Appendix 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 about 40 percent share of the U.S. market, does business in 35 countries, and has offices in Japan, Austria, as well as Vermont. Estimated 2003 sales were $140 million.

THE INDUSTRY

Snowboarding is a wintertime sport that resembles surfing on a ski hill. The modern snowboard industry began around 25 years ago. According to the National Sporting Goods Association, there were 6.3 million snowboarders in the United States, up from 2.1 million boarders 10 years earlier. Snowboarders represent 2.5 percent of the 2003 U.S. population, up from 0.9 percent in 1993. However, at the same time that snowboarding has been growing in popularity, alpine skiing is declining. There were 6.8 million alpine skiers in 2003, representing 2.6 percent of the population, down from 10.6 million skiers, representing 4.6 percent of the U.S. population in 1993. Snowboarders represent more than 31 percent of all ski passes and are the fastest-growing part of the ski industry. However, growth in snowboarding has slowed from 21 percent growth in the late 1990s to 11 percent in the 2003–2004 season and is expected to be about 5 percent in 2004–2005.

Snowboarding has achieved 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.

THE COMPETITION

There are many snowboard manufacturers, not to mention companies that produce snowboarding apparel and accessories as well as full-line snowboarding equipment suppliers such as Burton. Barriers to entry are relatively low so new entrants can be expected though there has been consolidation in the industry. One estimate places Burton's market share at 38 percent followed by K2 (which acquired Ride) at 31 percent, Lamar with 7 percent, Salomon with 6 percent, Rossignol with 4 percent, and Gnu with 3 percent.

Snowboard sales have dropped from 30–40 percent annual gains in the late 1990s to just 4 percent for each of the last three years.

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. Retail list prices

range from $300 to $800. In addition to boards, Burton offers protective gear (through its wholly owned subsidiary, R.E.D. “Rider Engineered Devices”), bags, bindings, boots, and goggles (Burton’s anon.optics). For information on Burton’s product line or to take a virtual tour of the Burton factory at 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—an important promotional tool and vital to the sport’s success. Burton sponsors more than 100 riders worldwide at different levels. The top level of sponsorship—the Global Team—consists of only 17 riders, among the best in the world. These team members are often role models for young boarders. For example, in the 2002 Winter Olympics in Salt Lake City, Burton team riders Kelly Clark won a gold medal for the United States in the women’s halfpipe competition, Ross Powers won the gold medal in men’s halfpipe, and Chris Klug earned a bronze medal in the parallel giant slalom event. Even well-known celebrity boarders couldn’t survive financially without such sponsorship. Burton also sponsors snowboarding events such as the U.S. Open Snowboarding Championships. 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. Sales of freestyle boards have increased 59 percent.

Burton has been very loyal to the distributors that have helped them 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. In general, snowboard sales in sporting goods chains did not do as well as sales through specialty stores during the 2003–2004 season.

Perhaps the biggest challenge facing Burton and the entire snowboarding industry is demographics. Snowboarding is primarily a sport engaged in by younger, male participants. In 2000, more than 80 percent of participants were under the age of 24 with the median age of a snowboarder at 15.7 years. More than 74 percent of snowboarders are male. Can the appeal of snowboarding be expanded to a more diverse audience? Will Grays on Trays, or the over-30 snowboarder, be the next wave of snowboarding growth?

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 Daktronics, Inc: Global Displays in 68 Billion Colors

“We were looking for a way to provide jobs and keep our graduates at home,” said Dr. Aelred (Al) J. Kurtenbach, board chairman of Daktronics, Inc. So in 1968, Kurtenbach, then an engineering professor at South Dakota State University (SDSU), and fellow professor Duane Sander decided to start a business. “We started a biomedical engineering company, mainly because we’d both done research in this area,” continued Kurtenbach.

But even college professors make bad decisions occasionally!

THE DAKTRONICS LAUNCH: DOWNSIDE, UPSIDE

“It was a dismal failure,” explains Kurtenbach, “because the electronic thermometer and automated blood-pressure gauge we’d developed worked fine but simply cost too much to produce and sell.” Also, he and Sander were concerned that by the time they went through the lengthy process to receive U.S. Food and Drug Administration approval, Daktronics would run out of money.

Enter: A miracle—in the form of the South Dakota State wrestling coach who needed a portable scoreboard near the wrestling mat to tell fans the time and score without blocking their view of action on the mat. At the time, wresting teams had to use basketball displays that couldn’t show the right wrestling information and were too high and far from the mat.

In response, Daktronics designed the Matside®, a pyramid-shaped scoreboard that sits on the floor and is still in use at wrestling matches around the United States today, 35 years later. The Matside also established Daktronics’ reputation as a company that could get problems solved, and quickly.

From that low-key launch, Daktronics has emerged as the world-class designer of scoreboards and electronic displays used in the United States and around the globe. The reason for Daktronics' success? "Innovation," says Kurtenbach. *Fortune Small Business* describes the company as a "geek-rich workplace," with more than 230 degreed engineers out of its 900 full-time employees in its plant in Brookings, South Dakota—population 18,504.

To start Daktronics in 1968, Kurtenbach and Sander sold shares to family and friends at $5 per share, raising a bit less than $100,000. That limited initial funding also pushed Kurtenbach and Sander into finding products that customers would buy to generate revenues for Daktronics. The company still must stay alert because it faces global competitors like Barco from Belgium and Mitsubishi from Japan.

TODAY'S MARKET SEGMENTS

Daktronics divides its markets into three segments: sports (70 percent of Daktronics' sales), business (20 percent), and government (10 percent). The company reaches these markets today through 35 U.S. regional sales and service offices and a recently opened office in Frankfurt, Germany to reach European and Middle Eastern customers.

In the sports segment, if you watched the last Kentucky Derby at Churchill Downs or the 2004 Olympics in Athens on television, you probably saw a sample of Daktronics electronic scoring and display systems. The same goes for 24 of 30 Major League Baseball parks, 22 of 31 National Football League stadiums, 19 of 28 National Basketball Association facilities, and 19 of 30 National Hockey League arenas, where Daktronics has created some or all of the displays. This also is true of election displays at hundreds of colleges, universities, and high schools, where the prices can vary from millions of dollars to a few thousand.

A surprise to many: Advertising on these displays can often pay for themselves in a year or two. Brad Mayne, president of the American Airlines Center in Dallas, where the NBA Mavericks and NHL Stars play, says that Daktronics' scoreboard (shown below) paid for itself in advertising by the second season.

Daktronics' largest scoreboard? It's a 36-by-149-foot giant at the Cleveland Indians' Jacobs Field. The nine full-color displays installed throughout Jacobs Field provide live videos and replays, lineups, scores, pitch information, and so on.

In the business segment, probably the biggest and best known are Daktronics' electronic displays in New York City. It recently installed a 65-foot high display in Times Square that shows video, animation, graphics, stock quotes, and news headlines in striking shades of color.

While that may be the best-known business display, hundreds of Daktronics programmable displays dot the United States in shopping malls and outside of stores and churches. These displays show everything from current times and temperatures to financial information, gas prices, and motel room rates. James (Jim) B. Morgan, president and chief executive officer of Daktronics, now puts greater emphasis on the business accounts to make the company less dependent on the sports segment.

Less well known are Daktronics displays for the government segment. Suppose that on the way to class today, a freeway sign told you that a crash in the right lane ahead means you should move to a left lane and slow down. It was probably a Daktronics-built sign, something like that for the Cumberland Gap Tunnel that connects Virginia, Kentucky, and Tennessee, shown on the opposite page. Besides highway signs, the government segment includes airport and train station displays announcing arrival and departure times.

To see what Daktronics sports, business, and government displays have been installed in your state, go to www.daktronics.com.

TECHNOLOGY

Exploiting the latest technology is critical to Daktronics' success. At the level of signage just needed to display words and numbers, a key company innovation is the Glow Cube® pixel, about the size of a Rubik's Cube. Black on one side and reflective yellow on the other, hundreds of these rotate to black or yellow to spell words or create shapes on scoreboards or highway signs. Glow Cube® pixels are the building blocks you also see on traditional signs ranging from those on professional golf tour events to portable soccer scoreboards.

For the giant programmable video displays, the basic building blocks are thousands of LEDs (light emitting diodes). LED color breakthrough in the 1990s led to today's displays capable of showing 68 billion hues of color—largely replacing tiny incandescent lamps in these displays and using only about 10 percent of the electrical power needed for those lamps. Sophisticated computer programs and video and replay systems make

these screens come to life at an athletic event. Because of the low power usage and high reliability, the LED pixel has replaced the Glow Cube® pixel in most applications.

