionals, from England's Colin Montgomerie to Sweden's Annika Sorenstam, represent Callaway Golf. At the same time, Callaway claims hundreds of pros and over 7 million amateurs, worldwide, as players and representatives of their clubs. For Callaway Golf, golf is a global sport and the market is truly a global market.

## THE ISSUES

In sports, it is often said that getting to the top is easier than staying there. Callaway Golf is faced with this challenge. Callaway Golf has the burdensome task of sustaining its phenomenal growth and leading market share against competitors that are in hot pursuit. Fast followers Orilmar and Adams have developed products that cut into Callaway's mainstay, the fairway wood and specialty wood market. Other big players in the equipment business are also after Callaway's market share and may pose a greater threat to Callaway's business. These companies are large enough and strong enough to survive any market slump and also have the resources to buy up smaller successful companies and the technology to provide popular products.

Technology drives this industry. In 1999, Karsten Manufacturing (Ping) released a driver that pushed the design and technical capabilities of product materials to the limit. Golf's ruling bodies—the United States Golf Association (USGA) in North America and the Royal and Ancient Golf Club of St. Andrews for the rest of the world—began an investigation as to whether new club designs exceeded or infringed on an obscure rule in golf. This rule, stating that no club shall exert or possess a “spring-like effect” on the ball when hit, had never received very much attention before. With competitors

closing in on the limits of this spring-like effect or coefficient of resolution (COR), Callaway produced and marketed one of the first illegal or nonconforming drivers, the ERC. The ERC, named after Ely R. Callaway, was ruled nonconforming by the USGA (United States Golf Association) for exceeding its established COR limit. The ERC was approved for play in Europe and the rest of the world by the Royal and Ancient Golf Club of St. Andrews, because it had not yet established a reliable test for the “spring-like effect” in golf clubs. Thus the ERC and ERCII became one of the first clubs played by pros and amateurs competitively throughout the world, save the United States, Mexico, and Canada.

Golf continues to grow in popularity, particularly among youth, but the golf industry has taken a beating since 1998. For Callaway Golf, one of the largest current issues is the global economic condition. As countries experience struggling economies, golf, an expensive leisure luxury, becomes an activity people play less often or learn to enjoy with the equipment at hand. Well-made and maintained golf equipment can last for many years. So if times are tough, people can still play, but they'll probably play with the equipment they already own. Components and equipment improvements have made the game easier and more enjoyable to play. Also, the construction of more golf courses in the United States and worldwide has increased the opportunity for many people to play golf.<sup>7</sup>

### Questions

- 1 What are the pros and cons of a global versus a multidomestic approach to marketing golf clubs for Callaway? Which approach do you believe would have more merit and why?
- 2 What are some of the significant environmental factors that could have a *major* impact on the marketing of golf clubs internationally? Describe each factor and what the nature of the impact would be.
- 3 What marketing mix recommendations would you have for Callaway as they attempt to increase international market share?

## CASE D-8 HOM Furniture: Where Keen Observation Pays

“Some ideas are too good *NOT* to steal!” The speaker isn't a CIA agent but Wayne Johansen, CEO of HOM Furniture, a group of 10 furniture stores in the upper Midwest. Johansen isn't talking about anything illegal but is describing his approach to doing very practical, commonsense marketing research—visiting dozens of first-class retailers and then weaving the best of the ideas into HOM Furniture's operations. But that gets us ahead of the story.

### HOW IT ALL BEGAN . . .

Wayne Johansen's life reads like an entrepreneurial case study. Right out of high school, Johansen started JC Imports, a wholesale import business built around jewelry and leather goods. The decision to add waterbeds to the merchandise mix proved to be a smart one and the import business was soon closed to focus on booming waterbed sales. But all good things must come to an end;

waterbeds don't wear out and the target audience of baby boomers was aging. When the market became saturated, Johansen, along with his brother, Rod, and Carl Nyberg converted their Water Bedroom stores to Total Bedroom stores. Ultimately, they wanted to expand into a full-line furniture company, but they needed larger store sizes, more warehouse capacity, and more working capital. So they took the first step in 1991 and HOM Oak and Leather stores were born. In 1997, their ultimate dream became reality as HOM Oak and Leather expanded into HOM Furniture, with sales of \$30 million in 1996 growing to \$120 million in 2001.

## THE CONSUMER BUYING PROCESS

Success at HOM Furniture has been built upon keen understanding of how consumers buy furniture. Furniture is a product category characterized by “complexity and significant risk,” explains Johansen. A furniture purchase must fit into the consumer's overall decorating scheme, coordinating with paint, wallpaper, draperies, and floor coverings. Women are the key decision makers and they believe that their home furnishings make a statement about whether they have good taste and social status. They fear a bad decision, relying more on the expertise of the salesperson and the selection available in the store, rather than on brand names.

HOM Furniture has responded with large and inviting stores in highly visible locations, featuring great selection and knowledgeable salespeople who specialize in a given department. The smell of fresh-baked cookies greets customers as they enter the store, drawing them into a race track–shaped layout of the different store departments. This provides maximum exposure to merchandise and creates an airy, open feeling.

## MARKETING INFORMATION AT HOM

Very quickly, Johansen and his partners recognized the value of marketing information. Prior to the launch of HOM Furniture in 1997, they toured 70 of the top 100 U.S. full-line furniture stores to observe the practices that contribute most to success. Some of the successful ideas gleaned from these visits include fresh-baked cookies in the stores, the use of a “house” structure in the center of the stores, and the design of two-level stores.

This benchmarking activity continues today as HOM Furniture participates in a consortium of 14 furniture stores from the United States, Canada, and Mexico. Because the member stores do not directly compete with one another in their geographic area, they are free to share financial statements, sales data, and their best ideas. Meeting three times annually, the participants



spend the first day touring the host store and reviewing store advertising. The second day is reserved for the “best idea” contest. Each participant contributes \$20 and the best idea takes the “pot.”

Site location is widely recognized as critical to the success of any retail store. In order to reach a regional audience, HOM Furniture builds stores that are highly visible from the freeways leading into the city from all directions. With analytical assistance from a local newspaper, management can plot the location of all current customers on a map as well as determine the market potential within a given radius for any possible future store location. Assuming that a customer will shop at the HOM store nearest his or her home, HOM management can calculate the extent to which a future store will cannibalize business from existing stores.

This geographic analysis can be merged with MicroVision data from Claritas. MicroVision is a segmentation and consumer targeting system that classifies every U.S. household into 1 of 48 unique market segments, using demographic, lifestyle, socioeconomic, buying, media, and behavioral characteristics. For any given zip code, MicroVision provides a count of the number of households for each of the 48 market segments identified. This allows HOM's management to build stores in areas that are heavily populated with the types of consumers who like to shop at HOM Furniture stores.

Once the store is in operation, sales and productivity information is closely monitored. Management has easy access to a database that tracks sales by store, by department, by day of the week, and by hour of the day. In addition, the sales generated by each salesperson are recorded on a monthly basis. Productivity analysis is

made possible through an electronic sensor mounted on the doorframe of the main entrance to each store to measure “door swings”—a very precise measure of customer visits. With door swing data by store, by day, and by hour, management can use sales per door swing as a measure of productivity and also relate door swings to ads, such as a Sunday insert in the local paper.

After the sale is complete, HOM Furniture wants to make sure that the customer is thoroughly satisfied. On average, a person buys \$40,000 of furniture during a lifetime. A satisfied customer is more likely to be a repeat customer, worth thousands of dollars in future business. For that reason, HOM monitors the number of customer calls received and also the percentage of product sold that requires service. Expanding the system for measurement of customer satisfaction is one of Johansen’s future priorities.<sup>8</sup>

### Questions

- 1 (a) Identify the data sources HOM Furniture uses in its marketing information system. (b) Which would you classify as secondary data sources? (c) Which would be considered primary data sources?
- 2 When HOM Furniture advertises, it looks for a resulting spike in sales using their extensive database. (a) What are the advantages of this approach? (b) What are the possible shortcomings of this approach and how would you address them?
- 3 Assume that you have been hired as a marketing consultant by HOM Furniture’s management. (a) What specific types of information should HOM collect to measure customer satisfaction with its stores and services? (b) For each type of information you identified in (a), how would HOM Furniture make use of that information to improve customer satisfaction?

## CASE D-9 The Hummer: A Segmentation Challenge

What in the world is a Hummer? If you have seen one of the ungainly vehicles, you will not easily forget it. The Hummer, or Humvee as it was originally named, was designed for the U.S. Army as a jeep. This rugged vehicle is constructed of corrosion-proof aircraft aluminum. The chassis is made of massive, hollow girders, and hundreds of rivets cover the exterior and interior surface. At 6 feet 3 inches high, 15 feet 4 inches long, with giant front tires, and twice the diameter of a passenger car, the Hummer can splash through water 30 feet deep. It can climb 45-degree inclines, hills, and mountains. It is virtually unstoppable. Not surprisingly, it gets a whopping 11.5 miles to the gallon.

### THE COMPANY

The Hummer is produced by AM General of South Bend, Indiana. AM General and its predecessor companies have been a leader in the design and manufacture of light- and medium-duty trucks for the military for over 50 years.

AM General has been bought, sold, and renamed numerous times. AM General’s history is traced to Standard Wheel Company, a bicycle manufacturer, in Terre Haute, Indiana, that diversified into automobile manufacturing in 1903. AM General emerged from a spin-off of the American Motors Jeep Corporation, later acquired by LTV Corporation. Most recently AM General was purchased by its current owner, the Renco Group in 1992.

### THE PRODUCT

The Hummer’s history is much shorter than that of AM General. In 1979, AM General entered competition for

the development of a high-mobility multipurpose wheeled vehicle (HMMWV) to meet the demanding standards of the U.S. Army.

The Army created a list of objectives for the vehicle. For instance, the Army wanted a vehicle that could climb a 60-degree grade without bogging down as well as traverse a 40-degree side slope with stability while carrying a 2-ton payload. The Army’s requirements were for a new kind of vehicle, one that would be versatile, reliable, and easy to maintain. AM General engineers were not told *how* to reach these objectives but rather what was desired in the vehicle. AM General engineers then found unique design solutions to solve the problems created by the performance objectives.

The prototype Hummer was tested in the Nevada desert in July 1980, less than one year after its initial designs were drawn. After extensive testing, the Army awarded three contracts for test vehicles to General Dynamics, Teledyne, and AM General. Within 10 months, AM General delivered its Hummer prototypes to the Army. After five months of testing, the AM General Hummer was judged the superior product and AM General had an initial production contract of 55,000 vehicles over a five-year period.

Since production began in 1983, AM General has sold more than 110,000 Humvees or Hummers, as it was affectionately nicknamed, to the military. The Hummer replaced several vehicles in the U.S. Army’s fleet including the jeep. Over 20,000 Hummers were used in the 1991 Gulf War alone where they were transformed into everything from ambulances to missile launchers.

