CAPON'S

Marketing Essentials

Short Cases

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Capon's Marketing Essentials

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1. Sonik CD[1]

Sonik CD was a wholesale buying club for classical, jazz, and blues enthusiasts. Annual membership was $40. Sonik scoured distributors and independent retailers to find hard-to-get and out-of-print releases.

At $10.95 per CD, Sonik's prices were lower than average retail prices; average cost to Sonik was $10.50 per CD. Subscribers paid $4.00 per package shipping and handling; average cost to Sonik was $0.50 per package. On average, subscribers purchased 19.9 CDs annually, mostly through Sonik's website. Annual subscriber retention rate was 90 percent. Sonik accumulated CDs from various suppliers and fulfilled its own orders. Annual fixed costs of fulfillment were $400,000; shipments averaged 3.7 CDs per package. In the year just ended, marketing expenses were $230,000; Sonik spent 90 percent on acquiring new subscribers and 5 percent on subscriber retention. Currently, Sonik has 40,000 customers; it gained 21,100 during the previous year. Sonik's cost of capital was 12 percent. It was considering three growth options for immediate implementation:

a. ***Continue the Niche Strategy.*** Sonik believed it could acquire 20,000-30,000 new customers per annum for the next several years without major new investment. Sonik also believed that spending $0.5 million per annum would increase customer retention to 95 percent.
b. **Mass-Market Strategy.** Abandon the subscription model, add many other music genres, and build a mass-market brand. Sonik estimated it would need an initial investment of $1-2 million to build brand awareness, plus an additional $0.5 million per annum for distribution and warehousing. Sonik believed it could add 40,000-50,000 new subscribers per quarter at a subscriber acquisition cost of $12.50; annual margin, $15; and 60 percent customer retention rate.
c. **Distribution Strategy.** In addition to CDs, Sonik distributed products for other online retailers. AmeriNet Radio operated 43 radio stations in the southeast U.S. and sold CDs though its stations' websites. It approached Sonik for an exclusive arrangement. Sonik would close its retail operations and become the sole distributor for all CDs sold through AmeriNet's websites, charging its normal handling fee. Sonik's price per CD would be $13.25 – it would pay AmeriNet $1.50 per CD sold. AmeriNet had 25 million listeners. Research suggested that 5 percent of its listeners bought CDs online and that 10 percent of these would buy from Sonik. A typical customer would buy twice a year, averaging two CDs per order. Sonik would incur additional fixed costs of $0.5 million per annum.

Based on these data, which option should Sonik take? What are the risks of each option?

1 Thanks to Professor Sunil Gupta for permission to use this case study.

2. ICI Fibres Ltd.

Malcolm Hand contemplated his recently established goals for sales of Terylene® polyester fiber into the tarpaulin market. Tarpaulins are *breathable* waterproof covers (allowing the passage of water vapor) used mainly in the trucking industry. The British market was believed to be substantial but Terylene had made little headway.

Terylene was a strong, low-stretch, patented fiber, resistant to water damage and sunlight degradation, important properties in coverings for outdoor use. Most tarpaulins are made of woven cotton fabrics that are proofed by dipping in latex or similar liquid. The maker-up cut the proofed fabric to appropriate sizes, sewed pieces together, added eyelets and ropes, and hand applied proofing liquid at any spots where it had rubbed off in the making-up process.

Because they were unproofable, fabrics made directly from Terylene fiber could not be used for tarpaulins. ICI's solution was to use a Terylene fiber core for strength and spin cotton around it. This was a difficult process but ICI believed that several cotton spinners could become competent by specially adapting existing cotton-spinning machines. ICI was working with Eckersley Mills to perfect the core spinning process; Angus and Dunbar Mills had also expressed an interest. Eckersley, Angus, and Dunbar were traditional cotton-spinning mills.

ICI sold Terylene yarn to Eckersley at $2:50 per pound. Jack Haffey was ICI's sales representative to cotton spinners; key personnel at Eckersley were Alasdair MacLean (purchasing manager), Jack Philips (mill manager), and Bill Foulkes (national sales director). ICI technical representative Pauline Smyth also spent time with spinning technicians Doris, Enid, and Bruce.

Foulkes told Haffey about Eckersley's efforts with Terylene/cotton core spun yarn. He said the three salespeople responsible for selling this product were meeting resistance from weaving mills. The problem was lack of technical competence in weaving the Terylene/cotton core spun yarn. The weaving process tended to strip cotton away from the Terylene. Hence, the proofing process was not completely successful, and the finished tarpaulins leaked.

Foulkes said Waterside Mill was a good example of the problem. Owner/manager T.A.T. Wheeler wanted to weave a specialized fabric that would earn higher margins than his major business, conveyor belt fabric. Mill manager Mike Smith had run weaving trials and sent the fabric to Johnson Systems for proofing. Waterproofing tests conducted by Waterside Mill were not successful. Since the tests coincided with an upturn in conveyor belt business, Wheeler shelved the project.

Foulkes said that Jackson Mills had also conducted weaving and proofing trials. These trials were somewhat more successful after the Jackson mill manager discussed different proofing formulations with the proofer's factory manager. Smithson Mills was the most successful weaver. After several attempts, Smithson's fabric was successfully proofed by Grouch Mills, made up by MacLean Tarpaulins, and tested

by Carter Paterson, a major trucking company. Final test results were not in but preliminary feedback was encouraging. The tarpaulins were waterproof, and drivers liked them because they were considerably lighter and easier to handle. This was important for fleets of large trucks.

Malcolm Hand knew that Carter Paterson was one of several hundred large trucking companies that tended to keep careful records on their tarpaulins' cost and life. However, record-keeping at the many thousands of small truckers was poor to nonexistent. Large truckers tended to place orders directly with their favorite tarpaulin suppliers. The suppliers purchased proofed fabric from weaving mills like Jackson, Smithson, and Waterside and made-up tarpaulins. Small truckers typically purchased from wholesalers that stocked several standard tarpaulin sizes purchased from makers-up.

Hand was under pressure from senior management to increase sales of Terylene fiber for tarpaulins. He wondered how he should approach the problem of increasing sales.

3. The Arden Company

The Arden Company operated in a slow-growth business. Arden offered a commodity product for which total demand was highly inelastic. Both Arden and its seven competitors sold the product through industrial distributors. Six of these competitors were very small factors in the industry, while the strongest was Columbia Corporation. Columbia had increased market share by a little under two percent in the past two years—almost all of this increase had come from Arden. Recently a new, young, aggressive team had assumed top management positions at Columbia. It was common knowledge that the new Columbia team had given first priority to significantly improving Columbia's market position. Arden's marketing VP Pedro Alberto's task was to design a market strategy to effectively meet this potential challenge. To provide a basis for developing strategy, Alberto's assistant compared Arden's economic structure with Columbia's. He produced the data in Table 1 using the definitions in Table 2.