COMMUNICATIONS AND MANAGEMENT

With the engineering, manufacturing, and marketing departments housed in the same Daktronics building, many questions can be addressed with simple, direct water-cooler conversations. Kurtenbach sees this open communication as a huge competitive advantage for Daktronics.

Dr. Kurtenbach's transition from academics to business was surprisingly easy. To learn how businesses work and succeed, he checked out histories of large U.S. companies from the library. He uses what he calls his "waterboy" approach in managing—meaning that every manager is like a waterboy for the team, necessary but not the star. Kurtenbach developed this leadership style growing up as one of 13 children in a farm family that often involved his doing the essential tasks none of his brothers or sisters wanted to do.

STUDENT JOBS AND ECONOMIC DEVELOPMENT

How did Kurtenbach's original goal of starting a local business to help keep South Dakota State University graduates in the state turn out? Kurtenbach and Daktronics probably get a grade of A+. Not only does the company employ more than 900 full-time people in its Brookings facility, but it also provides more than 450 *paid* internships each year for students—mostly from SDSU. To help Daktronics continue to enhance its cutting-edge technology, SDSU has also responded by enhancing its graphic- and computer-design offerings.

And that $5 per share investment by family and friends in the disastrous Daktronics "biomedical device launch" in 1968? With stock splits, each share is worth about $2,700 today, probably not a drag on Brookings local economic development either.

Questions

1 What are the reasons or appeals that might cause potential customers in the following markets to buy a Daktronics scoreboard, electronics display, or large screen video? (*a*) A Major League Baseball team, (*b*) a high school for its football field, (*c*) a local hardware store, and (*d*) a state highway department.

2 (*a*) Do a SWOT analysis for Daktronics. (*b*) For one entry in each of the four cells in your SWOT table (strengths, weaknesses, opportunities, and threats) suggest an action Daktronics might take to increase revenues.

3 Using Figure 2–4 as a guide, identify an action Daktronics might take to increase sales in each of the four cells: (*a*) current markets, current products; (*b*) current markets, new products; (*c*) new markets, current products; (*d*) new markets, new products.

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 445 stores nationwide offering a 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, breads, and pretzels. Jamba's commitment to healthy products is reflected in its mission statement, "Enriching the daily experience of our customers, our community, and ourselves through the life-nourishing qualities of fruits and vegetables."

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 are designed to meet "heart healthy" FDA requirements. Nutritional supplements called "boosts," such as "energy juice boost," containing ginseng and gingko biloba, and "immunity juice boost," with echinacea and antioxidants, are available and can be added to smoothies. Jamba Juice also recently added a new low-calorie drink, the Enlightened Smoothie, to its menu. Learn more about Jamba at www.jambajuice.com.

As you sit at the counter in a Jamba Juice, you can watch friendly, well-trained 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 and small chains within a city or region are common, although Jamba has several large competitors. New Orleans-based Smoothie King, for example, has 340 locations in 34 states, and Atlanta-based Planet Smoothie has more than 100 stores in 20 states. Other competitors include Juice Stop, Juice It Up!, Surf City Squeeze, and Orange Julius. Jamba Juice 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 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 exceeded $1.2 billion in 2004 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 University of Nevada–Las Vegas, among others. Jamba also has a licensing agreement with Whole Foods Markets, a partner that shares 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 "bartenders" 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.[3]

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 variously blamed Ford and consumers while 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 to compete in the lower-priced subcompact segment. Ford engineers located 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 it 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 it would "save" about $50 million in insurance claims by relocating the gas tank, netting $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 Explorer's design was based on the Ford Bronco, essentially a line of light trucks using the twin I-beam suspension to lift up the vehicle to travel over rough terrain. However, this meant that the center of gravity was higher—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.

Ford developed the Explorer to address a mid-1980s market looking for a rugged vehicle that was primarily image and secondarily performance. 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 were the 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 maintain passenger safety.

Consumer Reports came out with a scathing review of the Bronco II in June 1989, advising 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 and 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 two inches, lowering the engine, lowering the tire pressure, and stiffening the springs. Ford chose the latter two, reducing the recommended tire pressure from 30–35 psi to 26 psi. This produced more road gripping, but it 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 due to 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, who's name means "stone bridge." Bridgestone was proud of its technological leadership—innovations in tire performance and design—as well as its dedication to quality. The Firestone subsidiary was relabeled the Bridgestone/Firestone Company in 1990, with headquarters in Nashville, Tennessee.

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 Goodyears. 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 due to 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, finding that these drivers drove faster, were more likely to drive in bad weather, and followed other vehicles more closely, particularly troubling since 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 due to 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 due to 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 dangerous. 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 hotline 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 with 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 were no data pointing to faults with the Explorer; he insisted 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 driving 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.

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 Ford take to deal with the aftermath of this situation?

CASE D–5 The Jamisons Buy an Espresso Machine

At 4:52 P.M. on Friday, January 28, 2005, Brock and Alisha Jamison bought an espresso machine. 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 first suggested the idea of getting an espresso machine. They do recall that in the summer of 2003 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 Krups espresso machine he had used to cap off the evening. The item was expensive, however, at about $900.

The following summer, Alisha noticed a comparison study of espresso machines in *Gourmet* magazine. 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 espresso machines. In both instances, the Krups brand come out on top.

Later that fall, new models of the Krups were introduced, and a model they liked was selling for $700 in department stores. The Jamisons searched occasionally for Krups 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 2004, the Jamisons traveled from Los Angeles to the family home in Michigan. While there, the Jamisons received a gift of a KitchenAid mixer from Brock's grandmother. Although the mixer was beautiful, Alisha immediately thought how much more elegant and useful an espresso machine 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 Jamisons kept the item.

Back home in Los Angeles in January, Alisha again saw that the Krups was sale-priced at $600 at Sur la Table, one of the major gourmet stores in California. Brock and Alisha visited a branch location on a Saturday afternoon and saw the item. The salesperson, however, was not very knowledgeable about its features and not very helpful on explaining its attributes. The Jamisons left, very disappointed.

Two days later, Alisha called a different location for Sur la Table in a more urban location and talked to Dora Mayeur, a seemingly knowledgeable salesperson whose co-worker, Stephanie Wales, claimed to own and love exactly the model the Jamisons had in mind. Furthermore, Dora said that they did carry KitchenAid 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. That afternoon, Alisha and six-month-old Brock, Jr., rode into town with a friend to meet Brock and make the transaction. After meeting downtown, they drove through uncharacteristic heavy rainy-day traffic to Sur la Table to meet Dora,

whom they liked as much in person as they did on the telephone. Dora conducted a brief review of the types and models available.

There was the Nespresso brand, which used Nescafé coffee capsules, for about $400. There were four varieties of the FrancisFrancis brand, priced between $430 and $720. At the top of the price structure, was the multilingual, Swiss-made Jura brand, priced at $2,200. The Krups that they had coveted was also there, selling at $600, but it was much larger than they thought. In fact, the item was the shape (and seemed to be nearly the size) of the Vienna Opera House.

There was a somewhat smaller, less expensive Krups twin-tower model, and the Jamisons toyed with the idea of buying it, but Dora suggested that the more expensive version was well worth the money. The Jamisons then confirmed their initial decision to take the $600 Krups model and asked Dora about exchanging the KitchenAid mixer they had brought with them. "No problem," said Dora.

After making a quick phone call, Dora returned with bad news. Sur la Table had not carried that particular model of mixer. This model mixer was a single-color model that is usually carried at department stores and catalog sales houses. The one carried by the specialized culinary stores, such as Sur la Table, was a two-tone item. She even offered to allow the Jamisons to use her phone to verify the availability of the item. The Jamisons did exactly that.

Alisha dialed several of the suggested stores, looking for a retailer that carried both the Krups and the KitchenAid 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 one-half mile away. Brock volunteered to brave the elements and return the mixer. He took the shopping shuttle to the store with the still-unopened mixer box under his arm. About an hour later, Brock returned cold and wet, with a refund. Together, the Jamisons bought the Krups espresso machine at 4:52 P.M. and proudly took it home.

Questions

1 Which of the Jamisons decided to buy an espresso machine? The Krups brand?

2 When was the decision to buy made?

3 What were the important attributes in the evaluation of the Krups brand?

4 Would you characterize the Jamisons' purchase decision process as routine problem solving, limited problem solving, or extended problem solving? Why?