The Hummer has many unique design features. Independent suspension for all four wheels avoids ground clearance limits of most conventional four-wheel-drive

vehicles. The truck's wide track and well-distributed weight keep the center of gravity low preventing the truck from tipping over. Tire pressure can be adjusted on the go, from 15 psi in soft sand to 30 psi on asphalt, to obtain the best traction and handling on changing terrain.

## THE CONSUMER MARKET

The development of the Hummer illustrates collaboration between one type of customer, the military, and AM General. The development of a new market for the Hummer—the consumer market—was the result of close interaction with selected consumers or perhaps one key consumer.

Believe it or not, Arnold Schwarzenegger is reportedly responsible for AM General's entry into the consumer market. Shortly after the Gulf War began, AM General's president, Jim Armour, received a call from Arnold Schwarzenegger. He thought his secretary was joking when she said "Arnold is on the phone." Armour recounts the conversation this way "This is Arnold. I want to see you." Armour told Schwarzenegger that he wouldn't sell Arnold the Hummer unless they were able to sell them to everyone. Arnold's response "What do I have to do to get you to sell them to the public?" From this, the development of the consumer version of the Hummer developed.

Arnold became the first civilian customer of the Hummer. But there have been many more. First sold in 1992, a number of different civilian models were available at Hummer dealerships around the country at hefty prices—currently around \$80,000. Even with additional features, the civilian Hummer was still fairly spartan and appealed to a limited audience. AM General sold fewer than 1,000 Hummers in 2000.

The typical Hummer customers make \$200,000 to \$300,000 per year and are almost all men. Most buyers have two or three other cars. Reportedly, doctors buy Hummers but attorneys do not. Hummers sell well on the East Coast and West Coast but not in mid-America. Entrepreneurs, not corporate conformists, tend to buy the Hummer. Let's face it, this is not a vehicle to own if you want to be inconspicuous.

In December of 1999, AM General and General Motors reached an agreement giving GM exclusive ownership of the Hummer brand name worldwide. As part of this agreement, the two companies would jointly redesign the next generation of civilian Hummers. The

original Hummer has been relabeled the Hummer H1 and AM General retains design responsibility for the H1 which will continue to be produced in Indiana. AM General will also manufacture the jointly designed H2. GM will assume all marketing and distribution responsibilities for the civilian Hummer. AM General will retain exclusive rights to the military market.

Automotive and business pundits have had mixed reviews of the GM H2 Hummer concept vehicle. It doesn't look much like a Hummer. It's a downsized Hummer SUV in an already crowded category. Rivals such as Porsche AG are already moving into the high-end SUV market, and there is plenty of competition in the mid- to lower end of the SUV market. In fact, the new H2 has more in common with GM's mass market Chevrolet Tahoe and Silverado than the original Hummer H1. Engine parts, underpinnings, steering wheel, door handles, and other parts for the H2 are shared with GM's SUVs and pickups.

GM's record on protecting brands while submitting to pressure to share parts hasn't been good. Cadillac's image was damaged when it became known that the parts were the same as those used in Chevrolet and Buick.

GM says that the target markets for the H2 are a combination of "rugged individualists" or wealthy baby boomers who will use the off-road capabilities of the vehicle and "successful achievers"—people who will probably never take to the hills because they wouldn't want to scratch the car.

Will consumers pay \$50,000 for an H2? Will they think of it as a Hummer? What about the impact of the H2 on the traditional Hummer market segment? With the economy sputtering and concerns about SUV safety and gas mileage, GM may find it difficult to meet their ambitious sales goals of more than 100,000 Hummers by 2005, up from less than 1,000 in 2000.<sup>9</sup>

### Questions

- 1 What type of market segmentation bases should be considered for the Hummer (a) in the consumer market and (b) in the business-to-business market?
- 2 What are the pros and cons of extending the Hummer's target markets with the H2?
- 3 How would AM General's marketing mix and positioning differ for its consumer market segments and a business-to-business segment such as targeting the Hummer to logging companies?

## CASE D-10 Medtronic in China: Where "Simpler" Serves Patients Better

"I felt tremendous pressure to find markets and technologies to grow the business in other parts of the world," says Bobby Griffin, president of Medtronic Pacing Busi-

ness. "Ninety-seven percent of Medtronic's products were being sold to twenty-seven percent of the world. I'd read books on China and *Business Week* articles about

the success of General Electric and other companies that had gone into China with scaled-down products.”

## THE MARKET AND THE NEED

Medtronic is the world’s leading medical technology company and sells products to alleviate heart arrhythmia and neurological disorders, such as heart pacemakers, defibrillators, and angioplasty balloon catheters. But in the early 1990s Medtronic sold only a few pacemakers in China, a country of 1.3 billion people. So Griffin interviewed a number of Chinese physicians. Their desires were very clear: They wanted a highly reliable, basic pacing device that would allow them to serve more people in need. “These doctors were motivated not by greed but by their desire to help and heal their patients,” Griffin concluded. “Their relationships with their patients in the hospitals were touching. Instead of talking down to them from a standing position, they would get down on one knee and whisper in the patient’s ear.”

Griffin also found that only 4,000 cardiac patients a year were implanted with pacemakers in China—a small minority of the patients who needed them. “It was clear that a certain class of people in China could afford almost anything, while most could afford no treatment at all,” Griffin said. “Yet more people in China could afford pacing than the populations of Germany and France combined. Of the millions of people living in the coastal cities and provinces of China, those in the middle class had \$2,000 in disposable income. Ten thousand television sets were being sold every week, but health care is also vitally important.”

## THE NEW PACEMAKER FOR CHINA

As Griffin’s plane lifted off from the Hong Kong airport, he recalled, “If we could build a pacemaker we could sell in China for \$1,000 and still make our margins, we could serve many more people all over the world with a reliable product and still make a profit. I made up my mind to set an audacious goal. I’d shoot for a *radical* cost reduction in the product design.”

Back at corporate headquarters, after a “You’re crazy, Griffin!” reaction, Medtronic’s head of development agreed to support the project. The project also received support from Medtronic’s marketing organization: They liked the idea because the company could lead with an inexpensive product that could leverage sales of higher-end products later.

To meet Bobby Griffin’s audacious goal, Medtronic chose its “Champion” pacemaker, a simplified version of the company’s existing pacing systems that could meet specifications of cardiologists in China. Mechanical engineering design manager Bill Hooper had been support-

ing the Champion pacing system through Quest, a special program within the company that funded the work of engineers who wanted to develop projects that wouldn’t otherwise receive funding. Hooper observed, “My dream was to see patients in less developed countries restored to full life in ways that had been available for years in more developed countries.” His efforts exemplified Medtronic’s mission: *To contribute to human welfare by application of biomedical engineering in the research, design, manufacture, and sale of instruments or appliances that alleviate pain, restore health, and extend life.* (See Figure 2–2 in Chapter 2.)

Hooper and electrical engineer Larry Hudziak had taken the current sophisticated technology and simplified it. “We wanted to reduce the cost to make it affordable in the Chinese market. By using a proven pacing lead technology for the coil, insulator, electrode and tine, we were able to save substantially. One of the most critical parts of the Champion, the lead wire, needed to flex whenever patients breathed, their hearts beat, or they moved. We chose a lead that had the best reliability of anything we make,” Hooper explained.

The Champion design did not include more complex, state-of-the-art features like dual-chamber stimulation, activity sensors, or steroid-eluting leads. The Chinese physicians Bobby Griffin had met with considered these features unnecessary, preferring high quality, low cost, longevity, and ease of use. The design team had to work hard to reduce the cost of the Champion pacemaker, which could translate into a lower selling price. Medtronic engineers also designed the Champion so that it could be programmed externally with a simple magnetic device. By February 1995, the design was complete and the product had been tested (see photo on page 47).

## ON-SITE IN CHINA: A NEW PLANT AND SALESFORCE

Medtronic realized that to ensure quality control, it needed to be directly involved in the production and selling process, and available when physicians implanted the pacemaker. Bill Hooper knew how to design facilities to cut costs, but it required an almost constant presence in Shanghai, where the plant was being built. Over a three-year period, Hooper made 19 trips, and Ron Meyer, vice president of a pacing group, made 26. They reported to each other via e-mail and phone calls. “The routine was grueling,” Hooper recalls. “Check into the hotel, unpack, head out to buy water and walk for exercise, then back to your room. It was such a drill.”

Building a new plant was not the only challenge facing Hooper and Meyer. Medtronic also needed a salesforce, including experienced heart surgeons, to contact and train Chinese physicians. Furthermore, with the plant located in Shanghai, on the eastern coast of China,

they needed a distribution system capable of serving a country roughly the size of the United States (9.6 million square kilometers).

Hooper recalled that these were tough times for both of them: “We both had families. When I was doing algebra with my daughter on the phone in the middle of the night from China, I could remind myself, ‘I’m here because of Medtronic’s mission and my part in fulfilling that mission.’ If I hadn’t had that, I would have given up.”<sup>10</sup>

### Questions

**1** Assess Medtronic’s decision to develop and market the new Champion heart pacemaker in terms of the following reasons for new-product success: (a) “point of difference,” (b) market attractiveness, (c) bad timing, and (d) economic access to doctors and patients.

**2** Discuss the steps of the new-product process as they relate to the Champion Pacemaker.

**3** New-product development is important to a company like Medtronic, but it is hard work, and often leads to failure. How can a company encourage its employees to take initiative, make a profit, and be ethically and socially responsible?

**4** Relate Medtronic’s decision to sell pacemakers in China to its corporate mission statement. (A portion is quoted in the case and the full text is in Figure 2–2.) How does the decision relate to these Medtronic stakeholders: (a) shareholders of Medtronic stock, (b) Medtronic employees, and (c) Chinese patients?

**5** Medtronic chose to design and build a new low-priced, highly reliable, reduced-feature heart pacemaker in its Shanghai plant. What are the strengths and weaknesses of this decision from (a) a marketing viewpoint and (b) an ethical viewpoint?

## CASE D–11 Yoplait USA: Managing a Successful Brand



“A little bit of constructive restlessness is good,” says Chap Colucci, “because you can become too satisfied with your own success, with the status quo. You take your foot off the gas and things begin to stall.” Colucci is vice president of marketing and sales at Yoplait USA, a subsidiary of General Mills, Inc. At General Mills, managing brands ranging from Pillsbury refrigerated baked goods, to Totino’s pizza, to Betty Crocker desserts, to Big G cereals, is an important responsibility of its managers.