Table 1 *Data for the Arden Case*

Economic Indicators	Firms	
	Arden	Columbia
Current market share	61%	22%
Current dollar sales ($millions)	$403	$146
Break-even point ($millions)	$217	$121
Safety factor	46%	17%
Contribution margin rate	48%	45%
Loss in contribution margin from a 5% drop in unit price ($millions)	$20.15	$7.30
Volume gain required to offset a 5% drop in unit price	$44.54	$17.31
Equivalent share point gain	7.0 points	2.8 points
Capacity utilization	80%	75%

As he contemplated the task of developing a market strategy for Arden, Alberto knew that he had to have a clear grasp of the scope of the challenge. He broke the task into four steps:

a. Be clear about important characteristics:
   - Industry growth rate
   - Degree of product differentiation
   - Distribution methods
   - Price-inelastic nature of demand — consider only the effect on Arden and its chief competitor, Columbia. Disregard smaller competitors.

b. Identify strategic alternatives available to Arden and Columbia considering:
   - Sales volume
   - Contribution margin
   - Market share
   - Capacity utilization

c. Decide Columbia's likely strategy given: industry characteristics, Columbia's objectives, and Columbia's strengths and weaknesses relative to Arden.

d. Develop a counter-strategy for Arden to pre-empt Columbia's strategy.

Table 2 *Definitions for the Arden Case*

Term	Definitions
1. Break-Even Point (BEP)	The sales volume at which the firm's sales revenues cover all fixed and variable costs: BEP = Fixed Costs/Contribution Margin Rate
2. Safety Factor (SF)	The percent by which current sales volume could decline and still cover all fixed and variable costs – where the firm operates at break-even: SF = (Actual Sales – BEP)/Actual Sales
3. Contribution Margin Rate	The percent of each sales dollar that contributes to fixed costs and profits. Contribution Margin = Sales Revenues – Variable Costs. Contribution Margin Rate = Contribution Margin × 100 / Sales Revenues
4. Loss in Contribution Margin from a 5% Drop in Unit Price	The dollar amount by which contribution margin will decline if the price drops by 5% and sales do not increase. For firms operating above the breakeven point, this represents a loss in profits.
5. Volume Gain Required to Offset 5% Drop in Unit Price	The increase in sales revenues that the firm requires to regain the contribution margin it loses by a 5% drop in price (see 4). Or, restated, by how much must sales increase to earn the same profits as before the price drop?
6. Equivalent Share Point Gain	The increase in market share that the firm requires to restore profits to the level before the price drop. This shows how much the volume required in (5) means in terms of market share. Volume Required in (5) / Total Market Sales Volume

4. Unipro Inc.

Kapil Chandra, Unipro's account manager for Chicago-based Qualprod Inc. was contemplating his response to a recent telephone call from Fred Potter, Qualprod's procurement director. Potter said that a critical piece of process-control software in one of Qualprod's factories in Eastern Europe had failed. Production had ground to a halt. Potter asked Chandra if Unipro could dedicate a software engineering team to the problem immediately.

Unipro was a fast-growing company specializing in software development. Based in Hyderabad, India, it did business with many corporations in North America, Europe, and Asia that sought to outsource various elements of information technology. Unipro had an account management force — Chandra was one of these managers — and a local engineering staff in the U.S. Most of Unipro's software engineers worked in Hyderabad, and a substantial fraction had been trained at India's elite institutes of higher learning. In the U.S., Unipro competed with tier 1 suppliers — Accenture, EDS, IBM, Unisys, Wipro — but also against suppliers in tiers 2 and 3.

Qualprod had been a good customer of Unipro for several years. Unipro had designed and implemented much of Qualprod's software. However, the Eastern Europe process-control contract, completed several months earlier, had gone to Amalfi. Industry consensus was that Amalfi was a tier 2 or even 3 supplier. Amalfi had built the process-control software for Qualprod on a platform designed by Unipro.

Chandra had prepared and priced the Qualprod proposal at $4.75 million. Amalfi had won the contract at $3.25 million. In a post-contract debrief, Chandra told Potter he was amazed that anyone had bid that low. Chandra also knew Amalfi had relatively little experience with this type of software development. Regardless, Potter told Chandra that he was satisfied with Qualprod's choice of Amalfi. He congratulated Chandra at coming in second: Accenture bid $5.8 million; IBM bid $6.05 million.

In the telephone call, Potter told Chandra that Amalfi's software had not worked as promised. Amalfi had sent software engineers to Eastern Europe, but they could not stabilize the process. An experienced consultant Potter hired recommended that Qualprod sever its relationship with Amalfi. He believed that several modules were serviceable but some critical modules had to be rewritten. Because of Unipro's historic Qualprod relationship, the consultant recommended that Unipro be asked to take on the task. The consultant believed that a top-notch software team could solve the problem onsite in seven working days; a worst-case scenario was 10 days. The consultant believed any other software supplier would take 50 percent longer than Unipro.

As Potter told Chandra of the software failure that had shut the plant down that very morning, he said, "Kapil, we've got a plant with hundreds of millions in capital investment completely idle because of lousy software. Those idiots at Amalfi couldn't design their way out of a paper bag. We'll pay anything reasonable to get the software fixed — in fact, we'll even pay something unreasonable!" Chandra reviewed Unipro's recent sales to Qualprod, plus next year estimates prepared a few weeks earlier for his account director, Rajeev Jain. Jain had not been pleased with recent annual trend:

2011	$10 million
2012	$15 million
2013	$18 million
2014	$12 million
2015	$10 million (est.)

Chandra checked with colleagues in India regarding the possibility of pulling together a software team to go to Qualprod's factory. Resources were not immediately available, but Unipro could assemble a team by taking people from other projects. Further checking revealed that:

- Unipro's costs to send a team to Eastern Europe for seven days would be $0.5 million.
- Unipro often set prices at total cost plus 50 percent.
- At planned capacity utilization, Qualprod earned $1 million profit per day from the Eastern European plant.
- If Unipro sent a team to Eastern Europe, some other projects would slide. At seven to 10 days, it would cost Unipro $0.2 million in customer payments, but would not otherwise affect its relationships.

Chandra glanced at his watch. He had 45 minutes to figure out what to do before calling Potter back.

5. Hausser Food Products Company

Brenda Cooper, Southeastern Regional Sales Manager (RSM) for Hausser Food Products Company (HFP) expressed her concern:

> *"During the past year I've made progress, but the situation is more difficult than I thought. Our current selling methods are not adequate, and the people in the field don't seem interested in coming up with new ideas for selling."*

HFP was the leading U.S. producer and marketer of infant foods including strained meats, vegetables, fruits, and combination dishes (60 percent market share). Some foods were completely strained for infants; others were partially strained or chopped for children six months and older. HFP was traditionally market leader but had no other major product lines. HFP's products were known for high quality; the Hausser name was well known to most consumers. HFP owned its own production and warehousing. Its well-developed distribution network provided direct delivery to warehouses and stores of most major food chains. The smallest market segment comprised a limited number of institutions for children that purchased HFP products in bulk.

HFP had grown rapidly as it developed different infant food products to meet increasing demand for greater product variety. For several years, growth in sales approached 15

percent per annum. More recently,HFP faced a changed infant food market as the birth rate declined and concerns arose about food additives, including flavorings, dyes, and preservatives. Many consumer advocates argued that mothers should make their own baby foods rather than purchase commercially prepared products. Competition also increased, especially from private brands.

Top management was alarmed by these trends. Sales growth dropped to three percent annually; earnings dropped substantially as some HFP plant and warehouse capacity went unused. Management wanted to stimulate demand for HFP products and to find complementary products to develop and market.

The Marketing Organization

HFP's marketing VP reported directly to the president. He had five direct reports including a sales director who was responsible for HFP sales nationwide. (See Exhibit 1 for a partial organization chart.) The sales department was divided into seven regions, each with an RSM. Regions were further broken into districts; some comprised several states, others only parts of a city, depending on population size and concentration. In each district, a DSM headed up the HFP sales team that had responsibility for sales, offering promotions, maintaining customer contact, and assuring adequate shelf space.