CASE D–6 Motetronix Technology: Marketing Smart Dust

"The next 18 months will be critical in getting the word out about our technology and products," says Ajay Gupta, president of Motetronix Technology. "The Dust Storm is on the horizon and companies that capitalize on it early have huge potential."

THE COMPANY AND TECHNOLOGY

Motetronix Technology is a developer and manufacturer of "smart dust," or tiny wireless microelectromechanical sensors that measure temperature, light, and vibration; analyze chemical compounds, including radiation and air quality; and observe surrounding movement. These sensors are powered by AA batteries and controlled by an operating system called Tiny OS. Called *motes* (short for a re*mote* wireless transceiver that both transmits and receives analog or digital signals), these sensors survey the world around them and communicate with each other wirelessly, grapevining down the line until the data get to a personal computer. The "smart dust" name comes from the ultimate goal of making each mote about one cubic millimeter small, or the size of a grain of sand.

SMART DUST APPLICATIONS

Industry analysts are predicting that smart dust will have a host of commercial, military, security, and ecological applications. Along with the Pentagon, the U.S. Department of Homeland Security has already devoted a large portion of its R&D budget to sensor technology for military and security applications. Commercial and ecological applications are still being studied. According to industry analysts, vibration sensors on a factory floor will tell when a machine is about to fail, saving millions of dollars in downtime. Air-pressure sensors on truck tires will prevent accidents and save on fuel. Sensors dropped in a forest fire's path will predict which areas will flame up next. Motes will be able to determine when a building is safe to reenter after an earthquake, monitor the vital signs (and locations) of elderly people, or monitor power consumption of household appliances. A dispersion of motes 10 to 100 feet apart could monitor traffic on a highway or measure moisture levels on farm lands.

Applications for motes are expected to increase with decreasing prices and smaller sizes. In 2005, a single mote was priced in the range of $50 to $100, depending

on level of sophistication and was two cubic millimeters in size (smaller than a piece of glitter). By 2010, the price of a mote is expected to fall to $1 and the size will shrink to one cubic millimeter with advances in silicon and fabrication techniques.

MARKETING SMART DUST

Motetronix Technology executives were sensitive to the fact that promising applications of smart dust had to be tempered by the reality of the marketplace and buyer behavior. Therefore, Ajay Gupta charged his marketing team with the responsibility for reviewing 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 decision and particularly in the vendor-evaluation process. The role played by each person in the buying organization was still unclear to Motetronix. It seemed that engineering management personnel could slow the adoption of smart dust 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 smart dust and could generate interest in the technology if stimulated to do so.

This review of buying behavior led to questions about how to influence an organization's buying process and have its technology used in a company's products or facility. Complicating the discussion was the fact that Motetronix was a comparative unknown in the industry relative to Crossbow Technology and Dust, Inc., two companies that had already commercialized the smart dust technology. In addition, issues still remained related to smart dust reliability, power consumption, and cost/price.

Questions

1 What type of buying situation is involved in the purchase of smart dust, and what will be important buying criteria used by companies considering using smart dust in their products or in their facility?

2 Describe the purchase decision process for adopting smart dust, 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 smart dust in its products or in its facility?

CASE D–7 Callaway Golf: The Global Challenge

Callaway Golf got its start in 1982 when the late Ely R. Callaway invested $400,000 for half interest in a golf club company called Hickory Stick. Callaway-Hickory, later renamed Callaway Golf, had sales of just $22 million in 1990 and was considered a small player as an OEM (original equipment manufacturer) for golf clubs. Callaway Golf made golf history and truly established itself in 1991 with the introduction of a very popular stainless steel driver called the Big Bertha. The Big Bertha driver was soon followed by one of the biggest-selling drivers of all time, the titanium-headed Great Big Bertha. The success of the Big Bertha drivers and fairway woods made Callaway Golf a major player in the golf club business and the oversized titanium driver explosion was on. In 1997, the Biggest Big Bertha was introduced and ahead of its time. This club was so big that many golfers had difficulty making the adjustment to the increased driver head size, and it did not catch on in popularity like the previous Big Bertha products. The Big Bertha name and product line continued with Steelhead, Hawkeye, ERC, C4, and ERC Fusion. By 2003, Callaway sales of drivers, irons, balls, putters, and a very popular line of fairway woods exceeded $814 million, making Callaway Golf one of the big three OEMs in the business of golf.

BUYER BEHAVIOR

Golfers, both pros and amateurs, experiment with drivers, fairway woods, and putters more than other clubs in their golf bags. In fact, many top professionals and amateurs choose to play with their favorite irons for years before changing. Callaway Golf made a cunning decision to enter the club market the way it did in the late 1980s and early 1990s. By introducing drivers and uniquely designed fairway woods, clubs that players often change in the constant quest for distance and accuracy, Callaway Golf quickly became a name and force in the golf club equipment business.

THE GLOBAL GOLF MARKET

The golf industry has a broad and diverse global market. The game is extremely popular around the world. The game and the rules are essentially the same everywhere. Golfers share similar characteristics and interests—a beginning golfer or an avid golfer in the United States is not much different from a beginning golfer or an avid golfer in Australia or Germany.

The professional golf tours have done much to make golf a global sport. Golf enthusiasts from around the world can follow their sport and stars through televised tournaments, daily newspaper coverage, weekly golf journals, monthly golf magazines, and Internet websites. Golf-related websites are among the most popular sites on the Internet. And the Golf Channel on cable television continues to be a strong venue for direct product marketing as well as international event coverage. Golf is truly a global sport. Courses and competitions exist 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. Golfers at all levels share ideas and experiences from the game.

There are differences among global golf markets. Japanese golfers seek out technology and products to compensate for their smaller average stature. Savvy golf equipment manufacturers have developed clubs specifically for the Japanese market with different head shapes, weight, lie angle, and shafts adjusted for the average Japanese golfer's height. And the long or distance ball is very popular. In the United States, distance balls are inexpensive and fairly low-tech. In Japan, distance balls are a premium product, selling for as much as 700 yen, or $70 per dozen. While many U.S. golfers, regardless of ability, seek out the equipment used by professional golfers, Japanese golfers often think they are "not worthy" to use top-caliber equipment.

"In the United States, we talk about the pyramid of influence and how the best players dictate what everyone else wants to buy," says Maki Shinoda of Nike. "But in Japan, you basically need to flip the pyramid upside down." This creates an interesting challenge for golf equipment manufacturers: Technology sells, but what is the best way to position the product for the market so that it does not appear to be "too professional"?

COMPETITION

The golf equipment business is very competitive. Many merchants exist, and the field is constantly changing with new start-ups, mergers, and acquisitions. Major equipment manufacturers include Titleist, TaylorMade, Callaway, and Ping. Adams, Cleveland, Wilson, Mizuno, Nike, and others also compete for a slice of the $4 billion worldwide golf equipment market. Adams Golf has had recent success with product launches, capturing market share in the driver and fairway wood specialty club market. Offering unique technological innovations and premium products, Adams is an example of a company that - followed a strategy similar to Callaway. Other well-established club manufacturers have followed Callaway's "bigger is better" philosophy when it comes to the marketing and manufacturing of popular drivers. Cleveland, TaylorMade, Titlest, Ping, and Adams have all designed oversized drivers that have, at one time or another, been the rage with amateurs and professionals around the world. In many respects, today's design and engineering for drivers has been a contest of who can make the longest-driving and most forgiving club that technology and the rules of golf allow. Premium clubs today not only offer technological innovation, forgiveness, power, distance, and accuracy, but they are also pushing the laws of physics and the rules of golf.

CALLAWAY'S INTERNATIONAL MARKETING

For Callaway Golf, the global market is a very big part of its total market for clubs, with about 40 percent of all sales coming from golfers in countries outside of the United States. The severe economic downturn in Japan hit Callaway and other manufacturers hard. Club sales in Japan dropped to 8.2 million in 2003, down from 22 million in 1990. Callaway's first quarter 2004 sales fell behind 2003 quarterly sales in Japan and other Asian countries, though gains were registered in Europe and other non-Asian countries. Still, uncertain economic conditions globally has meant fewer rounds played and, for the most part, relatively little growth in course development and equipment sales. With many avid golfers tempted by new technology and improved products, others choose to forgo new club purchases during periods of tough economic times.

ISSUES

In sports, it is often said that getting to the top is easier than staying there. Callaway Golf is faced with the burdensome task of sustaining its phenomenal growth and market share against competitors in hot pursuit. Fast followers like Adams Golf and others have developed and discounted products that cut into Callaway's mainstay, the driver and fairway wood, or specialty club market. Other big players in the equipment business are also after Callaway's market share and may pose a greater threat to Callaway's long-term success. These companies, including Titleist, TaylorMade, and Ping, are large and strong enough to survive any market slump. They also have the resources to buy up smaller successful companies and the technology to provide popular products.