### THE ORIGINAL IDEA

The idea for Yoplait began when top management at General Mills asked Steven M. Rothschild to head a team to investigate yogurt as a new business opportunity for the company. Rothschild’s team found that in the United States yogurt had annual sales of \$350 million with an annual growth rate of about 18 percent. The team also discovered that about 95 percent of the yogurt consumed in the United States was mixed with fruit or flavoring, and about 5 percent was plain. About 95 percent was consumed in 8-ounce cups. Finally, the team’s

analysis indicated that the U.S. annual per capita consumption of yogurt was low (5 cups per person) compared with consumption in European countries (27 cups per person a year in France).

The industry was made up of four basic types of yogurt:

- Sundae style—fruit on the bottom of the cup.
- Swiss style—fruit blended throughout the cup to keep the fruit from settling on the bottom.
- Western style—fruit on the bottom and flavored syrup on the top.
- Frozen style—ice-cream or soft-custard form.

The various types of yogurt were available in 20 different flavors, and when refrigerated, had a shelf life of 21 to 60 days, depending on whether preservatives were added.

Rothschild and the team believed that a yogurt product would be a good match for the company because (1) it was a high-turnover branded item that would allow a significant profit margin; (2) it was a product for which the firm’s skills in positioning, advertising, packaging, and promotion would provide an advantage over competition, and (3) it represented a business that would capitalize on trends resulting from long-term changes in consumer behavior. Based on the research, analysis, and conclusions of the team, General Mills decided to enter the yogurt market!

### GETTING YOPLAIT STARTED AT GENERAL MILLS

General Mills estimated that it would take about three years to develop a new brand of yogurt. To save time it decided to buy the rights to market Yoplait yogurt in the

United States from Sodima, a large French company. This decision gave General Mills access to Yoplait's expertise and technology related to producing and distributing a refrigerated product. In return, Yoplait received profits from sales of its products in the United States.

At that time Yoplait was the best-selling yogurt in France. Marketing research revealed what consumers perceived as Yoplait's key benefits: (1) 100 percent natural yogurt without artificial sweeteners or preservatives, (2) Swiss style, with real fruit mixed throughout, and (3) outstanding taste with a creamy texture. In terms of U.S. competition, there was no national brand of yogurt at the time, but there was a two-tiered group of yogurt producers: (1) premium regional brands such as Dannon and Kraft, and (2) private-label brands produced by local dairies.

Yoplait USA moved quickly to gain acceptance for Yoplait as a national brand among American consumers. Yoplait USA positioned its yogurt as the "Yogurt of France" with creative TV commercials featuring personalities like Loretta Swit (from *MASH*) and Tommy LaSorda eating Yoplait and speaking French.

## MANAGING THE BRAND

Yoplait experienced extraordinary success. As the brand grew, however, its managers became complacent and underestimated the competition from other brands such as Dannon. Although Yoplait was number two nationally, its market share and profitability began to decline. In an attempt to manage the product life cycle, Yoplait tried a Western-style version of its product, which failed. Eventually, a new vice president of marketing and sales, Chap Colucci, joined the Yoplait USA team and concluded that while the product had been successful during its introduction, the team was not pursuing strategies that would ensure continued growth.

Colucci conducted a situation analysis in preparation for developing a new marketing strategy for Yoplait USA. His analysis turned up some serious concerns, including:

1. *High retail prices.* Yoplait's price for a six-ounce cup was actually higher than competitors' eight-ounce cups. For example, the prices on Yoplait's 4 Pack were about 20 percent higher per cup than Dannon's and Kraft's 6 Pack.

2. *Low gross margins.* Margins had declined, at least partly because of high production and overhead costs.
3. *Unbalanced promotion spending mix.* Most promotional expenditures were directed at retailers and wholesalers rather than consumers.
4. *Lack of continued effective advertising.* Yoplait had been living off the great "Yogurt of France" series that launched the product without a similar creative follow-up campaign.
5. *Few coupons offered.* Yoplait had cut back on consumer coupons, while its competitors had heavy couponing.
6. *Few new products.* While Yoplait had developed a Lite product-line extension, there were very few new products in development.
7. *Geographic marketing organization.* Yoplait was organized geographically with three regions—Eastern, Central, and Western. This organization had caused marketing managers to focus on geography, not basic marketing.

These observations became the basis for developing new marketing strategies.

Colucci's brand management activities involved all elements of the marketing mix: improved pricing, more consumer promotion, new advertising, and new product line extensions. For example, Yoplait introduced a "grab-and-go" product called Go-Gurt for children, new flavors such as Orange Cream and Tropical Fruit, and a portable yogurt product for adults called Yoplait *Expressé*. Today, Yoplait is the number-one yogurt in the United States with 33.8 percent market share of a \$1.86 billion market. Almost 43 percent of all people in the United States now consume yogurt!

### Questions

- 1 What stages of the product life cycle has yogurt gone through in the United States since General Mills first evaluated it as a business opportunity? How have marketing activities changed at different stages of the product life cycle?
- 2 What activities did Yoplait undertake to manage the product's life cycle?
- 3 Chap Colucci's analysis suggested that Yoplait brand managers may have relied too long on the early success of the brand. What marketing actions would address each of the problems?

## CASE D-12 Girl Scouts of America: Marketing a Nonprofit Organization

"I've got something for the girls of Savannah, and all America, and all the world, and we're going to start it tonight," said Juliette Gordon Low to a group of friends in 1912. She asked them to bring their daughters, little sisters, friends, and neighbors to her meeting. Her dream

was to create an organization that would bring girls out of their home environments to serve in their communities. The result was the first meeting of the American Girl Guides, which a short time later became Girl Scouts of America (GSA)!

## THE DREAM REALIZED

When Low founded GSA, she wanted young girls to be self-reliant and independent and to uphold the highest standards of citizenship and moral character. The many activities of GSA focused on young girls developing into wives and mothers, and merit badges were awarded for accomplishments such as dressmaking, homemaking, and being a hostess. By 1929, membership was over 200,000, and shortly after the Great Depression the Girl Scouts began selling cookies to help fund their nationwide organization. The organization continued to grow by focusing on traditional family life and received a congressional charter in 1950. In the 1960s, GSA followed the population migration away from the cities to the suburbs, and reached a membership of 3.9 million by 1969!

## THE CHANGING ENVIRONMENT

The family, school, and work environments of girls and women were quickly changing, however. Divorce was changing the traditional family, opportunities for women to work outside the home were expanding, more married women were working, fewer children were being born, and the technology affecting everyday living was becoming more complex. The racial and ethnic composition in the United States was also changing as the number of African-Americans, Hispanics, and Asian-Americans grew.

In addition, fewer girls were becoming scouts, and GSA observed that girls who had become Girl Scouts as youngsters did not continue as they grew older. Many girls who had progressed from Brownies (the youngest group of 6- to 8-year-olds) to Juniors (ages 9 to 11) had dropped out before attaining the rank of Cadette at age 12, and thus never achieved the highest rank of Senior (ages 14 to 17). Membership began to decline and eventually reached approximately 2.5 million members.

## MARKETING A NONPROFIT ORGANIZATION

While GSA was still the world's largest organization for girls, some people began to wonder if GSA's underlying principles had become obsolete. Could the changes in the environment explain the declining membership? GSA began asking typical marketing questions such as "What is our business?," "Who is our customer?," and "What does the customer value?" Market studies showed that girls had changed—they were now more interested in areas such as science, the environment, and business—but the Girl Scouts had not changed. It seemed that the scout troop organizational structure had contributed to the loss of scouts as they grew older. The troop format required frequent meetings that were difficult for teenagers as they became involved in a wider range of activities. An-

other disadvantage of the troop format was that it demanded considerable time from the adult troop leaders.

To adapt to the new environment, GSA adopted new approaches for attracting and retaining young girls. For example, GSA began recruiting girls in cities as well as the suburbs, and increased its emphasis on recruiting lower-income girls as well. GSA started reaching out to pregnant teenagers with a program dealing with career opportunities. GSA activities also have changed, as evidenced by the new merit badges. Today they are awarded in categories such as "Aerospace," "Business-wise," "Global Politics," "Oil Production," and "Computer Fun." The troop concept and requirement has been relaxed. Girls can now become scouts without joining a troop, provided they attend one official event per year. Once members, they are invited to participate in special interest projects that include field trips, guest speakers, and conferences.

These efforts have been described in a print, radio, and television public service campaign titled "Brainstorm," aimed at encouraging girls to become scouts and stay in the program even after they enter high school. The campaign included a 30-second TV message that covered sights and sounds related to ocean liners and travel, tap dancing, piano playing, airplanes, filmmaking, a space capsule taking off, and meeting young men.

GSA also implemented several other marketing strategies. For example, a Gift of Caring program was recently introduced to allow Girl Scout cookie customers to buy a "gift" box of cookies that the scouts then deliver to nursing home residents and hospitalized children. A new age group, called Daisy, for girls 5 years old or in kindergarten, was introduced to allow earlier participation. Finally, to reflect growing emphasis on physical fitness, GSA introduced a health and fitness national service project called GirlSports!

By encouraging equal access to all types of girls, focusing on contemporary issues, and becoming customer-oriented, the Girl Scouts of America reversed its membership trend and now serves more than 2.7 million girls. In addition, through its membership in the World Association of Girl Guides and Girl Scouts, GSA is part of a worldwide group of 10 million girls in 140 countries! To continue to grow, GSA ([www.girlscouts.org](http://www.girlscouts.org)), like most nonprofit organizations today, will need to continue improving its marketing expertise.

### Questions

- 1 What unique elements of services (e.g., intangibility, inconsistency, inseparability, and inventory) are most evident in a nonprofit organization such as the Girl Scouts of America?
- 2 How did changes in the environment have an impact on membership at GSA?
- 3 What marketing actions did GSA take to reverse its decline in membership? What future actions should GSA consider to continue its growth?

## CASE D-13 Health Cruises, Inc.: Estimating Cost, Volume, and Profit Relationships

Health Cruises, Inc. packages cruises to Caribbean islands such as Martinique and the Bahamas. Like conventional cruises, the packages are designed to be fun. But the cruise is structured to help participants become healthier by breaking old habits, such as smoking or overeating. The Miami-based firm was conceived by Susan Isom, 30, a self-styled innovator and entrepreneur. Prior to this venture, she had spent several years in North Carolina promoting a behavior-modification clinic.

Isom determined that many people were very concerned about developing good health habits, yet they seemed unable to break away from their old habits because of the pressures of day-to-day living. She reasoned that they might have a chance for much greater success in a pleasant and socially supportive environment, where good health habits were fostered. Accordingly, she established Health Cruises, Inc., hired 10 consulting psychologists and health specialists to develop a program, and chartered a ship. DeForrest Young, a Miami management consultant, became the chairperson of Health Cruises. Seven of Isom's business associates contributed an initial capital outlay totaling more than \$250,000. Of this amount, \$65,000 went for the initial advertising budget, \$10,000 for other administrative expenses, and \$220,000 for the ship rental and crew.