The RSM, often an entry point for bright, aggressive, well-trained young people, was a key position. Successful RSMs often rose to high company positions, like the current president, marketing VP, and three of five marketing directors. Brenda Cooper was fairly typical of this kind of person. She'd entered an MBA program four years after graduating from a top U.S. women's college. She majored in marketing, graduated near the top of her class, received many job offers, and took a position as assistant product manager in a large FMCG firm. For four years she performed well in managing existing products and launching new products. However, seeing no opportunity for quick advancement, she had accepted an RSM position at HFP the year before. The salary and bonus package was attractive, and there was good potential for career advancement. Brenda was concerned to do a good job but was still adjusting to her managerial role with six district manager direct reports.

The Sales Plan

Much RSM activity centered on the annual sales plan — essentially a budget including sales, expense, and profit projections — the basic yardstick against which HFC measured RSM performance. It was developed annually via a multi-staged process:

1. The market planning director developed a top-down projection of upcoming annual sales. Concurrently, the sales director asked RSMs for their sales projections — typically extrapolated from the prior year with adjustments for major market changes (if any).
2. The two directors (market planning and sales) negotiated to resolve differences between the projections. (Market planning always tended to be higher.) The resolution provided the sales plan — budgeted sales volume and profit, promotion and advertising expenditures, and expenses.
3. The sales director allocated the sales plan among the RSMs, who were responsible for meeting plan in their regions. RSMs in turn allocated their plans to each DSM.
4. DSMs received the plan as sales targets and expense budgets. DSMs typically received low base salaries but potentially large annual bonuses based on sales team performance versus plan. At year's end, each DSM received a pool of bonus dollars to distribute to individual sales reps, also based on team performance against plan. Sales reps also received low base salaries and viewed their annual bonuses as a major income source.

The Problems of the Regional Sales Managers

Brenda Cooper described her region's operations and then talked about problems she was facing:

> *"We have a mature product line. Top management wants to diversify, but any new product is still a few years away. Meanwhile, the field must come up with ideas to help us maintain and increase sales. There must be better ways of making sales. The best ideas usually come from salespeople themselves, but we're not getting many new ideas from our sales teams. They seem content to let our products sell themselves and just keep the shelves full."*

Brenda went over the sales figures for her region by district. She noted:

> *"Boyar and his Florida group are a prime example of the problem. We've had decreasing sales growth and actual sales declines in some districts, but Boyar's group consistently performs at 10 percent above plan. I've met with them and talked with Boyar numerous times, but I can't figure it out. They must be doing something we could use in other places, but I just get vague answers like, 'We work very hard' or, 'We work well as a group.' I'm sure it's more than that."*

The Florida Sales Team

Jay Boyar was contemplating hiring an old family friend with significant sales experience for the district's next opening and was introducing him to team members. David Berz, the unofficial assistant team manager, talked at length about his job:

> *"I really like the freedom, being my own boss most of the time. I'm not in an office all day with a supervisor looking at all my work. I get to be outside, doing what I like to be doing — talking to people and making sales."*

Neil Portnow, the longest-serving employee in the team, commented:

> *"The guys are great. I've been with Dave and Jay for about l5 years…I wouldn't trade it for anything. Jay is really one of us; he knows we know our jobs and doesn't try to control us. We do the job the way we know is best. Everyone helps each other. When I was sick last year, they all pitched in to cover my territory. We made plan plus 10 percent without*

reporting my illness. But they can also be hard if you don't play along. When Fred arrived all fired up, he was going to sell baby food to half the mothers in Florida, personally! He didn't realize you should take your time and not waste your effort for HFP. The guys gave him a bit of a hard time — his orders got lost and shipments were changed. When he came to his senses, they treated him great and showed him the ropes."

Neil talked about HFP as a place to work:

"It's all pretty simple: The company is out to screw the sales rep. In Atlanta and New York, they only worry about the numbers, no matter what. If you work hard, meet the plan, and earn some decent money, they just increase it next year so you have to work harder just to make the same money! It just doesn't pay to bust you ass… .

"…Atlanta also wants all kinds of paperwork—sales reports, call reports, all kinds of reports. If you did it all, you'd spend all your time doing paperwork — no time out selling, looking for new accounts, making cold calls, or generally keeping on top of your territory."

The team generally agreed with Neil. Alby Siegel added:

"The biggest joke is the suggestion plan. They want new ideas to make HFP more money. If your idea makes HFP a couple of hundred thousand dollars profit across the country, they are so generous — $500, and that's the top figure. That's an insult… .

"… We're all in this for the money, but it's not the greatest life being out on the road, staying in motels, fighting the competition. It's worth it because I can earn more money than anything else I could do. I live better than most 'professional' men with all their college degrees…Jay is pretty good too. He makes sure we get our bonus every year. He's not management — he's one of us. Every two months we spend a whole day in Tampa going over the accounts and talking about ideas for selling. Then we spend the whole night on the town, usually drinking. Jay is one of us … many's the night that I've helped carry him back to the hotel."

Jay Boyar asked the potential recruit to sit in on a bi-monthly team meeting but first took him aside:

"Listen, I have to tell you about our little discovery. A few years ago, Alby was in a store and noticed old people buying HFP jars. They like our stuff, particularly people with teeth problems. We've developed a lucrative trade with several old folks' homes—we sell through local supermarkets. This new market takes the pressure off us. We make plan plus 10 percent without too much effort. We've also kept Atlanta from finding out. If they knew, they'd up our plan and leave us no time to sell, no time to develop new customers, no time to make cold calls, or anything. This cushion lets us stay on top of our territory."

Back in Atlanta

Brenda Cooper was more concerned about her problems:

"I'm getting pressure from New York to jack up sales. They want an increased plan next year. If I can't come up with something good for next year, my future at HFP looks bleak. The DSMs are giving me flack. They all say they're running flat out and they can't squeeze any more sales. Even Boyar is complaining he may not make plan if we have another increase. Yet he always seems to pull out his extra 10 percent. I wonder what they're really doing down there."

Exhibit 1 *Partial Chart of Formal Organization Structure of Hausser Food Products*

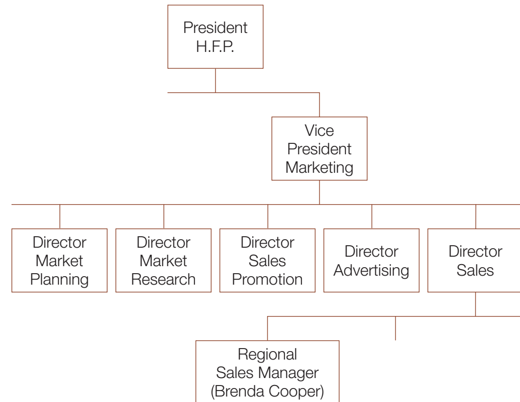


Exhibit 2 *Listing of Staff in the Florida Sales Team*

Name	Position	Age	Years w/HFP	Education
Jay Boyar	District Sales Mgr.	52	30	High School
David Berz	Sales Rep (Asst. Mgr.)	50	30	High School
Neil Portnow	Sales Rep	56	36	High School
Alby Siegel	Sales Rep	49	18	1 yr College
Mike Wolly	Sales Rep	35	12	2 yrs College
John Cassis	Sales Rep	28	4	B.A.
Fred Hopengarten	Sales Rep	30	3	B.A.