Technology does drive the industry. In 2004, Adidas-Soloman A.G. (TaylorMade) released a driver with technological innovation unlike any other on the market. TaylorMade's new driver, the r7 Quad, introduced a unique interchangeable weighting system that allows golfers to customize their driver for different course conditions and desired ball flight. International players Sergio Garcia (Spain) and Retief Goosen (South Africa) used TaylorMade's new r7 Quad in early-season victories. Goosen's victory at the 2004 U.S. Open, at the height of the hype of the r7 launch, hit the market like a tidal wave. Callaway and others were left swimming for higher ground as discounting and dumping has changed the market share landscape. Callaway has often resisted discounting its premium product line. Even the success of international LPGA tour star Annika Sorenstam (Sweden), number one in the world, using the innovative carbon composite titanium fusion technology of the ERC Fusion driver and a bag full of Callaway clubs has not helped Callaway win back declining market share in the competitive club market.

Golf's ruling bodies—the United States Golf Association (USGA) in North America and the Royal and Ancient Golf Club of St. Andrews (R&A)—have agreed on limits for driver head size and coefficient of restitution (COR). Adams and Cleveland Golf have recently marketed legal clubs that test right on the limits for head size (460 cc) and COR (.830). Other manufacturers have also released products that have larger head sizes than Callaway products, and thus Callaway has had difficulty competing in the marketplace it once dominated.

The newest and potentially biggest golf market, China, is now emerging, as golf becomes a popular choice for its increasing population of young professionals. Although there are currently only about 1 million Chinese golfers, about 0.1 percent of the population, an annual growth rate of 25 percent is forecast over the next five years. The key to future global growth for the golf equipment industry may be in the budding Chinese market or the growing Indian market, also expected to grow at the same healthy rate as the Chinese market.

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 feel 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 it attempts to increase its international market share, especially in the Chinese market?

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 13 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 over $180 million in 2003.

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.

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

We've all heard about them—most of us have even seen one. But the odds are that what we've seen on the highway is not the original Hummer or Humvee. The first Hummers were designed for the U.S. Army as a jeep. Constructed of corrosion-proof aircraft aluminum, a chassis made of massive, hollow girders, with hundreds of rivets covering the exterior and interior surface, the original Hummer was a whopping 6 feet 3 inches in height, 15 feet 4 inches long, had giant front tires that were twice the diameter of a passenger car, was capable of splashing through water 30 feet deep, climbing 45-degree inclines, hills, and mountains, and was virtually unstoppable. But let's face it—most consumers do not require this sort of automotive performance.

HISTORY OF THE HUMMER

AM General entered competition for the development of a High Mobility Multi-Purpose Wheeled Vehicle (HMMWV) to meet the demanding standards of the U.S. Army in 1979. At that time, the U.S. Army created a list of objectives for its new 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 two-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 was awarded an initial production contract of 55,000 vehicles over a five-year period.

Since production began in 1983, AM General has sold more than 170,000 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 with its 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

Arnold Schwarzenegger is reportedly responsible for the consumer version of the Hummer. Shortly after the first Gulf War began, AM General's president received a call from Schwarzenegger expressing interest in buying a Hummer, which eventually spurred development of the first consumer Hummer models.

In December 1999, AM General granted General Motors exclusive worldwide rights to the Hummer brand name as well as all rights to market and distribute the Hummer. The original civilian Hummer was renamed the Hummer H1. H1 sales are about 900 units annually. Today, GM markets the H1, H2, and H2SUT (a pickup version) and is planning to launch the H3 in 2006. AM General continues to manufacture the various military and civilian Hummer models, although newer models, such as the H2, are produced to GM designs and produced by AM General as a contract manufacturer. For example, the H2 is built on a GM Suburban frame.

Consumer prices range from $117,508 for the H1 wagon to the lowest-priced base model H2 that lists for $51,800. Standard equipment on the H2 includes all-wheel drive, ABS 17-inch wheels, heated leather front and second-row seats, power steering, automatic transmission, air conditioning, and a class III trailer hitch with towing capacity of 7,000 lbs. However, even the largest Hummer has limited space. A JD Power and Associates survey of owners complained of scarce passenger and cargo space, cheap workmanship inside, and poor rear-window visibility. And *Consumer Guide* gives the Hummer H1 and H2 low scores in the full-size and luxury SUV categories, respectively. GM plans to make future models more practical, sprucing up interiors and introducing the H3 with a five-cylinder engine that will be more fuel efficient.

What about gas mileage? Dealers say that the military-style vehicle gets 8 to 10 miles per gallon. General Motors states that the Hummer H2 averages 10 to 13 miles per gallon. This compares with 14 to 19 mpg for the Ford Expedition and 13 to 17 mpg for the Chevy Suburban. As one Southern California Hummer dealer put it, "You got a vehicle that weighs 6,500 lbs. and has the aerodynamics of a brick. Fuel economy is not going to be at the top of what it excels at." In fact, gas mileage figures are not posted on Hummer window stickers because the vehicle is so heavy that it is exempt from mileage reporting requirements.

What is the profile of the typical Hummer customer? GM reports that the average H2 buyer is 41, 73 percent are male, 12 percent are Hispanic, and 9 percent African

American. Most buyers have at least two other vehicles. Entrepreneurs (44 percent) and self-employed (50 percent) individuals, 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. The Hummer H1 targets a different customer than the H2. The competition for an H1 purchase would include a second home or a big boat.

CHALLENGES

During the summer of 2003, the Hummer H2 was a hot commodity, with buyers willing to pay $10,000 premiums over sticker price and waiting months to take delivery on the vehicles. However, by October 2003, GM was cutting production following five straight months of sales declines. On track to sell 40,000 H2 vehicles in 2004, it now looks as though GM will move just 30,000 units, and inventories have risen to 68 days, about average for the industry but triple what dealers carried in 2003. And the Hummer is not alone. Sales of low-mileage sport utility vehicles such as the Cadillac Escalade dropped 17 percent; the Ford Expedition dropped 33 percent from same month 2003 levels.

With increasing concerns about gas prices and instability in big oil-producing regions such as the Middle East, the popularity of gas-guzzling vehicles is in question. A spokesperson for the Sierra Club put it this way, "The Hummer is the best friend that Exxon ever had." The Union of Concerned Scientists has criticized the automobile industry for not boosting SUV gas mileage when it has existing technology to do so. Reputedly, the Hummer could be made twice as fuel efficient if GM equipped it with better technology.

In addition, there is a social backlash to SUVs ("selfish urban vehicles") along with the popularity of new, fuel-efficient and very quiet hybrid vehicles as well as a cultural shift about what is cool. The Hummer buyer is the polar opposite of the kind of customer who buys a Toyota Prius, and both are on the margins of U.S. automobile consumers at present. Don't expect to see the kind of customer who has a love affair with SUV performance and its intangible benefits suddenly become a customer who is concerned about the environment and gas mileage.

Questions

1 What types of market segments exist for the Hummer (*a*) in the consumer market and (*b*) in the business-to-business market?

2 What are the pros and cons of the market segments that you identified above? Which market segments should General Motors target given the fall off in demand from the government segment and possibly in some consumer segments?

3 How would GM'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 Business. "Ninety-seven percent of Medtronic's products were being sold to 27 percent of the world. I'd read books on China and *BusinessWeek* 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 supporting 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.*

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-eluding 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.

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."

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*) points 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. How does the decision relate to these Medtronic stakeholders: (*a*) shareholders of Medtronic stock, (*b*) Medtronic employees, and (*c*) Chinese patients?

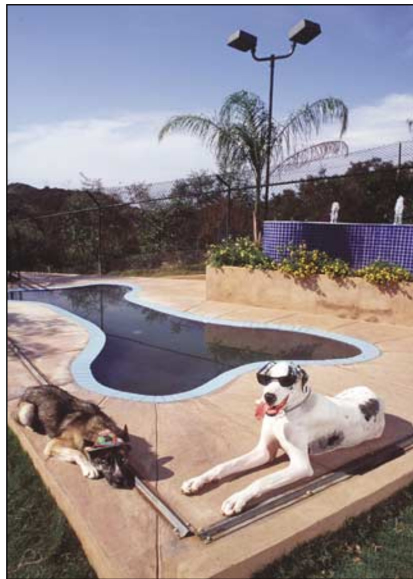
5 Medtronic chose to design and build a new low-priced, highly reliable, reduced-feature heart pacemaker in its Shanghai plant. What are the strengths and weaknesses of this decision from (*a*) a marketing viewpoint and (*b*) an ethical viewpoint?