Mary Porter, an overweight Denver schoolteacher, has signed up to sail on a two-week cruise to Nassau, departing December 19. She and her shipmates will be paying an average of \$1,500 for the voyage. The most desirable staterooms cost \$2,200.

Mary learned of the cruise by reading the travel section of her Sunday newspaper on October 16. On that date, the Pittsford and LaRue Advertising Agency placed promotional notices for the cruise in several major metropolitan newspapers. Mary was fascinated by the idea of combining therapy sessions with swimming, movies, and an elegant atmosphere.

Pittsford and LaRue account executive Carolyn Sukhan originally estimated that 300 people would sign up for the cruise after reading the October 16 ads. But as of November 14, only 200 had done so. Isom and Health Cruises, Inc. faced an important decision.

"Here's the situation as I see it," explained a disturbed Ms. Isom at the Health Cruises board meeting. "We've already paid out more than a quarter of a million to get this cruise rolling. It's going to cost us roughly \$200 per passenger for the two weeks, mostly for food. Pittsford and LaRue predicted that 300 people would respond to the advertising campaign, but we've only got 200.

"I see three basic options: (1) we cancel the cruise and take our losses; (2) we run the cruise with the 200 and a

few more that will trickle in over the next month; or (3) we shell out some more money on advertising and hope that we can pull in more people.

"My recommendation to this board is that we try to recruit more passengers. There are simply too many empty rooms on that ship. Each one costs us a bundle."

At this point, Carolyn Sukhan addressed the board: "I've worked out two possible advertising campaigns for the November 20 papers. The first, the limited campaign, will cost \$6,000. I estimate that it will bring in some 20 passengers. The more ambitious campaign, which I personally recommend, would cost \$15,000. I believe this campaign will bring in a minimum of 40 passengers.

"I realize that our first attempt was somewhat disappointing. But we're dealing here with a new concept, and a follow-up ad might work with many newspaper readers who were curious and interested when they read our first notice.

"One thing is absolutely certain," Sukhan emphasized. "We must act immediately if there's any hope of getting more people on board. The deadline for the Sunday papers is in less than 48 hours. And if our ads don't appear by this weekend, you can forget it. No one signs up in early December for a December 18 sailing date."

Isom interrupted, shaking her head. "I just don't know what to say. I've looked over Carolyn's proposals, and they're excellent. Absolutely first-rate. But our problem, to be blunt, is money. Our funds are tight, and our investors are already nervous. I get more calls each day, asking me where the 300 passengers are. It won't be easy to squeeze another \$6,000 out of these people. And to ask them for \$15,000—well, I just don't know how we're going to be able to justify it."<sup>13</sup>

### Questions

- 1 What is the minimum number of passengers that Health Cruises must sign up by November 20 to break even with the cruise? (Show your calculations.)
- 2 Should Health Cruises go ahead with the cruise, since 200 passengers had signed up as of November 14?
- 3 Would it be worthwhile for Health Cruises to spend either \$6,000 or \$15,000 for advertising on November 20? If so, which figure would you recommend?
- 4 How realistic are Carolyn Sukhan's estimates of 20 more passengers for the \$6,000 advertising campaign and 40 more passengers for the \$15,000 campaign?
- 5 Should Health Cruises consider cutting its prices for this maiden voyage health cruise?

## CASE D-14 Memorial Medical Emergency Clinic: Balancing Costs and Revenues

“We’ve been open for 11 months and have yet to break even in any one month,” mulled Heather Waite as she scanned last month’s revenue and expense summary for the Medical Emergency Clinic (MEC) operated by Memorial Hospital. As the administrator for MEC, Waite knows that something has to change. Even though Memorial is a nonprofit hospital, the charter for MEC stipulates that it has to be self-supporting in its second year of operation.

MEC was established to serve the health care needs of people who work in the central business district. The specific services offered by MEC included (1) preventive health care (such as physical examinations), (2) minor emergencies, (3) specialized employer services (such as preemployment examinations and workers’ compensation injuries), and (4) primary health care services (for personal illnesses). A breakdown of average monthly service usage and the average charge for each service is as follows:

SERVICE	PERCENTAGE OF VISITS	AVERAGE CHARGE
Personal illness	39%	\$25
Physical examinations	14	25
Workers’ compensation	25	39
Employment or insurance examinations	19	47
Emergency	3	67

The weighted average charge per visit is \$33.94, and the weighted average variable cost per visit is \$5.67. Fixed costs per month average \$17,500. The average number of visits per month is 590.

Since its opening, MEC has surveyed patients to find out how it might better serve their needs. Patient concerns fell into two categories: service hours and waiting time. To date, MEC has been open from 8 A.M. to 5 P.M., Monday through Friday. However, patients have requested extended hours, with an opening time of 7 A.M. and a closing time at 7 P.M. A second concern is waiting time, particularly during lunch hours (11 A.M. to 2 P.M.). A check of MEC records indicates that 70 percent of patient visits occur during this period, and most of these visits are for personal illnesses and examinations for various reasons. Further checking revealed that people actually left MEC because of congestion and did not return at a later date. Waite believes these concerns could be dealt with if MEC increased its personnel. Her plan is to add another

physician and support personnel to create two staffs. One staff could work from 7 A.M. to 3 P.M., and a second staff could work from 11 A.M. to 7 P.M. By using paramedical personnel and part-time medical assistants, she estimates that average monthly fixed costs will increase by only 25 percent, even with a raise in personnel salaries next year. The staff overlap at lunchtime will alleviate some of the congestion.

Still, Waite feels that something has to be done about the uneven demand for MEC’s services during operating hours. She knows that personal physical examinations and employment and insurance examinations can be handled by appointment. Moreover, these services might be provided before or after normal working hours (before 8 A.M. or after 5 P.M.). Her interviews with employers and insurance companies revealed that they will schedule employment and insurance examinations during this period. Based on her interviews, she estimates that MEC could significantly modify its visit mix and number of patients in an average month. Specifically, she believes MEC will have an average of 749 patient visits per month if the hours were expanded. Almost all the additional visits will be for employment and insurance examinations. In addition, Waite received approval to increase the prices of MEC’s major services. The new prices, which will become effective at the beginning of the second year of operation, and the forecast mix of patient visits are as follows:

SERVICE	PERCENTAGE OF VISITS	AVERAGE CHARGE
Personal illness	31%	\$27
Physical examinations	11	37
Workers’ compensation	20	41
Employment or insurance examinations	36	50
Emergency	2	70

Waite believes that the average variable cost per patient visit will be \$6 next year, regardless of the mix of patient visits.

As she prepared her recommendation to the Memorial Hospital administrator, she identified at least two options to enable MEC to break even. She could simply institute the price increase, or she could increase prices, expand hours, and incur higher fixed costs. Whatever she recommends, she knows has to support her argument from both a profit and service perspective.<sup>14</sup>

### Questions

- 1 How many visits below the break-even point is MEC at the present time?
- 2 Can MEC break even when the price increases are put into effect, assuming fixed costs remain unchanged, the visit mix is the same, but variable costs become \$6 per visit?

- 3 Can MEC expand its hours, thereby increasing fixed cost, and break even given a price increase, the increased variable cost per visit, and the new patient visit mix expected by Waite?

## CASE D-15 Starbucks Coffee: A Multichannel Strategy

What'll you have? Skinny latte, espresso, almond truffle mocha? How about a Raspberry Mocha Chip Frappuccino or Tazoberry and Cream? Consumers globally are increasingly turning to Starbucks to quench a growing thirst for specialty coffee and beverages.

### THE COMPANY

Starbucks has been hugely successful. Net sales have grown from \$800,000 in 1990 to an estimated \$2.6 billion in 2001. Starbucks got its start in 1971 as a gourmet coffee bean store in Seattle. In 1987, Starbucks current chief executive, Howard Schultz, opened the first stylish Starbucks coffee bar. The focus then and now has been on high-end gourmet coffees. Customers can buy fresh-roasted beans from around the world, gift packs, Starbucks coffee cups, sweets, as well as freshly brewed coffees. All coffee beans are roasted in-house to maintain quality. The company prides itself on buying top-quality beans. It vacuum packs the beans two hours after roasting and donates to charity any beans that go unsold seven days after opening the bag.

Starbucks employees are given over 24 hours of coffee-making training and lore. Starbucks maintains designers and architects in-house to develop, maintain, and update the hip, upscale image of the stores. All of this has led to the high-quality service that has built Starbucks' brand loyalty.

Citing concern about maintaining quality, Starbucks initially turned down lucrative franchising agreements for its coffee bars. As Starbucks moved into international markets, however, it utilized licensing agreements with local partners in addition to having company-owned stores—a departure from its original channel strategy. Starbucks even has licensed stores in North America. There were over 4,303 Starbucks stores in place globally as of May 2001. Roughly one-third of the international stores are company-operated, compared to almost 70 percent operated by licensees. The percentages are reversed for the North American market with only about 20 percent of store licensees. The company purposely opens stores near one another, even if it involves some cannibalization, in order to ensure intensive distribution coverage in attractive markets.



Airports, hotels, and malls are all locations for Starbucks coffee bars. Another unique approach to distributing the product is developing special coffee blends for others. For example, Barnes and Noble bookstores have their own coffee bars in many locations and these coffee bars exclusively sell the Starbucks "Barnes and Noble coffee blend." United Airlines touts the fact that they now serve Starbucks coffee in every class on every flight worldwide.

Research also is a key part of Starbucks' success. A sophisticated point-of-sale system allows the company to track store and regional buying trends. The Starbucks real estate division sifts through data on potential markets and market characteristics for at least nine months prior to a store opening.

## THE COFFEE MARKET

The coffee market wasn't always perking along. Some would argue that it still isn't. U.S. coffee consumption has declined 50 percent over the past 30 years—with discouraging trends for the youth market. Whereas 59 percent of people 55 to 64 are regular at-home coffee drinkers, only 31 percent of those 25 to 34 are regular coffee drinkers. Nationally, 47 percent of Americans consider themselves coffee drinkers.

The National Coffee Association claims that there were 105 million daily coffee drinkers and 34 million occasional coffee drinkers in the United States in 1991 with 113 million daily drinkers and 64 million occasional drinkers by 1999. Coffee consumption is expected to increase 7 percent by 2005, however, because of increasing average cup size (now up to 9 ounces) and the increase in the baby boomer population. Although specialty brews have boosted coffee consumption and have helped reposition a product category that had little differentiation, Americans now drink an average of 1.87 cups a day, a decline from the early 1960s when the average per capita daily consumption was over three cups.

