

Bang & Olufsen - Getting your Bang for your Buck.



When a Bang & Olufsen customer buys one of their products, they get much more than just a sophisticated box: they get a unique experience. Bang & Olufsen (www.bang-olufsen.com) is a Danish manufacturer of state of the art, hi-fidelity home entertainment systems. Through the years, as other successful European electronics manufacturers such as Ferguson, Grundig, and Telefunken have been decimated by market forces, Bang & Olufsen have created their own innovative path to success. The group has turned around their performance by concentrating on the high end of the market, turning their back on the mass market, and seeking out discerning affluent customers, who want quality, performance, simplicity, and elegant design. They are not competing for the general mass market like Sony, Philips, Panasonic, or Samsung; they are fighting for the hearts, minds, and wallets of the rich. The firm now sells an array of home entertainment systems such as speakers, music systems, televisions, speakers, remote controls, telephones, digital media, and car audio systems. Some of these products sell for thousands of pounds.

The company was formed in Quistrup, near Struer, which is in Western Jutland, Denmark. The town has just over 11,000 inhabitants. Since 1925, the company has dramatically evolved. It first focused on the manufacturing of radios, and now it sells a diverse range of audio/visual products. For several decades, strong competition from Asian manufacturers has forced the company to change its business philosophy. It now focuses on innovative design, product excellence, uncompromising quality, craftsmanship and a commitment to service excellence. This has enabled the brand to become one of the most well-known and respected brands in the industry. The Bang & Olufsen brand has become internationally known, and is one of the world's global luxury brands, ranking alongside Gucci, Louis Vuitton, & Rolex.

Figure 1 – Bang & Olufsen – At a Glance

<p>The firm was created in 1925.</p> <p>Its headquarters is based in Struer, Denmark.</p> <p>Bang & Olufsen employs 2,700 people.</p> <p>The company has over 500 engineers and technicians.</p> <p>The company has stores in over 70 countries.</p> <p>Over 80% of its revenue is generated overseas.</p> <p>The firm aims to achieve DKK 6 billion (€800 million) in turnover by 2010.</p> <p>The firm has an operating profit of DKK 439 million (€59 million).</p> <p>The company has a gross margin of 46%.</p> <p>Types of products sold include home theatre systems, telephones, speakers, audio systems, and in car stereo systems.</p> <p>The firm also sells medical devices such as a stethoscope device, and tablet dispenser.</p>

Its main business vision is about “*building on an unfailing commitment only to create the very best and always find new ways*”. A synthesis between technology and design is a major requirement. The company is pursuing a highly lucrative niche market, with very high expectations from their luxury brand. The firm had to change its distribution system in the mid-eighties. The company decided that the firm's products could only be sold

through Bang & Olufsen branded stores. This strategy entailed the firm not using channel intermediaries who sold competing products or in a retail setting that was not inline with B&O's brand values. Now the firm has developed "*a store within a store*" concept, where Bang & Olufsen products can be sold in a store that has a dedicated space for selling B&O products, in a real life setting. This concept allows the firm to showcase the B&O experience to prospective customers. There are now over 725 Bang & Olufsen shops and over 596 "*store within a store*" concepts. The Bang & Olufsen dedicated shops account for over 74% of sales, whilst the remaining 26% derives from the "*store within a store*" concept. These "*store within a store*" are utilized in markets that do not justify a stand-alone store, due to market potential. Customers can experience the ultimate in home cinema in these retail environments, where a B&O remote controller can dictate the level of lighting, and even control curtains to create the perfect ambiance for a home cinema experience. Retail staff focus on the individual needs of the prospective customer during the consultation, and customise the most suitable suite of B&O products to suit the specific needs of the client. Having Bang & Olufsen stores in a standalone display, helps showcase the products in their best light, rather than selling a high priced Bang & Olufsen product in a crammed retail store, alongside refrigerators and electric toasters.

In 1992, the company initiated a restructuring programme to turnaround the fortunes of the ailing company. The company began by cutting several hundred jobs, and outsourcing non-core activities such as some component production, and even catering in the firm. At the heart of the turnaround was putting a renewed emphasis on its channel structure, focusing on new B&O franchised stores, and "*store within stores*" concepts. The company cut distribution to numerous independent retailers as they were damaging the brand by discounting B&O products, and undermining the brand's values. Its dealership network shrunk drastically as a result, in some cases halving the number of distributors in certain markets. By having a committed dealership structure, one that is determined and highly motivated to succeed, helps the brand in maintaining its luxury reputation. The company's reputation has garnered numerous, passionate brand advocates/disciples of the Bang & Olufsen brand, who act as conduits to promote the brand's image even further.