CASE D–11 Pampered Pooches Travel in Style

Can nothing be too good for man's best friend? Pampered pets can dine on Omaha Steaks' Steak Treats for Pets, 100 percent beefsteak with no additives and preservatives and then finish off with a Frosty Paws soy-based "ice cream" treat for dessert. Fido can recline on a decadent burgundy Versaille loveseat for $285 from Awesome Pet Products while wearing a faux mink coat and rhinestone tiara. If that weren't enough, burgeoning pet services include massage, chiropractic, and even liposuction.

The American Pet Products Marketing Association estimated that $31 billion was spent on pets in 2003, half of that on food. About 62 percent of all U.S. households now own a pet.

Who are these pampered pets? And perhaps more important, who are their owners? There are 77 million cats and 65 million dogs in the United States. Pampered pets are often surrogate children for empty nesters and childless-by-choice couples. In fact, the majority of pet owners (83 percent) consider themselves "mom" or "dad" to their pets. Pets are also considered companions and friends.



American Demographics breaks down pet owners into four key segments: married boomers with no kids, singles/divorced boomer women, young couples with no kids, and seniors. Married boomers without kids are 27 percent more likely than the average American to have a pet and 30 percent more likely than the average American to have more than one pet. More than half (52 percent) of 35–45 married couples without children have a pet; 31 percent have two or more. This segment also spends more money on pets than married couples with children. Among the singles/divorced boomer women segment, 45 percent own a pet. This group is 18 percent more likely than the average American to own a cat.

Young couples with no kids spend more per year on their pets than any other segment. Of young couples with no kids, 52 percent own a pet and 33 percent are more likely than the average American to own more than one pet.

Among seniors, 39 percent of those 55–64 years of age own a pet, and 25 percent of those over 65 own a pet. Seniors are expected to be the group with the fastest expected rate of growth in pet ownership.

Owners of pampered pooches are likely subscribers to such lifestyle magazines as *Animal Fair, Dog Fancy, Modern Dog,* and *The Bark,* a Berkeley, California–area newsletter started to fight for a leash-free park that has evolved into the *New Yorker* for dog enthusiasts.

One of the hottest parts of the pet market right now is pet travel. Most of these traveling pets are dogs. A 2002 study by the American Pet Products Manufacturers Association found that 16 percent of dog owners travel with their pets, whereas only 2 percent of cat owners do so. The American Animal Hospital Association puts this figure much higher on the basis of a 2001 study that estimated that 68 percent of pets traveled with their pets, a figure more consistent with estimates by specialty pet lifestyle publications. However, readers of pet lifestyle publications are more likely to travel with their pets than pet owners generally.

Websites devoted to identifying pet-friendly accommodations such as pettravel.com and petsonthego.com and books such as AAA's *Traveling with Your Pet* are very popular as devoted pet owners make travel plans.

Traditional hotel and motel companies are increasingly catering to pet owners. Some Hotels and Resorts Worldwide locations (Sheraton, Westin, and W Hotels) offer oversized pet pillows, plush doggie robes, and check-in gift packages that include a pet toy, dog treat, ID tag, bone, and turn-down treat; they even have a licensed dog masseuse on staff. Upscale hotels are more likely to cater to pets and their owners. The Peninsula Chicago has a "pets only" room service menu. At the Beverly Hills Hotel, canine guests get inscribed water bowls, among other amenities.

Pet-products companies are expanding their offerings to move into the pet hospitality area. For example, PetsMart is opening up PetsHotels next to its stores. Starting at $21, PetsHotels provides a private kennel, two walks per day, and supervised playroom time. For a $10 "room" upgrade, you can provide your pet with a television set tuned to the Animal Planet.

Kennels can rival four-star hotels—pet aerobics, manicures, swim lessons—and even conventional kennels have added more upscale services. In fact, kennels have restyled themselves as pet country clubs, pet resorts, or pet care centers. Jim Krack, executive director of the American Boarding Kennel Association, put it this way: "A dog doesn't really care if he's in a place with cement walls or one with wallpaper and a brass bed, but owners

today expect the same type of accommodations and services they can get for themselves."

Consider the 31-year-old woman who had her 7-year-old black lab, Daisy, as bridesmaid at her wedding. Then, while the newlyweds were on their honeymoon in Italy, Daisy spent two weeks at the luxurious Paradise Ranch Country Club for Dogs in Sun Valley California at $45 per night. For this bride, nothing is too good for her best friend.

Questions

1 What product attributes and benefits could an upscale hotel provide a pet owner? Are these the same product attributes and benefits provided by an upscale kennel?

2 What strategy would a company like Petco be pursuing by entering the pet hotel market? What strategy would a company like Marriott be pursuing by entering the pet hotel market?

3 What are the pros and cons of (*a*) a multiproduct branding strategy and (*b*) a multibranding strategy in the pet hospitality industry for companies such as (*i*) Petco and (*ii*) Marriott?

4 In what stage of the product life cycle is the pet hospitality industry? An offering such as PetsMart's PetsHotels? Explain and support your answers.

CASE D–12 DigitalThink: Marketing E-Learning Services

"In 1996, two colleagues and I started discussing the possibilities that the Internet was opening up for corporate training," said Umberto Milletti, vice president of marketing and solutions management at DigitalThink. "We realized that we could harness the power of the same technologies that had revolutionized other parts of the business world to help organizations better disseminate skills and knowledge to their people."

Milletti's observation was very insightful. Over the last several decades, computer technology and, more recently, the Internet have changed the way that companies around the world do business. Increasingly powerful computers and software applications help employees work more productively; processes that once were laborious and manual are lightning fast; and geographically dispersed people can communicate and collaborate in cyberspace faster than ever before.

DigitalThink, a company that has grown from 3 employees to more than 400, and was recently ranked twenty-second among the 500 fastest-growing technology companies, is at the forefront of a revolution in corporate training and education services. DigitalThink and other e-learning companies are supplementing, and occasionally replacing, traditional classroom-based training in much of the business world. The effectiveness of e-learning is causing many firms to reconsider their methods of providing training and education to employees, partners, and customers.

MARKET OPPORTUNITIES

Large companies with many locations and dispersed workforces, such as car rental agencies, hotels, airlines, retail stores, banks, and consulting firms, need to train thousands of employees frequently throughout the year. In the past, employees would gather in central locations for training courses that could last anywhere from a few days to one month. This approach to training and education was very costly and time consuming, and its effectiveness was influenced by inconsistencies in the capabilities of the trainers and the difficulty of requiring the trainers and the students to be in the same location. Using technology-based instruction saves the company time and money by increasing the reliability and effectiveness of the service and by putting the learner in control of the location and the pace of the learning experience. DigitalThink is leading the e-learning movement. Its methods have been shown to compress training time by as much as 50 percent and reduce the cost of development, maintenance, and delivery by 64 percent. A recent study reported that the global market for e-learning has grown at a 100 percent annual growth rate to $33.6 billion in 2005.

HOW DOES DIGITALTHINK ACHIEVE THESE MIRACULOUS RESULTS?

DigitalThink e-learning is tied directly to tangible outcomes. Courses are designed to develop the specific knowledge and skills that employees or salespeople need to do their jobs and to give them the opportunity to test their knowledge and apply what they've learned with a real-world situation or problem that they might encounter on the job. "Learning is most effective when students practice and demonstrate performance in a way that closely matches the performance expected of them," explains Shelly Berkowitz, manager of instructional design at DigitalThink. "We design relevant, realistic practice and assessment activities that require students to solve problems that are as complex as those they encounter in actual work situations."

Trainees can go through the courses at their own pace, allowing people to take as much or as little time as they need. Advanced students can skip over material that they already know and go directly to the exercise or assessment section to test their mastery of the material. DigitalThink e-learning can also be delivered to the learner through different media: on a CD, via a company intranet, or through a browser on the Internet. The Web-based versions of DigitalThink's training courses are the most popular—these allow companies to update and maintain the training program very easily and cost effectively as well as to reach all their employees smoothly and quickly.

THE MARKET

DigitalThink sees its target market as the Global 2000 companies, the largest corporations in the United States and around the world. These companies have the critical mass needed to justify large training programs, as well as continued need for training and retraining. Within these companies, key decision makers with large staffs might include the director of a call center, the vice president of sales, or the chief information officer. Hardware and software manufacturers, travel and leisure companies, major retailers, and other organizations that have typically been dependent on massive instructor-led training efforts are key markets where DigitalThink has had success selling its e-learning products and services. In fact, DigitalThink's current customers include 31 of the Fortune 100 companies and 450 organizations in 158 countries. Specific customer needs vary from ready-made courseware, to custom course development, to comprehensive learning management systems that include virtual classrooms, content management systems, and consulting services.