## THE COMPETITION

Today, Starbucks faces competition from a number of international, national, regional, and even local coffee bars and houses. Starbucks is credited with helping educate the public about specialty coffee creating the opening for large and small competitors. Major competitors include Diedrich Coffee, Inc., which produces the Gloria Jean's and Diedrich Coffee brands, as well as Tully's Coffee Corporation of Seattle. Even fast-food outlets such as Dunkin' Donuts are improving their coffee offerings.

Starbucks had turned down opportunities to distribute its coffee through supermarkets until recently—this in spite of the fact that Starbucks' CEO considered supermarkets Starbucks' main competition. In 1998, Starbucks began test sales of ground and whole bean coffee in Chicago-area supermarkets. Kraft Foods entered a licensing agreement with Starbucks to place coffee in grocery stores across the country. Supermarkets sell about 70 percent of all coffee and are increasingly going upscale, selling whole beans to be ground in the store.

## THE ISSUES

A major issue for Starbucks is the cost of coffee which can fluctuate wildly. Frost in Brazil, the world's largest coffee producer, can damage coffee plants for years. New bushes can take five years to mature. Commodity coffee prices doubled while specialty premium coffees briefly tripled in price as recently as the mid-1990s.

With increasing domestic competition, Starbucks has expanded to Europe and Asia. Starbucks has retail loca-

tions in Japan, Singapore, the Philippines, Taiwan, Thailand, the United Kingdom, New Zealand, and Malaysia. Starbucks opened its first store in Beijing, China, in 1999 partnering with Beijing Mei Da Coffee Co. Ltd., its distributor for wholesale operations in Beijing since 1994. Starbucks also opened its first outlet in the Middle East in Kuwait.

Frappuccino, a blended coffee and milk drink served chilled or over ice, is a product developed by Starbucks in conjunction with PepsiCo. In spite of the fact that few Americans drank cold coffee prior to Frappuccino's introduction as well as General Foods' market failure with a cold cappuccino product called Cappio, Frappuccino is gaining acceptance. Pepsi's venture with Lipton Tea Company produced the number one product in the ready-made iced-tea category. Starbucks has also developed Starbucks' coffee flavored ice cream in partnership with Dreyer's Grand Ice Cream, Inc. These products have made Starbucks a more significant brand within the grocery store channel. Starbucks also sells coffee and products such as espresso machines, coffee presses, music, and books through its coffee bars and its website [www.starbucks.com](http://www.starbucks.com). Starbucks also has a program to offer food service—coffee, specialty beverages, and other merchandise for a number of different markets including the college/university market, the hotel/casino market, hospital and health care market, as well as business cafeterias. Starbucks has designated “preferred providers” that perform as intermediaries for these market segments. Starbucks screens these select operators to ensure that they deliver the quality and service necessary to maintain the Starbucks experience.

Increasingly, North American consumers are following European consumers' concerns about genetically modified products. As the leader and most visible player in the domestic and increasingly global markets, Starbucks has been the focus of a number of protests. Various organizations have protested Starbucks' use of milk produced from cows treated with bovine growth hormone (rBGH) in its products and have promoted an end to the use of genetically engineered ingredients in all products. Consumers are also pressing for products that are produced by an environmentally and socially responsible method.

Starbucks is committed to providing rBGH-free milk alternatives in all company stores. The company has also worked with Conservation International to offer a coffee that thrives in shade (shade-grown Mexican coffee) that encourages farmers to preserve the forest environment of the endangered Chiapas cloud forest. Farmers earn 65 percent more than local prices for their crop and help protect the environment. Starbucks also offers organic and Fair Trade coffees in its commitment to providing consumers with products that also benefit local growers and the environment.<sup>15</sup>

### Questions

- 1 What type of channel strategy is Starbucks currently employing? How does this channel strategy fit with Starbucks' products and positioning?
- 2 What is Starbucks' competitive advantage? Discuss whether you think this is a sustainable competitive advantage.
- 3 Starbucks has departed from its reliance on a corporate VMS (vertical marketing system) for its coffee bars, currently

using channel partnerships for some of its ventures (such as its relationships with Barnes and Noble and with Dreyer's Grand Ice Cream) as well as franchising agreements in some markets that create a contractual VMS. What are the pros and cons of a corporate system versus a contractual (franchising) VMS? How have Starbucks' marketing and channel objectives and strategies changed over time as they have moved away from a channel based solely on a corporate VMS?

## CASE D-16 Dell Computer Corporation: Leader in Supply Chain Management

From humble beginnings in a dorm room in Austin, Texas, Michael Dell has built the company that bears his name into a global phenomenon. Dell holds the number one market share position globally for computer systems and solutions.

Dell is the largest direct seller of computers in the world and one of the top global PC manufacturers. Dell had over \$31.8 billion in sales in 2001, a 26.2 percent annual increase in sales. Dell offers PCs, notebooks, network servers, peripherals, and software. Over 90 percent of Dell's sales are to businesses and governmental customers. Dell's success is attributed in large part to its effective use of supply chain management.

What do customers want? They're looking for the latest innovations, competitive pricing, the configuration that will meet their application need, timely delivery, and support before and after sale. Dell carefully manages its supply chain to provide these deliverables to its customers.

Dell has closely aligned its suppliers with its direct channel strategy, resulting in dramatic improvements in inventory management and control. Dell has implemented supply chain management software from I2 that enables it to procure inventory from suppliers over the Web in real time and pull materials into the factories every two hours based on customer orders. Dell averages six days of inventory to supply operations and production. The newest Dell manufacturing plant is running with seven hours worth of inventory! This is important in an industry where component costs can decline 30 to 35 percent per year. This helps Dell take advantage of lower anticipated inventory costs in the future as well as minimizing the risk of holding obsolete parts in inventory. Dell "went negative" in its cash conversion cycle for the last several quarters. In other words, Dell gets paid faster than they pay.

No less significant have been Dell's efforts to work with vendors to reduce vendor cycle times—the time that elapses from Dell placing an order to receiving that order in a Dell manufacturing facility. Dell has launched [valuechain.dell.com](http://valuechain.dell.com), a secure Extranet, that acts as a por-

tal for Dell suppliers to collaborate in managing the supply chain. The Extranet provides information to each vendor on Dell's forecasted demand for the vendor's products, shares production schedules, and uses e-mail communication to make adjustments and changes.

The Dell website ([www.dell.com](http://www.dell.com)) allows customers to shop online. Different online "stores" are available for different types of customers such as education, government, home/home office, and businesses. Shoppers can select the items they want and place them in their shopping basket. Once the order has been submitted, the website has the capability to check delivery dates and to even monitor the status of the order with its online tracking system.

Dell works closely with its customers. Dell achieves customer intimacy with daily contact and because of these relationships and customer input, is able to develop products on schedules that anticipate customer demand. Currently, Dell's more than 65,000 business and institutional customers worldwide use Dell's PremierDell.com Web pages for communication and information exchange.

Dell integrates all its electronic commerce and communication systems. Dell's system uses browser and Internet/Intranet technology as the interface for all applications. This makes it possible for every PC in the world to interact with Dell.

Dell utilizes decision support applications for modeling and simulating materials and factory scheduling to improve supply chain efficiency. For example, Dell can look out hours or days in advance, match this up with materials flow, and on the basis of this information, optimize a manufacturing plan to execute in the factory.

What does this all mean for the customer? Better service and lower costs—value which gives Dell an edge in the marketplace. Dell outperforms its competitors in inventory turnover. Its primary rivals—Gateway Incorporated, Compaq Computer Corporation, and Hewlett-Packard—have average inventories ranging from 16 to 62 days. No one can touch Dell in terms of sales per employee—Dell had sales per employee of \$797,200 for the most recent fiscal year, much more than its nearest competitors which had sales per employee ranging from

\$390,268 to \$551,209. Dell's supply chain management provides a significant competitive advantage.<sup>16</sup>

### Questions

**1** Explain how Dell's approach to supply chain management satisfies the logistical objectives of minimizing logistics costs while maximizing customer service.

**2** What are the supply chain management implications for Dell's competitors that primarily utilize an indirect channel strategy? What supply chain and marketing recommendations do you suggest for Dell given the competitive environment?

**3** How does supply chain management relate to the marketing concept at Dell?

## CASE D-17 Nordstrom, Inc.: Retailing in a Competitive Environment

Company lore says that John Nordstrom founded the department store that bears his name today using his stake from the Alaska gold rush. Whether the story is fact or fiction, the philosophy behind the company has made its success one of the real gold nuggets in U.S. retailing.

### THE COMPANY

Started in Seattle in 1901 as a shoe store by Swedish immigrant, John Nordstrom, and a partner, Carl F. Wallin, the business prospered. In 1928, John Nordstrom sold his stake in the company to his three sons: Everett, Elmer, and Lloyd. Wallin sold his stake the following year. By 1959, Nordstrom was the largest independently owned shoe store in the United States. Nordstrom operated 27 stores in 1963. That same year Nordstrom acquired Best's Apparel, a decision that moved Nordstrom beyond shoes and launched it into women's fashions.

The third family generation took over Nordstrom management in 1970. At that point Nordstrom not only offered shoes but apparel and accessories for the entire family. Although Nordstrom went public as Nordstrom, Inc., in 1971, the Nordstrom family still retains controlling interest in the company. The fourth generation of the family now manages the company.

Nordstrom has grown from a single shoe store to more than 122 U.S. stores as well as more than 20 international boutiques and stores. Nordstrom also has an online shopping presence ([nordstrom.com](http://nordstrom.com)) to offer additional convenience to current and new customers. Nordstrom's 2001 annual sales of over \$5.52 billion were up 7.9 percent. Expansion has moved it from the West Coast and Seattle area where Nordstrom has had a major presence to strategic locations throughout the country. Among the many new stores planned to open between 2002 and 2004 are those in Austin, Texas (Barton Creek Square Mall); Minneapolis, Minnesota (Maple Grove Center); Orem, Utah (University Mall); Durham, North Carolina (Streets at Southpoint); St. Louis, Missouri (West County Center); and Coral Gables, Florida (Village of Merrick Park). Nordstrom stores are generally located in major or regional malls and feature a wide selection of apparel and shoes for men, women, and

children. Nordstrom stores may include a gift department and often a small restaurant. Nordstrom does not carry furniture, linens, housewares, electronics—items often found in department stores.

### THE IDEA

The hallmark of Nordstrom is service. The initial philosophy of the two founders, still guiding Nordstrom today, was to offer the *very best* service, selection, quality, and value to the customer. This commitment to exceptional customer service has been combined with a managerial orientation that encourages and supports an entrepreneurial spirit among employees to react to customer needs.

Extraordinary tales are told of sales associates who went the extra mile to satisfy the customer. Reportedly a customer fell in love with a pair of Donna Karan slacks that had just gone on sale at the Nordstrom store in downtown Seattle. The salesperson, unable to track down the slacks at any of the other five Seattle-area stores, secured some petty cash from her department manager, ran across the street to the Frederick and Nelson Department Store where she bought the slacks at full price, and returned triumphantly to Nordstrom to sell them to the customer at the Nordstrom sale price.