6. The Mass Transit Railway in Hong Kong

The Mass Transit Railway Corporation (MTR) operated a predominantly underground rail system in Hong Kong. The MTR was considering how to solve the morning bottleneck problem caused by intra-daily cyclicality in demand and Hong Kong residents' special commuting needs. It had to decide among numerous alternatives and related marketing actions. A special problem was the severe bottleneck from Prince Edward station (Kowloon) to Admiralty station (Hong Kong Island) along the Nathan Road Corridor on weekdays between 8 a.m. to 9 a.m. Most commuters were headed for southern Kowloon or northern Hong Kong Island. The MTR wanted to cut passenger numbers to a tolerable safety level of 77,500 per hour. Though many passengers suffered in rush hour, they were reluctant to switch transportation methods. Surface traffic from

Kowloon to Hong Kong Island had to pass through one of two crowded cross-harbor tunnels. The government was considering increasing tunnel tolls from $10 to $30 to alleviate congestion.

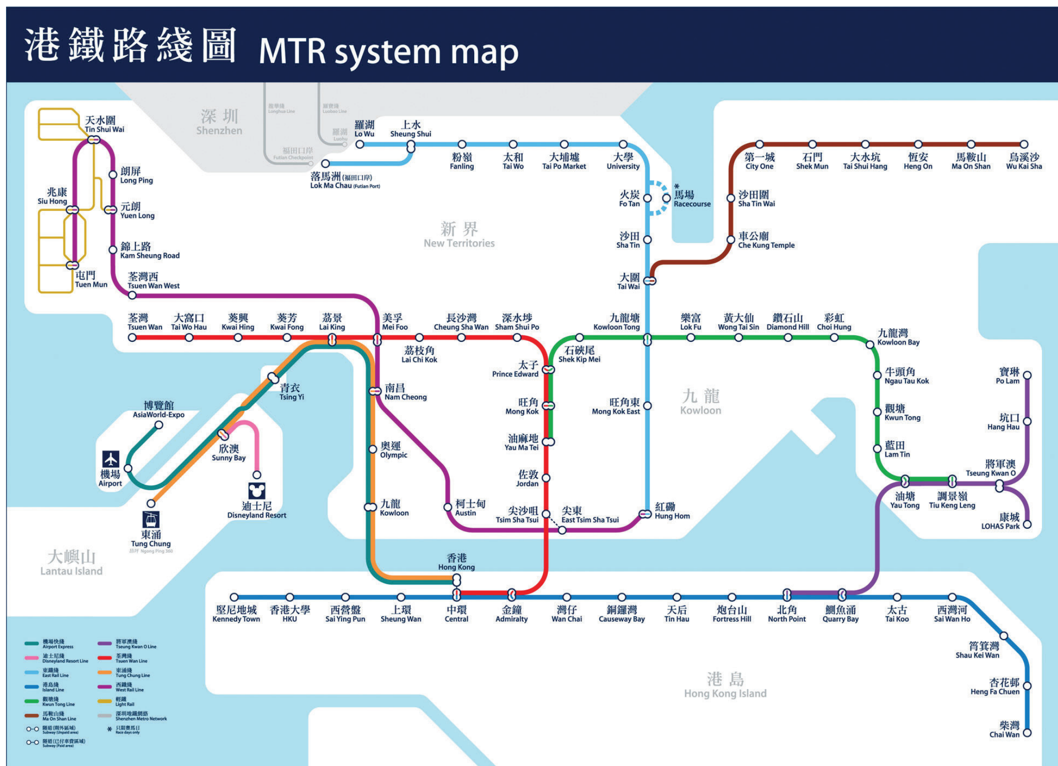
The Hong Kong government established the MTR in 1975 primarily to construct and operate a mass transit railway system. The MTR completed the Modified Initial System in 1980, serving stations from Kwun Tong to Central; it completed other elements by 1989 (Exhibit 1). The MTR also engaged in joint-venture development and management of key residential and commercial properties above its stations and depots. The MTR was financially sound.

The MTR's route system of more than 50 kilometers included 43 stations and four lines. Two lines ran from Kowloon to Hong Kong Island: Tsuen Wan to Central, and Po Lam to North Fork. One line each ran on Kowloon–Tiu Keng Leng to Yau Ma Tei, and Hong Kong Island–Sheung Wan to Chei Wan. These lines ran through the most densely populated residential and commercial areas of Hong Kong Island and the Kowloon Peninsula, Tsuen Wan and Kwan Chung. The stations and trains were air-conditioned to provide an acceptable underground environment in Hong Kong's high temperatures and oppressive humidity, especially in the summer.

About 85 percent of passengers used time-saving Common Stored Value Tickets (CSVTs). Ticket machines at MTR stations dispensed CVST and single-journey cards; they were easily accessible at station concourses near turnstiles and were user-friendly. CSVTs were valid for nine months and could be used on the MTR, the Kowloon-Canton Railway Corporation (KCR), and some specific routes of Kowloon Motor Bus (KMB) and Citybus. Passengers used tickets at automatic turnstiles twice on each journey, once to enter the system and once to exit.

The MTR system was the most technologically advanced of all transportation modes. Its cars were comfortable (apart from rush hour) and suitable for all weathers; it provided speedy, yet safe, service. The MTR's advertising message, "Hong Kong cannot do without the MTR," was not simply propaganda; it was a fact of life in the crowded territory. The MTR had grown rapidly since inception; its leading market share of the total Hong Kong transport market was over 30 percent. Generally, fares increased in line with inflation. To improve its service, the MTR sought and received many suggestions and complaints from passengers through telephone hotlines, suggestion boxes in stations, and reply coupons in advertisements, and took many actions to address specific problems.

Exhibit 1 *Hong Kong and the MTR System*



Hong Kong had a diverse multimodal public transport system. In addition to the MTR, it also had two electrified railways, several franchised bus systems and ferries, two tramways, and public light buses and taxis:

- **Kowloon-Canton Railway (KCR).** The KCR was a 34-kilometer electrified railway system providing fast public transport to people living in new towns in the eastern New Territories.
- **Light Rail Transit (LRT).** The KCR operated the 30.4-kilometer LRT to serve new towns in the north-western New Territories.
- **Franchised Bus Services.** Kowloon Motor Bus (KMB), China Motor Bus (CMB), New Lantao Bus (NLB), and Citybus offered scheduled services at relatively cheap fares. They were the main mode of public transport in areas not served by rail.
- **Ferries.** Ferries were an essential link to the outlying islands but also supplemented cross-harbor rail and bus transportation.
- **Public Light Buses/Minibuses.** Public Light Buses were licensed to carry a maximum of 16 seated passengers. They supplemented other public transportation modes and substituted for private cars and taxis.
- **Trams.** Trams provided slow but inexpensive transportation along the northern part of Hong Kong Island. A tramway also ran to The Peak, an upscale residential area and major tourist attraction on Hong Kong Island.
- **Taxis.** Taxis provided personal door-to-door service. Routes were not fixed, and service operated 24 hours per day.

Although the various modes of public transportation competed, an intermodal coordination policy was in place. For example, an interchange station at Kowloon Tong allowed MTR and KCR passengers to switch service, and franchised buses and minibuses cooperated with MTR and KCR by providing feeder bus services.