CUSTOMER EXAMPLES

DigitalThink developed a customized training program for an international airline's baggage and reservations departments. This airline is very geographically dispersed, so it did not make sense for it to constantly transport new employees to a central location for training. Also, with the large number of people performing these jobs, the training needs are almost constant. The content of the training is very process oriented, which is one of the best applications for e-learning. The airline and its employees have been pleased with its decision to transition its training program to a technology-based system.

Circuit City is another of DigitalThink's prominent customers. "The e-learning program that we provide to Circuit City is centered around customer service, products that the sales counselors sell, general sales skills, and managerial skills," explains Milletti. DigitalThink has helped Circuit City create more effective, interactive training for its 40,000 associates and managers, which has helped the company realize more than $100 million in cost savings. And the retailer expects to see continued improvement in customer satisfaction and sales.

Questions

1 What are (*a*) the advantages and (*b*) the disadvantages of DigitalThink's technology-based instruction over conventional classroom-based educational services?

2 Given your answer to question 1 above, (*a*) what are the key criteria DigitalThink should use in identifying prospective customers for its service, (*b*) what market segments meet your criteria, and (*c*) what are possible sales objections these segments might have that you have to address?

3 Suppose a large international hotel chain asks DigitalThink to make a proposal to train its thousands of front-desk clerks and receptionists. (*a*) How would you design an e-learning program to train them how to check in a customer? (*b*) How can DigitalThink demonstrate the points of difference or benefits to the hotel chain of its technology-based instruction to obtain a contract to design an e-learning program?

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."

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 Little Remedies® Brand: Vetco, Inc.—The Bad News E-mail

Matt Kornberg was a small-business owner with one very large problem—or more precisely—a *very,* very large problem!

As he read the e-mail from one of his best customers and one of the largest discount retail chains in the United States, the news was not good. Two of his best-selling items were on a new list of "discontinued items." In this one brief e-mail, the retailer's digestive-products buyer had just eliminated over $450,000 of his company's annual sales!

Why the sudden decision? This retailer was making room for 45 facings of a new over-the-counter (OTC) anti-gas medicine that was recently "switched" from prescription status. In fact, eight other manufacturers had just received the same bad news from the same retailer: "We need the shelf space and there's just no room left to keep your products in our store."

THE IDEA, THE COMPANY, AND THE MARKET

When Kornberg was a young pharmacist working in Long Island, New York, he was asked many questions by his customers; but a few began to stick out. Frequently, new mothers would ask for saline nasal spray, "because my pediatrician told me to use it for my new baby's stuffy nose." "But I can't seem to find it." "What section of the store is it in?" "Is this the saline that I should buy?" In fact, new mothers were such constant questioners, that Matt kept a small supply of saline right behind the counter.

Saline was a simple product, really just purified salt water. For newborns, saline nasal spray would gently moisten irritated nostrils, promote congestion relief, and help remove nasal mucus. And since most pediatricians avoided prescribing or recommending stronger decongestants for infant stuffy noses, saline was clearly the product of choice. The problem was that most saline was packaged in generic looking bottles, and often without an outer carton. Also, package markings were not "mom-friendly." As a result, it was difficult to find the product on the shelf—and once a mom did find it, she was unsure if this was the product her pediatrician had recommended.

That's how "*Little Noses*® Saline" was born, which led Kornberg to start his Little Remedies® Company and a whole line of Little Remedies® products. Today there are over 10 different Little Remedies products for infants and children—all of them designed to help mothers (and their kids) with the common ailments of early childhood. Over the years, the brand has distinguished itself by featuring products that contain no unnecessary additives, no artificial coloring dyes, and no artificial flavorings. As shown by the ad on this page, the packaging on the Little Remedies products is attention-getting on a retailer's shelf.

Kornberg may not have known it at the time, but he had a great idea. The pediatric health market was growing, and interest in "natural" products was on the rise—especially from pregnant women. A little research into census data showed that the numbers involved were impressive:

- 4,000,000 babies are born in the United States each year.
- There are 14,000,000 mothers with children 6 years old and under in the United States.

So the market for children's remedies products was huge.

DISTRIBUTION AND PRICING

OTC health products are commonly carried in drug, grocery, and mass-merchant retail stores. OTC products are usually merchandized in "sections" to make it easy for customers to shop and find items quickly and efficiently. Little Remedies items are located in the Nasal, Cough/Cold, and Digestive sections of these stores.

Gaining distribution in large retail chains is no easy process—especially for a small company. Getting a retailer to carry a manufacturer's product can often involve "slotting fees, advertising allowances, and promotion allowances." In today's expensive marketplace, that can mean as much as $30,000 per item with no guarantee that the product will stay on the shelf for any length of time! And once products are approved and actually placed on store shelves, many marketing factors will contribute to their ultimate sales velocity. For Little Remedies products, these factors include packaging, pricing, advertising support, physician referral, pharmacist referral, and promotion.

Pricing strategies for OTC health products like Little Remedies are built around several issues:

- Typical manufacturing margins for the company (and within the industry).
- Typical retail margins for products in certain "sections" within the store.
- Retail shelf price of competitive category participants (#1-branded products; secondary branded products; private-label products).

Matt Kornberg's overall strategy was to position the Little Remedies line as a "secondary value brand." This meant that the Little Remedies product would be priced less than the #1-branded product, but more than the store's private-label product. In addition, the goal was always to provide "value" through superior product formulation (no unnecessary additives, no artificial coloring or flavoring). Finally, where possible and affordable, the goal was to supply more product—for example, double the ounces per bottle.

THE PROBLEM AND YOUR CONSULTING TASK

Kornberg's two products (*Little Tummys*® Gas Relief Drops and *Little Tummys*® Laxative Drops) each have a good sales history with the retailer. The Gas Relief drops are priced in-between the more expensive #1-branded pediatric gas product and the retailer's own private-label pediatric gas product. As a result, many moms find *Little Tummys*® Gas Relief

Drops to be a "good value"—better than private label, and just as good as the #1 brand. And Kornberg is proud of *Little Tummys*® Laxative Drops because they are a unique item in the digestive set: His is the only product available at this retailer for moms with constipated infants and children. Shelf facings of these two Little Remedies products side-by-side will look like the photo on this page.

But what can Kornberg do with this bad news e-mail? How can he get this buyer to change his mind? There is no arguing that the retailer needs the space. And plenty of other manufacturers have quality medicines that are being discontinued. What can he possibly say that will get his items reinstated?

As a consultant to Kornberg and Little Remedies, you need to analyze the situation with the actual data. But you don't have the actual competitive brand names for legal reasons.

The discount retailer that sent the e-mail had reduced the pediatric gas section to just four packages: the #1 brand of pediatric gas relief in 1 ounce and ½ ounce sizes and two facings of its own private-label retail brand (both 1 ounce sizes). The prior year, there had been just one facing of private-label gas relief product. You'll need to assume that shelf space is limited in width to just four packages of shelf facings.

You must also assume that the discount retailer's buyer would *not* totally discontinue the #1 brand or its own private label. Any new scenario you create should assume that there would be at least one package of the #1 brand and one package of private label among the four shelf facings.

Some possible Shelf Set Scenarios (SSS) you might propose include (a) adding back only *Little Tummys*® Gas Relief Drops or (b) adding back both *Little Tummys*® Gas Relief Drops and *Little Tummys*® Laxative Drops—the latter because the discount retailer has neither a #1 laxative drop or its own private-label laxative drop.

Create a compelling selling story for the retailer's digestive buyer that results in reinstatement of at least one of the discontinued items. Your selling story should include a new SSS with rationale for why your proposed new SSS is better than the one currently planned by the buyer.

Questions

1 What is the retailer's goal for the shelf space (*a*) for this year and (*b*) for the longer term?

2 What is Little Remedies' goal for the shelf space?

3 Identify (*a*) the two most logical Shelf Set Scenarios that include Little Remedies products, (*b*) the corresponding estimated annual profit for the retailer for each, and (*c*) the estimated annual profit for the retailer from its planned SSS.

4 What impact do the Shelf Set Scenarios have on the consumer (a mother buying these products for her children)?

5 Should the buyer for the discount retail chain add back one or both of the Little Remedies products on the chain's shelves? Why or why not?