Another fabled story is of a loyal Nordstrom customer who died with her Nordstrom account \$1,000 in arrears. Nordstrom not only settled her account but also sent flowers to the funeral.

Nordstrom salespeople make the customer feel special. You won't find Nordstrom customers running to another part of the store to find a gift box (gift boxes are provided, complete with gift card and complimentary bow, in the department in which you make your purchase). One surprised father found that the Nordstrom's men's room had a changing table with complimentary diapers when he went inside to change his young son.

It is not unusual for a customer to receive a thank-you note from your Nordstrom salesperson, or phone

calls or notes concerning new merchandise of particular interest to them. Salespeople keep customer books listing customer information such as likes and dislikes, sizes, and past purchases. This allows the salesperson to notify customers when merchandise arrives that could be of interest. One salesperson had the challenge of selling different “looks” to 40 different partners within the same 120-attorney office. It simply wouldn’t do for the attorneys to show up in the office with the same suit!

Nordstrom is known not only for its salespeople but also for its generous guarantee return policy and welcoming, comfortable, and hassle-free store designs. One pleased spouse of a devoted Nordstrom customer wrote: “Of all the stores, Nordstrom was best. They gave a husband a place to rest.”

## THE ISSUES

In an increasingly competitive environment, Nordstrom’s emphasis on building customer loyalty and retaining customers provides an advantage. While Nordstrom provides customers with what they consider an unsurpassed commitment to quality and value, increasing price competition and price-conscious consumers may be a threat.

Primary competition for Nordstrom could come from popular specialty stores such as Talbots or Ann Taylor for women’s clothing; Brooks Brothers for men’s clothing; Joseph Banks, Abercrombie and Fitch, and J. Crew for both men and women; and Kids Talbot and Gymboree for children. In addition, Nordstrom rec-

ognizes The Gap and Banana Republic as competitors. Because apparel specialty stores focus on more narrow product lines such as professional apparel, sportswear, or casual wear or by type of customer, the competition can be very diverse. In addition, traditional department stores such as Marshall Fields, Bloomingdale’s, Neiman Marcus, and Saks are primary competitors. Department store competitors and specialty store competitors vary depending on the particular market and geographic location, because many are regional rather than national in scope. It is worth noting that Nordstrom will experience competition not only from specialty stores for particular product lines (e.g., shoes), but also from stores offering broader lines such as traditional department stores. Continued geographic expansion can provide Nordstrom with additional opportunities for growth but also expose it to new competitors that may attempt to imitate Nordstrom’s famous service and quality.<sup>17</sup>

### Questions

- 1 How would Nordstrom be classified as a retail outlet in terms of form of ownership, level of service, and merchandise line?
- 2 What type of retail position does Nordstrom occupy? Who do you see as its primary competitors, given this position?
- 3 How do you reconcile Nordstrom’s growth and success with the fact that department stores as a category are in the maturity stage of the retail life cycle? What implications are there for Nordstrom given the maturity of the category as well as the wheel of retailing concept?

## CASE D-18 McDonald’s Restaurants: An IMC Program to Reach Different Segments

“McDonald’s outstanding success in Russia is a tribute to our Russian employees, suppliers, and, of course, our customers,” comments George A. Cohon, senior chairman, McDonald’s in Russia. It all started in 1976 at the Olympic Games in Montreal with a chance meeting between Cohon, who was then senior chairman of McDonald’s Canada, and members of the Soviet Olympic delegation.

Fourteen years and countless meetings later, the 700-seat Pushkin Square restaurant in Moscow opened on January 31, 1990. The Pushkin restaurant still is the busiest McDonald’s in the world, having served over 77 million customers during the first 11 years since its opening. But competition from Russian quick-service restaurant operators, such as Rostiks and Russian Bistro, is increasing. Therefore, the McDonald’s team must continue to develop effective means of communicating with present and prospective customers.

### ABOUT McDONALD’S IN RUSSIA

The amount of food McDonald’s has served in Russia is staggering. (All McDonald’s data in the case are as of March 2001). Consider that in its first 11 years of operations in Russia, McDonald’s has served:

- 300 million customers, over twice the 146 million population of Russia.
- 66 million Big Mac<sup>TM</sup> sandwiches, that if put side by side would be longer than the 3,476-kilometer diameter of the moon!

McDonald’s currently has more than 70 restaurants in Russia, from Moscow and St. Petersburg to Nizhny Novgorod and Samara. McDonald’s employs more than 6,000 Russians, or about 100 for each new restaurant that opens. Over 70 managers have successfully graduated



from its “Hamburger University” training course held at McDonald’s head office in Chicago, part of the 2,000 hours of training they each receive. McDonald’s in Russia also operates McComplex, a one-of-a-kind food-processing and distribution facility located in Moscow, which supplies products to restaurants not only in Russia, but also in Germany, Ukraine, Belarus, Austria, and the Czech Republic. It features dairy, bakery, pie, liquid, and meat lines, and has its own quality assurance laboratories to ensure that McDonald’s strict food quality standards are met. McDonald’s in Russia sources more than 75 percent of the raw ingredients it needs from over 100 independent suppliers in Russia and the Commonwealth of Independent States (CIS).

## MCDONALD’S COMMUNITY EFFORTS

McDonald’s has a philosophy of “giving back to the communities in which we serve” in the 120 countries in which it operates. In Russia, Ronald McDonald Children’s Charities (Russia) operates the Ronald McDonald Centre, a sports and play facility for physically and mentally challenged children. Located in Moscow, the Ronald McDonald Centre hosts more than 1,500 children a week, conducting music, computer, and gym classes. In addition, McDonald’s in Russia contributes to various charitable children’s organizations to purchase items such as medical supplies and transportation equipment. Since opening 11 years ago, McDonald’s in Russia has contributed more than \$5 million U.S. to benefit Russian children in need.

## WHAT MCDONALD’S MARKETS AND WHAT CUSTOMERS LOOK FOR

McDonald’s restaurants were founded and continue to operate worldwide on the basis of the formula, Q, S, C, and V: quality, service, cleanliness, and value. The sim-

ple menu ensures convenience and quick service. McDonald’s is the favorite restaurant of many Russian families, because McDonald’s serves a high-quality meal, in a clean environment, with a smile, at a price families can afford.

Customers all over the world count on McDonald’s for consistent taste and high-quality products, no matter where the restaurant is located. The McDonald’s quality assurance program ensures that only the best quality products are served to its customers. This program begins with ensuring that only top-quality ingredients are used, that each food item is prepared in a consistent manner, and that the final product meets McDonald’s exacting quality standards. For example, the components of a McDonald’s Big Mac sandwich in Russia will undergo more than 98 quality checks before the final sandwich is presented to the customer. This ensures that every Big Mac sandwich tastes the same whether it is ordered by a customer in London, Tokyo, or Moscow.

McDonald’s offers a curious marketing dilemma. Although the same meals are served to all customers, these same customers may be looking for strikingly different eating experiences on their restaurant visits! For example, a busy manager who only has enough time to “grab a quick lunch” is seeking a different eating experience than a young couple with a six-year-old child who is celebrating a special occasion. McDonald’s also practices an “act local” strategy which allows its restaurants to cater to local tastes and laws. For example, its restaurants in Germany and France can serve beer—something prohibited in the United States.

## DESIGNING AN INTEGRATED MARKETING COMMUNICATIONS (IMC) PROGRAM

These diverse customer segments, with their very different reasons for visiting a McDonald’s restaurant, pose a special challenge for a McDonald’s marketing manager responsible for designing and implementing an effective integrated marketing communications (IMC) program. Some of the key initial questions include:

- What are the key market segments that McDonald’s might be trying to reach?
- What might each segment look for when it chooses to visit McDonald’s?
- What appeals and messages might be used to attract each of these segments?
- What combination of promotional mix elements (advertising, personal selling, public relations, sales promotion, and direct marketing) could be used to reach each segment?

The decisions a McDonald’s marketing manager must make become more complicated because the IMC

program may vary from city to city. If McDonald's is entering a new city with its first restaurant, an IMC may be very costly. If McDonald's is adding several more restaurants in Moscow, the IMC costs can be spread across the more than 20 outlets it promotes.<sup>18</sup>

### Questions

**1** Consider these four distinct market segments for McDonald's meals in Russian cities in which it has outlets: a family with young children, busy businesspeople, an older couple,

and foreign tourists who are already familiar with McDonald's. For each segment (a) identify the special benefit or appeal McDonald's has to offer and (b) compose a 10- to 12-word promotional message that might be used to reach it.

**2** For the first McDonald's restaurant to open in a city, what element of an integrated marketing communications (IMC) program might be used to reach (a) a family with young children and (b) busy businesspeople?

**3** For the McDonald's restaurants in Moscow, what element of an integrated marketing communications (IMC) program might be used to reach (a) an older couple and (b) foreign tourists?

## CASE D-19 Volkswagen: The "Drivers Wanted" Campaigns

Volkswagen's comeback in the United States is an amazing marketing story. VW demonstrated that it was possible to recover from a poor reputation with exciting new automobile designs combined with a lively and engaging promotional program. The promotional program's success was due to creation of a unified image for the Volkswagen brand while developing the personalities of each of its separate car models.

### VW HISTORY

Volkswagen originally designed the Beetle in pre-World War II Germany as a people's car—"volks" people "wagen" car. It provided dependable, reliable, and economical transportation. The car was first sold in the United States in 1949 with a list price of \$800. The car was a commercial success around the world with more than 21 million built, more than any other car in history. It was the best-selling and most-loved car in U.S. auto history. However, by 1979 VW had discontinued sales of the Beetle in the United States. Why?

Volkswagen automobiles had personality—the cuddly Beetle, the counterculture Microbus—but increasingly began to seem dowdy and unpretentious, inconsistent with VW's attempts to reposition itself and its brands as more upscale. Also, many original designs were unlikely to meet growing U.S. safety standards as well as increasing performance standards. Some pundits accused Volkswagen of trying to act like General Motors—appealing to a mass market—and finally credited them with recognizing that Volkswagen has to be Volkswagen.

Volkswagen's U.S. sales, at their peak in 1970 at 570,000 cars, fell to only 49,500 in 1993. Many wrote off Volkswagen and expected them to go the way of Renault and Fiat in the U.S. automotive market. However, by 1999 Volkswagen sales had increased to 316,000 cars.

### THE COMEBACK

VW unveiled its new Beetle concept car at the 1994 Detroit Automobile Show. Although the car wasn't scheduled for shipment for two more years, the excitement and anticipation of the Beetle got buyers into showrooms to check out the redesigned Golfs, Passats, and Jettas.