The MTR was considering several steps to alleviate congestion:

- **Surcharge During Peak Hour.** The MTR would impose a fare surcharge on passengers getting on or getting off the MTR at designated stations during rush hour.
- **Early Bird Pass.** The MTR would introduce a discount for morning travel before 7:45 a.m.
- **Eastern Harbor Crossing (EHC).** The MTR would reduce rush-hour fares for passengers using this alternative route to reach Hong Kong Island.
- **Staggered Working Hours.** The MTR would encourage firms in the congested areas to introduce staggered working hours. It was considering three ideas for employers:
  - Adopt staggered working hours from 8:30 a.m. and 4:30 p.m. instead of the normal 9 a.m. to 5 p.m.
  - Allow staff to choose from alternative but fixed working hours.
  - Allow employees to decide on their individual arrival and departure times day by day, so long as they started work between 8 a.m. and 10 a.m. and left between 4 p.m. and 6 p.m.
- **Waiving Concessionary Fares During Rush Hour.** Children, students, and senior citizens enjoyed concessionary fares. The MTR could waive these discounts for journeys between 8 a.m. and 9 a.m. from Monday to Friday.
- **Platform Assistant and Platform Queuing.** The MTR considered hiring more part-time platform assistants. Their task would be to persuade commuters not to try to board an already-crowded train, so that trains could depart quickly and on time.
- **Modifying the Signaling System.** Each eight-car train had a capacity of 2,500 and could depart stations every two minutes. Upgrading the signaling system could increase frequency from 30 to 32 trains per hour.
- **Construction of Western Harbor Crossing.** Construction of a new tunnel connecting Western Kowloon and Central might be a long-run solution to overcrowding on the Nathan Road Corridor.

Other transportation modes had already taken action to address the rush-hour problem:

- **KCR.** The KCR offered discounted fares for passengers traveling before 7:45 a.m. from Monday to Friday. It also provided free feeder bus services, between 7 a.m. to 10 a.m., from strategic locations so that passengers need not take the MTR.
- **Hong Kong and Yamani Ferry (HYF).** Passenger and vehicular traffic across the harbor had been decreasing year by year, particularly since the MTR started service. HYF increased rush-hour ferry frequency, and bus services to the ferry piers improved. HYF also improved hover ferry services from two large residential areas.
- **Kowloon Motor Bus (KMB) and China Motor Bus (CMB).** Both KMB and CMB deployed extra buses and introduced a new cross-harbor bus route.

The Hong Kong Government's Transport Department was pressing the MTR for a comprehensive plan to deal with the overcrowding problem. MTR executives had to consider all relevant information to determine what measures to introduce and how to communicate them to affected Hong Kong residents.

7. Social Marketing Company, Bangladesh

Bob Karam, Population Services International's (PSI) Bangladesh country representative met with Waliur (Wally) Raman, managing director of Social Marketing Company (SMC), to discuss critical decisions. SMC faced brand-name changes for three established oral contraceptives and increased competition from the Bangladesh government for contraceptives and ORSaline, SMC's anti-diarrhea

rehydration product. SMC was also considering manufacturing and new product opportunities.

Company Background

SMC was an outgrowth of PSI's Family Planning Social Marketing Project in Bangladesh. Based in Washington, PSI initiated family planning and AIDS prevention projects in more than 30 developing countries. PSI believed modern marketing techniques could supplement scarce medical skills. It handed over successful program and infrastructure to local organizations like SMC.

According to SMC's annual report, social marketing is defined as marketing products or services for social benefit versus profit. It uses commercial marketing techniques to secure behavior change to benefit the whole society. Social marketing (a) motivates people to behave so as to benefit family, society, and the nation, (b) provides products through normal marketing channels so people can practice the desired behavior.

SMC focused on condoms and contraceptive pills, but added anti-diarrhea rehydration and hygiene products. Initially, USAID supported SMC by supplying contraceptives (purchased from U.S. suppliers), paid PSI a management fee, and significantly subsidized operating expenses. The European Commission was taking over USAID's support; European firms would supply contraceptives. The Bangladeshi government supported other family-planning initiatives.

Retail Distribution in Bangladesh

Bangladesh had an intense network of locally owned retail outlets — 10,000 stockists and 124,000 retail outlets (pharmacies 20 percent, general stores (half grocery) 45 percent, pan kiosks 35 percent) sold SMC's products.

- **Pharmacies** – 300-400 sq. ft., mostly urban, broad assortment of pharmaceuticals, drugs, and local medicines. Counter persons offered advice and filled requests.
- **General Stores** – 400-500 sq. ft., family operations, four employees or fewer, 50 to 100 items. Store personnel assembled, measured, and bagged all products.
- **Pan Kiosks** 20 to 40 sq. ft., rural, one-person operations, temporary enclosures at street corners in rural areas, 25-30 items. Pan is a spice assortment wrapped in a betel leaf, consumed frequently by Bangladeshi men. Pan kiosks are socializing spots and stay open late.

The Medical Care System

Bangladesh had about 150,000 doctors; 10,000 had formal Western medical education, spoke fluent English, and practiced in urban areas. There were also around 20,000 spiritual doctors, who scribbled secret formulas, uttered hymns, and invoked God; they practiced in villages, and patients valued them. More than 100,000 rural medical practitioners (RMPs) made house calls and participated in village community activities. RMPs were untrained in Western medicine but maintained contact with professional doctors and hospitals; they had practical working knowledge of common illnesses and drugs and gave free consultation. They sold medicines from inventories they carried on their rounds; payment terms were flexible.

The Contraceptive Market

- **Population.** Bangladesh's total population was 130 million, with 2030 figures estimated at more than 200 million; 35 million women were of childbearing age. Government's objectives were zero population growth. Per capita income was $200; many Bangladeshis hovered at subsistence; 90 percent lived in rural areas; literacy rate was 35 percent (three times greater for males than females). Women knew more about family planning, but men made most family purchases.
- **Distribution.** SMC distributed contraceptives mainly through traditional retail channels; condom competition was minimal, but commercial brands were quite successful with pills. The government and nonprofits distributed condoms and pills directly to consumers often via clinics; direct pill distribution was more successful than direct condoms distribution.
- **Products.** Birth control options were nonclinical — condoms, pills, injectables — and clinical — sterilization and IUDs, each with benefits and drawbacks. Lapsed condom users complained of bursting, lack of sexual satisfaction, inconvenience, bad smell, and disposal problems. For pills, side-effects dominated lack of adoption and discontinuance. Condom marketing focused on birth control, but condoms also prevented sexually transmitted diseases. SMC believed up to 25 percent of condoms were used for extra- and pre-marital sex.
- **Contraceptive Effectiveness.** Population control experts measured effectiveness by couple year protection (CYP). In Bangladesh, 100 condoms and 13 oral pill cycles provided one CYP; one IUD insertion equaled 2.5 CYP, one sterilization 7.75 CYP.

SMC

SMC had three strategic business units: contraceptives, health care, and hygiene. Products generally offered little prospect of full cost recovery. SMC maximized the cost effectiveness of donor funds and used social marketing to enhance Bangladeshis' quality of life. SMC's mission encompassed manufacturing, marketing, and distribution of consumer products and services offering improved health and welfare to the less privileged. SMC could allocate resources to profitable products to improve the long-term sustainability of social marketing programs.

Contraceptives. SMC offered three condom brands (Raja, Panther, Sensation) and three pill brands (Maya, Ovacon, Norquest), distributed in retail outlets throughout Bangladesh. SMC delivered direct to pharmacies and large general stores and to 10,000 semi-wholesalers/stockists who broke bulk and resold to smaller outlets. SMC was Bangladesh's largest consumer advertiser; prices are in Exhibit 1. SMC

Exhibit 1 *Consumer Prices for SMC Contraceptive Products (Tk.)*

Brand	Raja-100	Raja-3	Panther	Sensation	Norquest	Femicon	Ovacon	Maya
Consumer Pack	loose pieces	3-piece pack	5-piece pack	4-piece pack	1 cycle	1 cycle	1 cycle	2 cycles
Consumer Price (Tk.)	0.25	1.0 per pack	5.0 per pack	10.0 per pack	12.0 per pack	10.0 per pack	6.0 per pack	3.0 per pack

estimated its condom market share at 70 percent; pill share was 16 percent.