PRODUCT	SIZE	RETAILER'S COST	RETAIL PRICE	RETAILER PROFIT PER PACKAGE	RETAILER'S PROFIT MARGIN†	12-WEEK ACTUAL UNIT SALES	52-WEEK ESTIMATED UNIT SALES	RETAILER'S ESTIMATED ANNUAL PROFIT
#1 Brand Anti-gas Drops	1 oz	$8.25	$10.90			20,924		
#1 Brand Anti-gas Drops	1/2 oz	$5.25	$6.48			12,187		
Retailer Private-Label Anti-gas Drops*	1 oz	$1.00	$3.68			35,965		
Retailer Private-Label Anti-gas Drops**	1 oz	$1.00	$3.68					
Little Tummys® Gas Relief Drops	1 oz	$4.60	$6.38			17,966		
Little Tummys® Laxative Drops	1 oz	$3.73	$6.43			5,821		

*First Shelf Facing
**Second Shelf Facing (Assume incremental facing increases sales by 10%)
†On Retail Price

CASE D–15 Fastenal Company: Bringing Retail Principles to the Wholesale Market

HOW IT ALL BEGAN

The first Fastenal store opened in 1967 in Winona, Minnesota, home town of the company founder and chairman of the board, Bob Kierlin. "We chose the name to indicate our company goal of being a one-stop location for all of a person's threaded fastener needs," said Kierlin. (Threaded fasteners include the wide variety of screws, bolts, and related types of products sold to industrial as opposed to individual homeowner customers.)

"By the end of our first full year of business, we offered roughly 1,000 different items in stock, but most customer inquiries came for items we did not stock for sale. Our first full-year sales were approximately $18,000. We had one delivery vehicle, a 1960 Cadillac with great big tailfins," said Kierlin with a grin.

"It took a while for us to hit our stride, but once we did we grew into a pretty big business," said Kierlin, a humble and unassuming person who is also a master of the understatement. As evidence, consider the following facts and figures that describe Fastenal Company today. What was once a single location company has grown to more than 1,400 store locations, and Fastenal is the largest wholesale fastener distributor in North America. This year, Fastenal's sales will exceed $1 billon, with about 55 percent of sales coming from the threaded fasteners product lines. Furthermore, with its expansion of related industrial and construction product lines, it has become one of the fastest-growing full-line distributors of industrial supply products in North America. Fastenal carries products in 10 broad industrial product categories, including power tools, hydraulic hoses, janitorial supplies, and safety products.

In addition, the company provides support services to complement many of its product lines. For example, if a contractor needs a special length or configuration for a hydraulic hose, they can be custom made by the company's crimping division. Fastenal also provides on-site repair of the power tools it sells and offers its customers centralized power tool rehabilitation and overhaul service. It also provides a form of fastener-usage consulting service for customers as well. It recently worked with a manufacturer of soda-dispensing equipment and was able to provide assistance in the design phase, eventually cutting the cost of fasteners by nearly 35 percent.

FASTENAL COMPANY OPERATIONS

On a typical day, 140 company-owned trucks and trailers are on the road delivering inventory throughout the company's network, which includes 12 regional hubs located throughout North America. As a general rule, each of the 1,400 stores is supplied by a hub located within 350 miles of the store, but each store has access to any item in the systemwide $250 million inventory on a next-day-delivery basis.

Fastenal currently sells more than 212,000 different threaded fasteners and an additional 236,000 other industrial products and supplies. Individual products within product categories are referred to as stock keeping units, or SKUs. These products are sold to customers in three different markets: the construction market, maintenance repair and operations (MRO) market, and original equipment manufacturer's (OEM) market. Customers in the first two markets either stop by one of the company's stores to make a typical retail type purchase or they are called on by a store outside salesperson, via telephone or an on-site visit. Customers in the OEM market are typically dealt with directly by one of the company's key account sales and support people.

Fastenal also has a number of stores on site for larger customers in each of its three customer categories. For example, "whenever a customer in the construction market has a project over $200 million in size we will install a vendor-managed inventory on site so that project critical supplies will be available when needed," said Fastenal president and CEO Will Oberton.

THE CHALLENGES

"We are in the final stages of completing our branch store conversion project called CSP for customer service project. The remodeled stores will display a selection of our products in a more traditional retail configuration," said Oberton. "This has changed our store site selection process as we are trying to generate more store traffic and drive-by business. As a result of the new site selection process and retail store conversion we may get some nontraditional walk-in customers as well."

How do you manage a business that sells more than 440,000 individual items in 10 broad product categories to a wide variety of buyers, each having a wide range of buying requirements? As Oberton explained,

> You certainly don't try to use a centralized planning approach; instead, decision making is done at the individual store manager level as they know their customers and their customers' needs best. Our store managers actually run their own business. Our goal companywide is to decentralize decision making and put the store manager in charge of everyday decisions involving how to deal with an individual customer. We also expect the store manager to make strategic decisions that affect store operations. Companywide, all stores carry what we call our core offerings, and it is the store manager's job to stock those additional products that their specific customers need. It is the store manager's responsibility to stock those things their customers need in a time critical setting as opposed to what the customer can wait and have brought in from another part of our distribution network. Our motto is "growth through customer service," and our branch managers are the face of Fastenal to our customers and they play a big role in allowing us to continue to grow.

Questions

1 What are the significant marketing and sales opportunities available to Fastenal Company given that it has 1,400 stores located throughout North America? In contrast, Fastenal's major national competitors have stores only in major metropolitan areas and as a result it uses its Internet and catalog divisions to provide sales to customers who are not able to visit its stores in person.

2 Describe three specific things that Fastenal has done to respond to the unique buying requirements of the customers in its three markets.

3 A homeowner who plans to work on a weekend home improvement project comes to the counter late Friday afternoon after spending some time looking at the product displays and asks the store manager the following question—"I have been looking at your cordless drills and I was wondering why all of your drills are so much more expensive [her exact words] than any of the drills I saw advertised in a recent Home Depot ad in the newspaper?" What do you think the store manager should say in response to her question?

CASE D–16 Dell Inc.: A Leader in Supply Chain Management

Dell is the largest direct seller of computers in the world and one of the top global PC manufacturers. Dell had more than $41.4 billion in sales in 2004, a 17.1 percent annual increase in sales. It offers desktops, notebooks, network servers, peripherals, and software. Recently, Dell has added consumer electronics, including digital music players and LCD television/computer monitors. More than 90 percent of Dell's sales are to businesses and governmental customers. The company's success is attributed in large part to its effective use of supply chain management.

Supply chain management is what it's all about at Dell. Dell has closely aligned its suppliers with its direct channel strategy, resulting in dramatic improvements in inventory management and control. Inventories are kept at ultra-low levels, one-tenth that of its competitors. A typical Dell factory runs with about five or six hours worth of inventory on hand. This is important in an industry where component costs can decline 30 to 35 percent per year, which helps Dell take advantage of lower anticipated inventory costs in the future as well as minimizing the risk of holding obsolete parts in inventory. In addition, Dell has a very favorable cash conversion cycle. This means that Dell gets paid faster than it pays out to vendors.

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 a supplier to receiving that order in a Dell manufacturing facility. Dell communicates with its suppliers and supply chain partners through "Platinum Supplier" web pages. These pages provide each vendor with information on Dell's forecasted demand for the vendor's products, share production schedules, and allow for e-mail communication to make adjustments and changes.

The Dell website (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. More than 50,000 business customers use the Dell online purchasing and information portal.

Since 1996, Dell has provided its top corporate customers its "Premier Pages" program. Beyond mere customer service or e-commerce, the Dell Premier Page empowers organizations to take control. The Dell Premier Page is a website that is personalized specifically for your company and will include a customized online computer store where you can configure your system; the prices you see are the prenegotiated contract prices already agreed with your organization. You will know instantly what the system will cost, and you can place your order online.

Dell integrates all its electronic commerce and communication systems. It 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 based on 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 that gives Dell an edge in the marketplace.

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 offered not only shoes but also 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 149 U.S. stores in 27 states, including 93 full-line fashion specialty stores, 49 Nordstrom Rack stores, as well as more than 31 international boutiques and stores. Nordstrom also has an online shopping presence (www.nordstrom.com) to offer additional convenience to current and new customers. 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 2005 and 2006 are those in Atlanta, Georgia (Phipps Plaza), Dallas, Texas (NorthPark Center), San Antonio, Texas (The Shops at La Cantera), and Palm Beach Gardens, Florida (The Gardens Mall). 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, or 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 customers 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. Nordstrom's June 2004 preliminary year-to-date sales were estimated at $2.7 billion, up 13.5 percent. Year-to-date same store sales were up 10.5 percent during this same period compared to 2003.