Redesigning cars wasn't enough. Volkswagen unveiled a dynamite advertising campaign using Boston-based Arnold Communications. Arnold Communications has won countless advertising awards for its Volkswagen advertisements including honors from the Association of Independent Commercial Producers, Clios, Addys, ANDYs, Effies, and Cannes Lions.

Using the launch of the new Beetle, Arnold Communications not only generated tremendous interest and enthusiasm for that model but also sent buyers back to Volkswagen showrooms to check out other models. Advertising ran in print and television media geared to the Volkswagen target audience.

The "Drivers Wanted" umbrella tag line runs across all campaigns. However, a key to the Arnold Communications strategy was development of a personality for each of the Volkswagen automobile models. Marketing research played an important role in defining the target audience for each VW model.

For example, the Jetta wagon's target demographics are active, tend to be hikers and outdoor types, with an average age of 31. A recent television advertisement shows the VW Jetta wagon parked next to a tent in a quiet wilderness as the sun rises. We hear voices and finally see a couple emerge from the vehicle—not the tent! Other Jetta wagon commercials build on the "70-cubic-feet" theme and benefits and emphasize the lifestyle characteristics of the target audience. VW spent nearly \$100 million in 2000 on Jetta advertising in the United States, where it is the top-selling European brand.

Overall, Volkswagen spent about \$350 million on U.S. advertising in 2000.

“Round for a Reason” is the current theme for the Beetle. One ad shows ancient Roman aqueducts as a voice explains how they have stood for centuries because of the engineering marvel—the arch. The Beetle pulls in under the arch as the announcer says “To this day, modern man has yet to improve on the design.”

The Beetle’s target audience is described as confident, unique, and not afraid of being the center of attention. Since 60 percent of current Beetle buyers are women, Volkswagen is launching a concerted effort to go after men. The convertible Beetle—expected in late 2002—and the new limited-edition Sport model Beetle are expected to attract more male customers.

The VW Euro Van is getting its first U.S. TV campaign with a \$10 million effort. “Our awareness for this vehicle is almost nothing” says Karen Marderosian, manager of advertising and marketing at VW. The Euro Van is VW’s only truck. It entered the U.S. market in 1992 when the VW brand was in serious decline. Underpowered and overpriced at the time, the newly designed Euro Van has better performance (from 140 to 200 hp) and better value (2001 prices start at \$26,500 down from \$33,000 for the earlier model).

The new Euro Van campaign is all about freedom. It shows parents driving through desolate locations while talking to their children with geographic names like Denver and Dakota. They pick up a hitchhiker who pitches his “Phoenix” sign in the back with the other signs including Denver and Dakota. This campaign is supplemented with a direct-mail piece to 300,000 Microbus and VW car owners and print ads in national outdoor, lifestyle, and financial magazines and newspapers in 13 key markets. The primary customers for the Euro Van are outdoorsy VW loyalists, concentrated in the Northwest and Southwest, primarily married adults ages 35 to 49 with children.

Overall, Volkswagen customers tend to have high incomes, and are well educated, self-confident, full of life, and fun loving and unpretentious. The segmentation is based more heavily on lifestyle and behavior than demographics. Volkswagen customers are “young at heart,” “interested in trying new things,” and “very popular on the West and East Coasts and in the sort of centers of the country where there are a lot of educational

institutions.” The message is “what we’re about is what you’re about.”

Volkswagen also invests in sales training. They recognize that this is a high-involvement purchase and that the salespeople need to project an image of a company that customers want to do business with. Volkswagen holds annual sales meetings but has also tried sending specially outfitted trailers around the country for four-hour interactive presentations to local salespeople.

The Internet is an important element in the Volkswagen promotional program. Given the demographics and psychographics of the VW customer, it is not surprising that a high percentage of this audience uses the Internet. Volkswagen has found that customers want rapid response, new content, and access to information as they conduct research. Many come to the Volkswagen site through third-party sites such as a ratings magazine site where unbiased evaluations of automobile performance can be obtained. Volkswagen has even made special limited-color edition Beetles available for sale online. Consumers can go to the Volkswagen website ([www.vw.com](http://www.vw.com)) and configure the car and create a personalized “MyVW” page. VW has no plans for direct sales, so once buyers complete the transaction via the Internet they are directed to dealerships to complete the transaction.

What’s next for Volkswagen? Their success with the retro Beetle has led to an ambitious plan to launch a twenty-first century remake of its old VW bus. Watch for it!<sup>19</sup>

### Questions

- 1 What are the primary promotional objectives for Volkswagen? What are the promotional objectives for the Euro Van? How do you expect Volkswagen and Euro Van objectives to change over time?
- 2 How did Volkswagen use integrated marketing communications to market the Volkswagen brand? What are the strengths and weaknesses of each element of the promotional mix and how do they correspond to Volkswagen’s promotional objectives? What role did the New Beetle play in marketing the brand overall?
- 3 Volkswagen’s promotional program has heavily emphasized a pull promotional strategy versus a push promotional strategy. Why? Is this emphasis likely to change over time?

## CASE D-20 Field Furniture Enterprises: Making Promotion Trade-Offs

Edward Meadows, president of Field Furniture Enterprises, met with representatives of Kelly, Astor & Peters Advertising (KAP) and Andrew Reed, Field’s vice president of marketing and sales, to discuss the com-

pany’s advertising program for 2000. The KAP representatives recommended that Field Furniture increase its advertising in shelter magazines (such as *Good Housekeeping* and *Better Homes and Gardens*, which

feature home improvement ideas and new ideas in home decorating) by \$300,000 and maintain the expenditures for other promotional efforts at a constant level during 2000. The rationale given for the increase in advertising was that Field Furniture had low name recognition among prospective buyers of furniture, and it intended to introduce new styles of living and dining room furniture. Reed, however, had a different opinion as to how Field Furniture should spend the \$300,000. He thought it was necessary to (1) hire additional salespeople to call on the 30 new retail stores to be added by the company in 2000, (2) increase the funds devoted to cooperative advertising, and (3) improve the selling aids given to retail stores and salespeople.

## THE COMPANY

Field Furniture is a medium-sized manufacturer of medium- to high-priced living and dining room furniture. Sales in 1999 were \$50 million. The company sells its furniture through 1,000 furniture specialty stores nationwide, but not all stores carry the company's entire line. This fact bothered Meadows because, in his words, "If they ain't got it, they can't sell it!" The company employs 10 full-time salespeople, who receive a \$50,000 base salary annually and a small commission on sales. A company salesforce is atypical in the furniture industry because most furniture manufacturers use selling agents or manufacturer's representatives who carry a wide assortment of noncompeting furniture lines and receive a commission on sales. "Having our own sales group is a policy my father established 30 years ago," noted Meadows, "and we've been quite successful having people who are committed to our company. Our people don't just take furniture orders. They are expected to motivate retail salespeople to sell our line, assist in setting up displays in stores, coordinate cooperative advertising plans, and give advice on a variety of matters to our retailers and their salespeople."

In 1999, Field spent \$2.45 million for total promotional expenditures, excluding the salary of the vice president of marketing and sales. Promotional expenditures were categorized into four groups: (1) sales expense and administration, (2) cooperative advertising programs with retailers, (3) trade promotions, and (4) consumer advertising. Cooperative advertising allowances are usually spent on newspaper advertising in a retailer's city and are matched by the retailer's funds on a dollar-for-dollar basis. Trade promotion is directed toward retailers and takes the form of catalogs, trade magazine advertisements, booklets for consumers, and point-of-purchase materials such as displays for use in retail stores. Also included in this category is the expense of trade shows. Field Furniture is represented at two trade shows a year. Consumer advertising is directed to potential consumers through shelter maga-

zines. The typical format used in consumer advertising is to highlight new furniture and different living and dining room arrangements. Dollar allocation for each program in 1999 was as follows:

PROMOTIONAL PROGRAM	EXPENDITURE
Sales expense and administration	\$ 612,500
Cooperative advertising	1,102,500
Trade advertising	306,250
Consumer advertising	428,750
Total	\$2,450,000

## THE INDUSTRY

The household wooden furniture industry is composed of more than 5,000 firms. Industry sales at manufacturers' prices were \$10 billion. California, North Carolina, Virginia, New York, Tennessee, Pennsylvania, Illinois, and Indiana are the major U.S. furniture-producing areas. Although Ethan Allen, Bassett, Henredon, and Kroehler are the major furniture manufacturers, no one firm captured more than 3 percent of the total household wooden furniture market.

The buying and selling of furniture to retail outlets centers around manufacturers' expositions at selected times and places around the country. At these marts, as they are called in the furniture industry, retail buyers view manufacturers' lines and often make buying commitments for their stores. However, Field's experience has shown that sales efforts in the retail store by company representatives account for as much as half the company's sales in a given year. The major manufacturer expositions are held in High Point, North Carolina, in October and April. Regional expositions are also scheduled in June through August in locations such as Dallas, Los Angeles, New York, and Boston.

Company research on consumer furniture-buying behavior indicated that people visit several stores when shopping for furniture, and the final decision is made jointly by a husband and wife in about 90 percent of furniture purchases. Other noteworthy findings are as follows:

- Eighty-four percent of buyers believe "the higher the price, the higher the quality" when buying home furnishings.
- Seventy-two percent of buyers browse or window shop in furniture stores even if they don't need furniture.
- Eighty-five percent read furniture ads before they actually need furniture.
- Ninety-nine percent agreed with the statement, "When shopping for furniture and home furnishings, I like the salesperson to show me what alter-

natives are available, answer my questions, and let me alone so I can think about it and maybe browse around.”

- Ninety-five percent get redecorating ideas from shelter magazines.
- Forty-one percent have written to order a manufacturer’s booklet.
- Sixty-three percent feel they need decorating advice for “putting it all together.”

## BUDGETARY ISSUES

After the KAP Advertising representatives made their presentation, Reed again emphasized that the incremental \$300,000 should not be spent for consumer advertising. He noted that Field Furniture had set as an objective that each salesperson would make six calls per year at each store and spend at least four hours at each store on

every call. “Given that our salespeople work a 40-hour week, 48 weeks per year, and devote only 80 percent of their time to selling due to travel time between stores, we already aren’t doing the sales job,” Reed added. Meadows agreed but reminded Reed that the \$300,000 increment in the promotional budget was a maximum the company could spend, given other cost increases.<sup>20</sup>

### Questions

- 1 How might you describe furniture buying using the purchase decision process described in Chapter 5?
- 2 How might each of the elements of the promotional program influence each stage in the purchase decision process?
- 3 What should Field’s promotional objectives be?
- 4 How many salespeople does Field need to adequately service its accounts?
- 5 Should Field Furniture emphasize a push or pull promotional strategy? Why?