Typically these new B&O stores are operated under franchise agreements. The company provides franchisees a number of different support mechanisms such as location selection, training, shop design, merchandising, marketing support, and management skills. Franchisees are selected on the basis of being the right fit for the business, in other words people who help promote the brand further. They are then placed on a five-week intensive course that combines learning about retailing, selling, and B&O products, and includes a practical work placement in an existing store. Prospective franchisees need a minimum investment of £190,000 of which 30% needs to be derived from personal sources. This investment contains a shop fitting fee, a marketing launch fee, a franchise fee, initial working capital/opening stock, legal fees, and the installation of a computer system. The firm has an extensive website, where consumers can learn more about Bang & Olufsen products, the company's philosophy and the location of their nearest dealer, yet the firm's products cannot be bought online. All of these franchised stores are designed to Bang & Olufsen's exacting specifications, to ensure the right brand image is portrayed. These have become single brand boutique stores.

One of the core competencies within Bang & Olufsen is the high level of customisation they can provide to prospective customers. With advanced home entertainment systems, customers seek out innovative solutions to combine the best in sound and vision, whilst making the technology compatible with their surrounding living space.

Bang & Olufsen prides itself on simplicity, and ease of use. Furthermore concealing a bewildering array of cables, standard with most other systems, is of the utmost importance. Simplicity is achieved through offering one remote controller to control a customer's entire audiovisual system. Through its retail network, they provide consultation on the best home entertainment solution for clients, integrating plasma screen, speakers and remote access. Customers are shown demonstration models in private showrooms, where a design consultant will talk through possible options, and provided a unique configuration, expert advice and customised solutions for the customer. The design consultant liaises with builders, interior designers, and architects to ensure a seamless home cinema or multi room audio system is put into place. Working with these intermediaries enables B&O to put their products in designer homes, which shows off B&O's beautiful aesthetics, and excellent performance. The company is selling an entire unique and customised experience. By offering advanced planning/technical advice, expert installation, and a thorough after sales service, the company sees itself not solely as a manufacturer, but as a solutions provider.

A Bang & Olufsen product does not come cheap. Speakers can range from €630 (£450) up to €14,000 euro (£10,000). One of their plasma screen televisions retails at €17,920 (£12,500). Prices are set at the ultra premium end. Furthermore buyers are offered a bewildering array of accessories and furniture pieces to accompany the product, if they so wish. This bumps up final prices even further. It views their manufacturing and design philosophy as "*produced by individualists for individuals*". Innovation within the company is vital for the company to maintain its prestigious image. The company has to be at the forefront of technological innovation if it is to appease the needs of its customer base. The company's uncompromising commitment to quality is a core value behind the company's success. Producing the best quality audio and visual experiences for clients is essential. To put this into context, the company has formed a business partnership with luxury carmaker, Audi. The firm has developed a state of the art in-car entertainment system for the Audi A8, their premium vehicle. This product produces 1,000 watts of power, yet cannot be heard outside the car. The system has lavished over 14 speakers within the car, and costs a mere snip at \$7,000.

The Bang & Olufsen distribution network consists of 11 national sales companies, focused on selling in their main European, American and Japanese markets. These are all entirely owned entirely by Bang & Olufsen. In other geographic markets the firm has 27 national agents. The company does not carry inventory apart from models that are used for demonstration or display. The manufacturing process for a product only begins when a customer has placed an order. This allows the firm to customise the product to the exact needs of the client, eliminate expensive inventory, and reduce the risk of obsolescence, and wastage. It produces a wide range of flat screen televisions ranging from a 22-inch LCD screen to a gargantuan 65-inch plasma screen. The firm has not only a large individual customer base, but also services a large corporate sector, which need state of the art entertainment solutions. Bang & Olufsen products for example can be seen in many penthouse suites of five-star hotels in Las Vegas, Zurich, London and Dubai.

Bang & Olufsen differentiates itself from competitors by offering clients excellent performance from its products, unique styling and appearance. A customer who buys a Bang & Olufsen product knows that there is nothing else like a B&O product in the marketplace. All of their products are stringently and individually tested for durability, robustness, longevity, and efficiency. The company employs both a viewing and listening panel to make qualitative judgements on the performance of a B&O product. Products have to pass the discerning assessments of these panels before they are launched. Furthermore the company prides itself in showcasing its audio laboratory

called “*the cube*”, which is a vast room that tests sound performance. The company is now specialising in a growing sector of home cinema installations. Here Bang & Olufsen offers a complete package of large flat screen television, audio system custom lighting, and remote devices.

Design and quality are at the forefront of the firm’s business strategy, rather than price. A Bang & Olufsen product is not marketed as a piece of technology but as a ‘*lifestyle*’ product. The company targets individuals with high levels of discretionary income. The company’s initial slogan in the 1960’s was “*Bang & Olufsen, for those who discuss design and quality, before price*”.

Case Questions

- 1. Outline and discuss the typical choice criteria used by a prospective Bang & Olufsen customer when deciding on whether to purchase a B&O product.**
- 2. Discuss how Bang & Olufsen influence consumer buyer behaviour through their marketing strategies.**
- 3. Consider the last purchase you made that involved extensive decision making process. What decision making process did you use, and what sources of information did you use?**

This case was written by Conor Carroll, Lecturer in Marketing, University of Limerick. Copyright © Conor Carroll (2006). The material in the case has been drawn from a variety of published sources.