- **Raja Condoms.** Raja meant king or emperor in Bengali, implying masculinity, bravery, and power. The King of Spades symbol was instantly recognized, as many Bangladeshi were enthusiastic card players but also illiterate. Raja was the leading condom, targeted at lower and lower-middle economic segments. Specific targets were about-to-be-married young men, married couples where the husband worked out of town and was an occasional visitor, the wife was a nursing mother, other contraception methods were contraindicated, and the rhythm method was the primary alternative. SMC advertised Raja on radio, large billboards, and one-minute films; promotional items were calendars, pads, giveaways; SMC sponsored special programs. Annual unit sales were 135 million, average price to traders Tk0.18, revenues Tk23.4 million.
- **Panther Condoms.** This upmarket product had good brand image and appealed to married young men's sense of responsibility. Panther was available at stockists, grocery shops, and kiosks and was especially strong at pharmacists. Annual unit sales were 16 million, average price to traders Tk0.8, revenues Tk12.8 million.
- **Sensation Condoms.** Sensation targeted the market's upper end — urban and semi-urban men, 20-45 years, higher educational and socio-economic background — who wanted more from life. It was Bangladesh's only ribbed condom, promoted as highly reliable, providing high sexual satisfaction. Annual unit sales were 3.0 million, average price to traders Tk2.0, revenues Tk6.0 million.
- **Maya Pills.** SMC chose Maya (affection in Bengali) to create a positive feeling and sense of optimism in married women, 30 to 40 years, with at least two children, in all economic segments. Maya's sales history was mixed; SMC used heavy trade promotion to overcome reluctance to stock it. It focused on repeat purchase and advertising on radio, television, electronic outdoor display, and promotions. Maya's image was at its lowest-ever level. Annual sales were 3.0 million cycles, average price per cycle to traders Tk1.0, revenues Tk3.0 million.
- **Ovacon Pills.** Ovacon's fewer side effects made it attractive to new users — "genuine low-dose pill." It was the most widely distributed pill in rural and urban pharmacies. Sales suffered as traders hoarded Maya and neglected Ovacon after dramatic price reductions, but were recovering. Ovacon advertised on radio, television, magazines, and outdoors; SMC produced a film and provided various trade promotions. Annual sales were 6.0 million cycles, average price per cycle to traders Tk4.6, revenues Tk27.6 million.
- **Norquest Pills.** This upmarket brand filled the price gap between commercial and social marketing brands. Some women experiencing side-effects from other pills liked it. Norquest promotions were similar to Ovacon. Annual sales were 2.5 million cycles, average price per cycle to traders Tk10, revenues Tk28 million.

Syntax Laboratories manufactured SMC's pills. When the USAID contract expired, SMC would lose the Maya, Ovacon, and Norquest brands. It was uncertain if it could replicate their product characteristics.

Health Care. SMC's ORSaline oral dehydration salts reduced child mortality and morbidity from diarrhea-related dehydration. Unlike Raja and Maya, ORSaline was self-financed from sales to urban and rural pharmacies and grocery shops. The Pharmacists Training Program supported ORSaline. It saved the lives of countless Bangladeshi children. Thousands of pharmacists had attended one-day programs on diarrhea diseases; hundreds of thousands of secondary-school children were trained on hygiene, sanitation, and ORSaline by special teams that traveled around Bangladesh. Market share was 40 percent — 35 million sachets annually.

Current suppliers were also competitors; SMC was concerned they could offer better retailer margins and/or raise SMC's prices. The government set ORSaline's retail price because of its drug classification. SMC had no buffer supplies for emergencies and was considering self-manufacture and contracts with new suppliers. SMC promoted ORSaline by advertising on radio, television, newspapers and magazines, billboards and water tanks, a film, and numerous promotional items. UNICEF advertised nationwide to raise awareness. ORSaline's maximum retail price was Tk.3.16 per sachet; SMC sold 20-sachet dispensers to the trade at Tk.2.75 per dispenser.

Hygiene. SMC offered pulp-based sanitary napkins for the female menstrual cycle. Its Femme product had 5 percent share of pulp napkins. Cost recovery percentage was high, but supply was irregular and competitors had strong positions.

Sales Force. SMC's geographically organized sales force had 85 salespeople, eight area managers, and five zone managers. Salespeople visited larger retail outlets and stockists that served smaller rural outlets. Salespeople made 15 effective sales calls per day (three to stockists); annually the sales force made 60,000 calls to stockists, 400,000 calls to retailers. Salespeople also held one-to-two-hour group (15 to 20) meetings with RMPs. Salespeople traveled in vans,

motorcycles, and boats; they carried inventory and sold for cash. Retailers earned margins from SMC; stockists received no margins but resold products to retailers at slightly higher prices and made a small income by selling packaging cases. Stockists sold 50 percent each of condoms and contraceptive pills.

New Ventures. SMC was considering several new ventures:

- **Flavored ORSaline.** Used in neighboring countries to counteract children's reluctance, but the World Health Organization and UNICEF were unfavorable because of potential price increases. Possible hypernatremia (high sodium chloride concentration in the blood) was a concern, but SMC believed the advantages were compelling. SMC could enter before competitors.
- **Injectable Contraceptives.** Increasingly used in Bangladesh. Two brands were available (two-and three-month efficacy), but SMC would require medical establishment approval.
- **Low-Dose Vitamin.** Vitamin A supplements were available for years to combat malnutrition, but coverage was low. SMC believed social marketing could be successful.
- **Manufacturing.** SMC believed manufacturing condoms, oral contraceptives, and ORSaline would improve cost recovery. ORSaline required simple mixing and packaging; Tk.70 million (US$2 million) investment would build a 100 million sachet annual capacity plant.
- **Social Marketing Products.** Options were: operating a medical clinic, distributing school supplies for the government, marketing weaning foods and high protein biscuits, and distributing agricultural seeds.
- **Commercial Products.** Options were cosmetics, soap, OTC drugs, school books/supplies, and light bulbs; property development (single building for SMC and others), a medical diagnostic laboratory, advertising agency and/or commission agency of overseas manufacturers.
- **Decisions.** SMC would shortly lose its oral contraceptive brands; European product replacements might differ from USAID. SMC had to decide resource allocations among its condoms and oral contraceptives and whether to introduce injectables. Then there were many potential new initiatives. Long-term funding was also a serious issue, and PSI would soon withdraw from Bangladesh.

8. Energy World, Inc.[1]

Energy World Inc. (EWI) supplied equipment — oil refineries, natural gas wells, solar, wind — to the energy industry. In the past few years, EWI rode a growth boom as energy prices rose and investments grew in many types of energy sources. CEO Sam Johnson often commented, "Americans are complaining about $3 per gallon gasoline, but some American companies, like us, are really benefiting."