## CASE D-21 Mattel, Inc.: Barbie.com and Multichannel Marketing

“We’ve been at the forefront of marketing for 40 years, so we have to be at the forefront of this new medium,” says Christina DeRosa, vice president of website and media content for Mattel’s Barbie/Girls’ Division. “The Internet has become a very compelling part of a girl’s life. When that happens to your customer base, you have to think about it,” she added.

Ms. DeRosa is explaining why Mattel ventured into interactive and multichannel marketing with its Barbie.com website and first-ever Barbie catalog in the fall of 2000. “It’s still too early to tell what will work and what won’t,” says Adrienne Fontanella, president of the Barbie/Girls’ division. “But if we didn’t do this, we’d be like a house without a refrigerator in the future.”

## THE TOY AND GAME INDUSTRY

The toy and game industry (excluding video games) is big business. Worldwide sales exceed \$55 billion. The largest toy and game market is North America, which accounts for 43 percent of worldwide industry sales. A child in the United States receives about \$400 worth of toys and games per year on average. The average annual expenditure per child outside the United States is \$34.

U.S. chain stores are the principal distributors of toys and games. General merchandise stores like Wal-Mart stores, Kmart, and Target register 35 percent of retail sales. Toy chains, such as Toys “Я” Us, account for 25 percent of retail sales. Other retailers (toy, hobby, and game stores, department stores, and food and drug outlets) record 35 percent of sales. Four percent of toys and

games are sold through catalogs and one percent is sold on the Internet. Wal-Mart stores is the number 1 toy retailer, followed by Toys “Я” Us, Kmart, and Target, which sell toys and games through their retail stores and on their own websites.

The worldwide toy and game industry is dominated by two U.S. toy makers: Mattel and Hasbro. Japan’s Bandai Company and Sanrio, as well as Denmark’s LEGO Company, are also major toy makers with annual sales exceeding \$1 billion.

## THE COMPANY

Mattel is the house that the Barbie doll built. Headquartered in El Segundo, California, Mattel is the world’s largest toy maker with sales just under \$5 billion in 2000. In addition to marketing the world’s best-selling toy—the Barbie doll (which accounts for 28 percent of company sales)—Mattel produces Fisher-Price toys, Hot Wheels cars, and action figures and toys based on Disney movies and the Harry Potter children’s books.

Mattel’s toys are sold around the world. However, 71 percent of company sales emanate from the United States. Almost all of Mattel’s sales are made through toy stores and retailers—Toys “Я” Us and Wal-Mart stores alone account for 40 percent of Mattel’s retail sales. In 1998, Mattel bought the mail-order firm Pleasant Company that markets American Girl—brand books, dolls, and clothing. Mattel’s senior management planned to use American Girl as a platform to expand all Mattel brands into direct marketing saying that the acquisition would allow Mattel

to generate as much as \$1 billion in direct-to-customer sales. A secondary benefit of directing marketing was to reduce Mattel's reliance on retailers for sales.

## THE ISSUES

Mattel's fall 2000 launch of a Barbie website and catalog was the company's most recent attempt at interactive and multichannel marketing. In the fall of 1998, Mattel introduced a Barbie website that featured My Design Barbie at [www.barbie.com](http://www.barbie.com). Visitors could specify the features for their very own personalized Barbie doll, including hairstyle, eye and hair color, skin tone, clothes, and accessories. The custom-made doll was manufactured by Mattel and shipped to the buyer within six to eight weeks of the order date. However, this first effort by Mattel was modified and the My Design feature was dropped. Also, Mattel's large retailers complained about the website because of the potential for competition with their stores.

The new Barbie.com and catalog initiative was developed with the intention of accommodating retailer concerns. For example, Mattel voluntarily limited the number

of products it made available in its catalog and on its website. Prices were deliberately set 15 percent higher than the suggested retail price in stores. On each catalog, Mattel listed, according to zip code, the nearest retailers where Mattel products were sold and prominently displayed the Barbie.com website address. The website featured Wal-Mart stores and Toys "Я" Us as retailers. Finally, Mattel didn't advertise the commerce features of the Barbie website. Still, Mattel's efforts did not accommodate everyone. "We're supposed to be partners and this is obviously competitive," said one top toy retail executive.<sup>21</sup>

### Questions

- 1 What would a diagram of Mattel's multichannel strategy for Barbie look like? (*Hint*: Refer to Chapter 21, Figure 21–6.)
- 2 Visit the Barbie.com website at [www.barbie.com](http://www.barbie.com). Is Barbie.com primarily a transaction or promotional website?
- 3 What type of channel conflict is Mattel trying to minimize with its approach to interactive and multichannel marketing? (*Hint*: Look again at Chapter 15, Conflict in Marketing Channels.) Why do you think Mattel, as the world's largest toy maker, believes it has to accommodate its large retailers?

## CASE D-22 BP Connect™: Gasoline, Convenience, and . . . Just-Baked Bread!

"Before developing BP Connect™, we did extensive research to find exactly what consumers wanted in a convenience and fuel store," says Jack Burdett, senior vice president of retail marketing for BP plc.

Burdett is referring to a full-scale prototype of BP Connect's 4,200-square-foot convenience food-gasoline station constructed in an Atlanta warehouse in July 2000. Reactions of U.S. consumers touring the Atlanta proto-

type were overwhelmingly positive. BP spent \$7 million developing the BP Connect concept and will spend \$4.4 billion during the next four years to update old or build new BP Connect stations worldwide. In December 2000, BP Connect outlets opened in London, England, and Lisbon, Portugal, to enthusiastic reviews. The first BP Connect stations in the United States opened in 2001 in Indianapolis, Cleveland, and Atlanta.



### THE COMPANY

BP plc—often shortened to simply BP—is the world's largest producer and marketer of petroleum products. BP is also the largest gasoline retailer in the United States with 17,500 stations, or about 15 percent of the market. Since 1998, BP has spent \$120 billion to acquire Amoco, ARCO, and Burmah Castrol, making it the largest retailer of petroleum products in the world. At the end of 2000, BP served 10 million customers per day globally with 28,000 branded retail sites, including 4,300 AM/PM™ convenience stores.

Initially, Amoco was going to be the brand identity used in the United States. However, according to Doug Ford, BP's CEO for retailing and marketing worldwide, that decision was changed after BP conducted focus

groups. Consumers preferred the new BP logo and color scheme but still wanted the quality products that Amoco sells. Therefore, while BP will rebrand its BP and Amoco sites, it will continue to offer branded Amoco gasoline. However, because ARCO's customers are different than BP's or Amoco's, BP will also retain the very successful AM/PM™ convenience stores and ARCO-branded gasoline stations.

## TRENDS IN CONVENIENCE STORE AND GASOLINE RETAILING

Several major trends currently affect both traditional convenience store and petroleum retailing worldwide:

- *Mergers and acquisitions.* During the past several years, BP and other major oil firms, such as Exxon (Mobil) and Total (PetroFina & Elf), have merged with or acquired one or more of their competitors.
- *Convergence.* Since 1977, the percentage of gasoline stations in the United States that are also convenience stores has gone from 5 percent to 45 percent. To improve profitability, convenience stores and gasoline retailers have encroached on each other's domain by offering products and services typically sold by the other.
- *Competition.* In the United States, large supermarket chains (such as Albertson's, in partnership with ARCO, which is owned by BP), mass merchandisers (such as Wal-Mart), and membership organizations (such as Costco or Sam's Club), have added retail petroleum operations to their product-service mix that are located on their parking lots.
- *Convenience.* Changes in lifestyle and shopping behavior has resulted in a greater demand for time and place convenience by consumers. Gasoline retailers have replaced the old "gas and cigarettes" strategy with a "scrambled merchandising" strategy that offers consumers several unrelated product lines in a single retail outlet, such as food, car washes, ATM banking, and new payment technologies (Exxon Mobil's Speedpass) to speed up the payment transactions.
- *Branding.* A growing number of petroleum retailers are using brand management to create a consistent, global, and proprietary image that enables firms to differentiate their offerings from those of competitors to gain a competitive advantage.
- *Co-branding.* Co-branding involves the pairing of brand names into a coherent image from two or more marketers to capitalize on the strengths of each that appeals to a firm's target consumers. Convenience store and petroleum marketers have developed relationships with fast-food restaurants (such as Taco Bell, Blimpie's, etc.) and other food, beverage,

and nonfood firms in order to satisfy more consumer needs immediately, instead of having them buy the same brand elsewhere.

## THE BP CONNECT CONCEPT

Based on the results of marketing research—much at the prototype outlet in Atlanta—BP Connect stores will feature:

- *A new logo.* The BP shield and Amoco torch will be replaced by a new logo that BP hopes will enhance its corporate image as a "green," environmentally friendly company.
- *Solar panels.* BP is the world's largest producer of solar power, so BP Connect will use renewable electricity generated from solar panels in its curved canopy to provide 10 to 20 percent of the power needed to operate the station.
- *High-tech pumps, and twenty-first century information technology.* Instead of traditional rectangular pumps, BP Connect stations will have curved ones that include an 8-inch touch screen to display news, weather, sports scores, and promotions; enable consumers to order food inside while pumping gas and to pay with a debit/credit card; and print travel maps from in-store Internet kiosks.
- *Sectional design.* Using a wide, open-aisle design, BP Connect will be divided into five sections: food service, beverage, impulse-buying with snacks, convenience-store, and Internet kiosk. Lighting will change with each section. In-store offerings will include fresh fruit and produce, a bakery, and a Wild Bean Coffee quick-serve restaurant. Some stores will have attached car washes.

BP plans on spending \$200 million to let its BP Connect stores link to the Internet, which will let drivers check traffic congestion at the gas pumps or go inside and—for a fee—use the Web at a kiosk. The goal: Help BP generate half its retail sales from nonfuel items within five years.

## THE MARKETING ISSUES

The BP Connect rollout strategy for the new stations represents a massive investment. Not only is there huge competition from other petroleum companies, but convenience store, supermarket, and mass-merchandiser chains are moving into the gasoline business. In addition, following the September 11, 2001, attacks, the demand for energy plummeted, oil prices fell by a third, and oil company profits fell.<sup>22</sup>

In answering the following questions, assume you are a marketing consultant to BP, assisting it with its BP Connect global rollout strategy for the next three years.

*Questions*

- 1 Conduct a SWOT (strengths, weaknesses, opportunities, threats) analysis for the BP Connect concept—looking forward globally to the next three years.
- 2 Consider these two elements of the BP Connect concept described above: high-tech pumps and twenty-first century in-

formation technology; and the sectional design. Assess these from the point of view of consumers in: (a) the United States, (b) Western Europe, and (c) Eastern Europe.

- 3 In the United States, how might BP conduct marketing research on the two elements of BP Connect identified in question 2 above?