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 recognizes 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, Nieman Marcus, and Saks are primary competitors. Department store competitors and specialty store competitors vary depending on the particular market and geographic location since 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.

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 more than 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. Consider that in its first 11 years of operations in Russia, McDonald's has served:

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

McDonald's currently has over 100 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. More than 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 simple 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.

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 Campaign

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 creating a unified image for the umbrella brand while also 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 one of the best-selling and most-loved cars 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.

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 the company to go the way of Renault and Fiat in the U.S. automotive market. However, by 1999 Volkswagen sales had leapt 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 unrolled a dynamite advertising campaign using Boston-based Arnold Worldwide. Arnold Worldwide won countless advertising awards for its Volkswagen "Drivers Wanted" campaign, including honors from the Association of Independent Commerical Producers, Clios, Addys, ANDYs, Effies, and Cannes Lions.

How did Arnold Worldwide reinvigorate the Volkswagen brand? It started with research. Why did people buy Volkswagen? What made Volkswagen buyers unique? Research showed that there was a particular personality type that was predisposed to buying Volkswagen. The "Drivers Wanted" campaign targeted this psychographic: "On the road of life, there are passengers and there are drivers." The Volkswagen customer is a driver. They're different. They like to take a curve, push the speed envelope a little, take the long way home. Volkswagen customers think differently, and they want a driving experience that delivers on both their emotional and performance expectations of an affordable, German-engineered driving experience.

Volkswagen has had a number of notable advertisements under its "Drivers Wanted" campaign. One was the 2002 award-winning classic "Bubble Boy." Accompanied with the ELO music "Mr. Blue Sky," this television ad shows the day-in and day-out grind of a Bill Briggs and the promise of the freedom and blue sky of the new Volkswagen Beetle convertible. The 2004 "Leaf" commercial shows a leaf that hitches a ride on a Passat. Again, the advertisement tells a story without words and to compelling musical accompaniment that engages the viewer. "Squares," features numerous square shapes, such as a clock and a piece of toast, and then finally the unique and different shape of the Beetle; the ad grabs viewers' attention with its rapid fire, artistic "squares" and pulsing music. To view these and other Volkswagen ads, check out www.vw.com/commercials/index.html.

What has the "Drivers Wanted" campaign meant for Volkswagen? Arnold Worldwide estimates that the campaign has created $1 billion in incremental value for Volkswagen—$500 million from incremental unit sales above and beyond Volkswagen's most optimistic sales forecasts, $350 million in profits from price premiums, and $150 million in savings from discounts that Volkswagen did not have to make to move its products. This does not include the value of significant improvements in Volkswagen's unaided brand awareness, brand opinion, unaided purchase consideration, and ad recall. According to proprietary tracking from Volkswagen, unaided purchase consideration is up 225 percent and brand loyalty is up 73 percent. Not only that, but "Drivers Wanted" is the most recognized automotive tag line in North America.

The latest Volkswagen ads extend the "Drivers Wanted" message to the "Drive It. You Get It." These ads are a departure from the arty, "less is more" ads. With dialogue and an enthusiastic VW salesperson riding along with people test driving Volkswagens, the message is "check out the engineering features and driving benefits of the Volkswagen models." The humor is less subtle and the ads are less engaging than the earlier "Drivers Wanted" ads. However, the objective is different. Volkswagen of America sales for 2003 were about 303,000 units, 11 percent lower than in 2002, and 2004 sales are struggling. Volkswagen is offering rare incentives such as 0.9 financing and improved leasing terms to boost sales until the new 2005 Passat and Jettas are available. Even the acclaimed Touareg SUV is included in the incentive program. Good advertising is only part of the formula for a successful marketing effort.

Questions

1 What were the primary promotional objectives for Volkswagen at the beginning of the "Drivers Wanted" campaign? What are Volkswagen's current promotional objectives? How do you expect the promotional objectives for the overall Volkswagen brand and for specific car models, such as the Jetta or Touareg, to change over time?

2 What do you feel are the most valid measures for assessing the success of the Volkswagen advertising campaign? Explain why you feel that these are the best means of determining effectiveness.

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 Manor Furniture: Making Promotion Trade-Offs

Edward Meadows, president of Manor Furniture, met with representatives of Kelly, Astor & Peters Advertising (KAP) and Andrew Reed, Manor's vice president of marketing and sales, to discuss the company's advertising program for 2004. The KAP representatives recommended that Manor 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 2004. The rationale given for the increase in advertising was that Manor 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 Manor 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 2004, (2) increase the funds devoted to cooperative advertising, and (3) improve the selling aids given to retail stores and salespeople.

THE COMPANY

Manor Furniture is a medium-sized manufacturer of medium- to high-priced living and dining room furniture. Sales in 2003 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 2003, Manor 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. Manor Furniture is represented at two trade shows a year. Consumer advertising is directed to potential consumers through shelter magazines. 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 2003 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 well-known furniture manufacturers, no one firm captured more than 10 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, Manor'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 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 alternatives 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 Manor 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.

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 Manor's promotional objectives be?

4 How many salespeople does Manor need to adequately service its accounts?

5 Should Manor Furniture emphasize a push or pull promotional strategy? Why?

CASE D–21 Crate and Barrel: Multichannel Marketing

Chicago-based Crate and Barrel started as a one-store operation in 1962. Gordon and Carole Segal returned from their honeymoon in Europe with a variety of unique and affordable designs for their home. Recognizing that there was no one addressing the need for those with "more taste than money," they took out a lease on an old elevator factory and Crate and Barrel was born. The entrepreneurs were so excited about the new venture that only moments before the store opened, they realized that they had forgotten to get a cash register. A simple box had to serve.

THE COMPANY

Crate and Barrel has grown to more than 125 stores with 6,000 sales associates. Its 2003 sales were $865 million, a 12.3 percent annual increase. Crate and Barrel stores, catalogs, and website offer a wide variety of household items: furniture, lighting, rugs, products for bed and bath, dinnerware, flatware, cookware, kitchenware, linens, food, and gifts. In 1998, Otto Versand, the world's largest mail-order merchant, acquired a majority stake in Euromarket Designs Inc., which does business as the Crate and Barrel brand.

Crate and Barrel competes in the retail home furnishings and housewares industry with such well-known names as Pottery Barn, Williams-Sonoma, Pier 1 Imports, and Restoration Hardware. What makes Crate and Barrel special? It carved out a unique niche with more modern styling and brighter colors than its competitors. About one-third of the merchandise is unique to Crate and Barrel. But more important, Crate and Barrel offers a wide selection of well-designed products that provide good customer value.

MULTICHANNELS

Crate and Barrel has successfully utilized multiple channels to make its products available to customers. The company sends out more than 15 million brightly colored catalogs annually. The catalogs are just plain fun to look through. For the most complete selection of products, check out the Crate and Barrel website, www.crateandbarrel.com. Product offerings are arrayed by category so customers can browse or can visit the gift ideas or bridal registry pages to select a purchase. Unlike the catalog, the website allows customers to zoom in on items and check out specs. Crate and Barrel customers can opt-in to e-mail alerts of new product offerings and sales.

Purchase can be made in one of the many retail stores, online, by mail, or by the toll-free phone line. Crate and Barrel even offers its own credit card to facilitate purchases.

The company has made significant investments in enterprise marketing systems to manage its customer database and direct-mail campaigns. The system allows Crate and Barrel to effectively design, execute, and assess the results of cross-channel marketing efforts. A Crate and Barrel customer can spot a set of Marimekko towels in the catalog, order the towels and matching bedding from the website, and easily stop in to a Crate and Barrel store to physically test and compare wood and metal beds to complete a purchase.

Questions

1 How does Crate and Barrel facilitate consumer purchases with its multichannel strategy?

2 What are the six Cs of e-commerce, and how does Crate and Barrel address each of these?

3 Given that all of its major competitors also attempt to utilize multiple channels, in what ways could Crate and Barrel create a competitive advantage for itself with its multichannel strategy?

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 prototype 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 14,700 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 2004, BP served 13 million customers per day globally with 28,000 branded retail sites, including 950 *ampm*™ 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 *ampm* 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 about 50 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 BP's ARCO), mass merchandisers (such as Wal-Mart), and wholesale clubs (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 "helios" 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 Internet 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 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.

2 Consider these two elements of the BP Connect concept described above: high-tech pumps and twenty-first century information 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?