Previously, a private equity firm concentrating on quarterly cash flow owned EWI. EWI was its top performer, but the owners decided to cash out because EWI could not sustain its high growth without large investments in capacity and globalization. Following an IPO, Sam Johnson met with his new, public company board; all agreed that EWI had significant growth opportunities for both current products and others that EWI would acquire:

- U.S. refineries were debottlenecking to raise output; they needed huge investments to process higher sulfur crude oil.
- Emerging markets, especially China and India, were developing refining industries.
- Spending on oil drilling was at an all-time high.
- Plans were in place to develop natural gas fields in the Mid-East, Africa, Australia, and Indonesia.
- Throughout the developed world, alternative energy projects (solar, wind) were being planned.
- Demand for new power generation plants was high globally.
- Existing power generation plants needed upgrades for efficiency and tighter environmental regulation.
- Liquefied natural gas (LNG) was a significant growth opportunity.

In sum, demand for energy production, refining, and distribution equipment was hundreds of billions of dollars, and EWI was positioned to participate.

After the initial board meeting, Johnson reorganized EWI into three equipment divisions — refinery, LNG, and solar+wind. He challenged each divisional general manager (GM) to develop a marketing plan to achieve higher growth. He assured them that he would make sufficient investment available. Sam had considerable planning skills, honed by consistently meeting budget during four years of intense private equity financial control. He outlined a clear marketing plan format for GMs — Exhibit 1. The previous January, each GM presented his plan. Each was aggressive, but each GM believed his was realistic. There was also great excitement.

For the next six months, Sam turned his attention to acquisitions and identified and acquired two businesses that together formed a fourth division. He observed that EWI's divisions were doing well financially but didn't dig into whether the plans were on track. In September, Sam held a series of meetings to check progress on the plans. He learned the following:

Division 1: Oil Refinery Equipment

- The plan focused on overseas opportunities and increasing the percent of international sales.
- U.S. refining investment was so large that it took all employees' time, including new hires for international.

1 Thanks to Alan Fortier for permission to use this case study.

Exhibit 1 *Sam Johnson's Marketing Plan Format*

A. Outline your market opportunity.
   a. Overall $ size

B. Highlight important segments for EWI: Size, growth rate, key accounts. Outline your value proposition.
   a. Why will EWI take share versus alternatives?
   b. Target accounts with high probability of success.

C. Outline your marketing mix and operations actions to achieve your value proposition, including needed improvements to:
   a. Products
   b. Field sales coverage, skills, and tactics
   c. Pricing programs
   d. Cost position

D. Methods to promote our superiority. Organize your direction into an actionable plan according to this format:

Strategic goals: EWI growth and positioning goals for target products markets and regions
↓
Initiatives*: Assignable projects for programs to achieve each strategic goal
↓
Milestones*: For each initiative, which might take up to 2+ years to complete, define milestones for the next 6 months to ensure we're on track (show milestone, person responsibile and timing)
↓
Metrics: What will we measure to ensure we're on track? How will we know if it is working?

E. Financial projection for 3 years

- The division was exceeding planned sales and profit by over 30 percent, but not the planned overseas growth, nor was any forecast.
- The GM explained, "Sam, this is our bread and butter. Domestic margins are twice international business. I'm throwing everything I've got at the U.S. market."

Division 2: Liquefied Natural Gas Equipment

- Like Division 1, the plan called for aggressive overseas expansion. Unlike Division 1, Division 2 followed its plan to the letter. It hired technical specialists, reassigned its best salespeople, and made product modifications.
- International orders were well below plan. The GM explained, "We underestimated how tough the competition would be. We customized our products, demonstrated the benefits, even offered low trial pricing, but the buyers are telling us we must have a demonstrably better mousetrap or they won't risk changing suppliers. If they wanted a 20 percent lower price, they could get that from China."
- The division was slightly behind its numbers but was helped by strength in existing markets.

Division 3: Solar and Wind

- Division 3 also followed its plan to the letter.
- Division 3 was well behind its sales and profit projections. The GM said, "I know solar and wind energy sounds clean and wholesome, but very little money is being spent. Natural gas generators are far more efficient. Gas prices need to double before we'll see big growth."

After finishing the reviews Sam was perplexed. He closed his eyes and clarified the situation:

- The growth opportunity is clear.
- We are a proven supplier.
- We created detailed plans.
- Why isn't this working? Or is it working and I need to give them more time?
- Now that we've created a new division with two acquisitions (for power plant equipment), should I require the same planning process or do something different?

Sam explained the foregoing to a consultant friend and asked her three questions:

1. What do you think about my approach to market planning?
   a. What's good?
   b. What's not? What should I have done differently, if anything?
2. Do I have a strategy problem or an execution problem? Both? Neither?
3. What should I do now?

9. Software Consulting, Inc.

Software Consulting, Inc. (SCI) was a large software consulting organization providing implementation expertise to clients that purchased complex software solutions from major software providers like SAS. Initially, SCI worked mainly with small- to mid-size companies. Account managers (AMs), paid largely on commission, were responsible for following up leads and securing new business. When a client signed a contract, SCI appointed a project manager to take charge of implementation using a combination of SCI and client personnel; implementations could run from a few days to a few weeks. SCI believed that its model for implementation with small to mid-size clients was highly effective.

In recent years, technological advances and increased functionality allowed SCI to penetrate Fortune 100 companies. Implementation cycles were longer and clients required additional services, and they were increasingly dissatisfied with SCI's service and lack of communication. To address this problem, SCI appointed engagement managers (EMs) to oversee activities at large clients.

EMs were supposed to help alleviate communication and deployment issues. Specific responsibilities included new client sales support, client management, resource deployment, and upsell of services. Although EMs achieved some success, problems remained.

The most serious issue concerned account responsibility and communication with the account. Because large accounts had the potential to be major revenue drivers for SCI, senior partners often visited these accounts independently of the EMs; communication with the EMs about these visits was spotty. AMs secured large firms as customers, often for a limited initial engagement; they often continued to work in the account trying to identify new opportunities. A typical EM might manage three or four project managers but was also supposed to be expanding SCI's business at the account. Finally, client personnel often asked project managers if their expertise could add value in other business units.

SCI management was concerned that its lack of focus could leave it vulnerable to competitive threats from Accenture, Bearing Point, Deloitte Consulting, and IBM.

10. Contact, Inc.

Contact, Inc. was the market leader supplying a wide variety of stationery products to office product superstore chains like Staples, Office Max, and Office Depot — its strategic accounts. Contact had one major branded competitor with a similar product line; it also competed with its strategic accounts' private-label products. Each superstore chain was increasingly seeking to differentiate itself from competitors via private-label brands. As a result, they gave increasing shelf space to private labels in their planograms. Another problem for Contact was that each superstore had full information on sales and profit margins for the products it sold, but these data were not available to Contact (or its branded competitors).

With existing products, Contact was sometimes able to use third-party awareness and usage studies, sku ranking reports, and product testing to demonstrate that its product should receive additional shelf space. This process was more difficult for new products where Contact had limited sales history; it had to rely on packaging, testing, and trade marketing plans.

Contact's executives wondered what options were available for what they saw as an ominous trend.

11. Jack Adams

Jack Adams worked as a global account manager for Travel, Inc., a large U.S.-based provider of global travel services. Jack's single customer was Consulting, Inc., a major global provider of consulting services based in London. Travel, Inc. was organized into eight product divisions and four geographic areas: North America; Latin America; Europe, Middle East, and Africa (EMEA); and Asia Pacific. Jack was responsible for the entire Consulting, Inc. relationship. He reported directly to Travel, Inc.'s general manager for Great Britain and dotted line to a global account director in Travel's corporate office. Although Jack had revenue responsibility, Travel's P&L statements ran though the geographic regions; the product divisions also had P&L targets.

In recent months, Jack believed he was receiving insufficient support from one Product Division President and the Regional VP for Asia Pacific. Agreements made with Consulting, Inc.'s corporate office were not being properly implemented in either the product division or Asia Pacific. Jack's major internal contacts were with product-marketing heads and the individual country managers; all contacts told Jack they were giving as much attention to Consulting, Inc. as possible. Jack sensed these organizations did not consider Consulting, Inc. a top priority. He was also having difficulty with his direct superior in securing budget for an extended Asia-Pacific trip to address the issues in person.

Jack was unsure how to proceed. One option was to bring in his executive sponsor (ES) for Consulting, Inc., but he was unsure how effective this would be even if the ES confirmed his suspicions. A New York-based colleague, who was also a global account manager, had intimated that she was having similar problems. Jack wondered if he should discuss the possibility of a systemic problem with the global account director.

12. Production, Inc.

Production, Inc. was a market leader; its products were used in many manufacturing operations. Since its inception many years earlier, Production, Inc. sold to industrial distributors that in turn sold to many types of manufacturers. Industrial distributors maintained inventory of many product varieties and offered fast customer delivery. Production, Inc. had a network of exclusive distributors that it treated as strategic accounts; its two major competitors had similar arrangements with their distributors.

Production, Inc. also had strategic relationships with several large end-user customers for product development. For several years, some of these firms had asked Production, Inc. to serve them directly. They believed that dealing directly with the manufacturer would allow them to gain some of the distributors' margin in lower prices. So far, Production, Inc. had refused to change its distribution policies.

Because of this distribution decision, Production, Inc.'s relationship with large end-user customers was atrophying. For established products, customers increasingly purchased directly from smaller firms, and Production, Inc.'s sales volume was dropping. It faced no such problem from smaller end users; they continued to purchase from Production, Inc.'s distributors.

Production, Inc.'s executives were increasingly concerned with the loss of business at large accounts. They wondered what actions to take.

13. Newlines Airways

Recent Columbia Business School graduate Julian Cook was contemplating the prospects for his entrepreneurial startup. Newlines Airways would be a business-class-only airline flying from Stansted Airport (north of London) to John F. Kennedy Airport in New York. Julian had raised $1.8 million from angel investors and spent four months setting up the company in London. As he contemplated raising venture capital, he reviewed the market segmentation ideas at the heart of his plan.

Julian knew that market segmentation was fundamental to developing the market strategy and that many domestic and international airlines practiced it. He believed the most common approaches identified **business** and **leisure** customers. Airlines used several devices to separate business and leisure passengers in the coach section of airplanes:

- **Saturday-night stayover.** Leisure fares were substantially higher if the passenger completed a round trip within one week — typical for many business travelers. By staying over on Saturday night, fares were typically lower.
- **Booking Time.** Flights were typically cheaper when booked far in advance. When bookings were closer to the flight time — business people traveling for urgent meetings — prices were higher.

Leisure travelers were most concerned with getting from A to B, generally wanted low fares, and were prepared to put up with cramped seating arrangements and sitting in the back of the airplane. Many business people also traveled in the coach section, but some business customers were willing to pay substantially more for roomier seats, high quality meals, and generally better service; they sat in the front of the plane. Some airlines also offered extra-high-quality service for first-class passengers at even higher prices.

Generally, airlines used a single airplane to cater to all types of customers, but there were exceptions. The most notable was Southwest Airlines (SWA), founded in 1971. SWA offered low fares on its flights and had grown to be the largest domestic U.S. airline. Other airlines copied and elaborated on SWA's model. The most notable examples were RyanAir and easyJet in Europe. When discount airlines like these launched service, they generally expanded primary demand substantially.

Julian aimed to capitalize on the widening price and comfort gap between business and economy class in long-haul travel. Newlines would operate Boeing 757-200 aircraft configured with 80 seats, providing a spacious and pleasant environment. Aircraft would be equipped with the latest technology to enable business travelers to use their time efficiently while traveling. Newlines planned to start by leasing two aircraft and to expand its fleet to six by the second year of operations.

Newlines would offer customers a compelling value proposition: high service levels and comfort at 54 percent of the current published business class fare. Its price would be $2,500 for a roundtrip ticket versus $5,500 for the major airlines. (Coach prices varied by season but averaged around $500.) For companies with high volume demand, Newlines' discount prices would drop to $2,000 for bulk purchases. Newlines would offer passengers considerable time savings, convenience, and a lifestyle appeal, including fashionable interior cabin design. Specific planned services included e-tickets, free transfers to/from airports, valet parking, larger carry-on luggage, no check-in, reduced transfer time from offices, and personalized service like cuisine choice and showers at destination.

Newlines' business model would allow it to reach break-even at 40 passengers per flight and significantly reduce the risks of typical airlines that needed more passengers to reach break-even. The London-New York route was the busiest transatlantic route with about four million passengers, growing at four percent per annum annually. Approximately 30 percent of passengers were business travelers — 1.14 million. About two million passengers in Stansted's catchments area traveled to the USA; there were no regulatory impediments to Newlines' service.

British Airways (12×/day), American Airlines (7×/day), Virgin Atlantic Airways (5×/day), United Airlines (4×/day), and Continental Airlines (2×/day) served the London-New York route. They operated out of Heathrow (west of

London) and Gatwick (south of London) with wide-body aircraft (B747s, B777s, B767s, A340s, A300s) and a three- or two-class cabin configuration. By targeting such a dense route, Newlines believed that competition would be slow to respond.

Newlines' initial planned market share was two percent and would not be considered a threat. The London-New York route was highly extremely profitable for the airlines.

As he thought through the issues, Julian wondered about his chances of success. Had he got the segmentation right? What had he forgotten?

14. Madison Industries[1]

Thursday, October 4

Ron Fischer's flight prepared to land. Fischer was a newly recruited regional sales manager (RSM) for Madison Industries, a major manufacturer of woodworking and metalworking tools. With two weeks on the job, Fischer was flying to meet with Dave Feldman, the First District's sales manager.

Fischer would spend the next two days with Feldman and his sales reps to determine first hand the reasons for the district's poor performance. He carried the files of his predecessor, Dick Coccaro, recently transferred to Tokyo. After careful review (*Exhibits 1-4*), Fischer was uncertain if the district's problems were due to Feldman's and Coccaro's leadership or to competitive pressures. He suspected the former, since Fischer's other districts and Madison nationwide were doing fine.

Fischer spent a week conferring with the other RSMs and poring over his region's sales statistics. All the figures pointed to consistent sub-par performance in the First District. He decided to visit Feldman at short notice and attend the monthly sales meeting.

Previously Fischer had an unsatisfactory meeting with Coccaro before he left for Japan. Coccaro answered most of his questions in optimistic generalities. Coccaro considered Fischer's concerns premature and recommended familiarizing himself with the region before focusing on specific issues. Fischer called Coccaro in Tokyo before his trip and asked point-blank about the First District's sales figures. Coccaro sounded slightly defensive: "Well, I realize the district hasn't been living up to its potential, but I talked the situation over with Dave, and he believes that competition is getting very tough. He sees it as a motivational problem, and I agree. Maybe marketing isn't doing enough to help the sales force. Still, it's Dave's job to deal with the problem. I'm sure he's doing the best he can in a difficult situation."

At the airport, Feldman welcomed Fischer warmly. During the ride into town, Feldman talked about his years with Madison and said how much he enjoyed working with the salespeople and sharing experiences at the monthly meetings. "I enjoy them all, every last one of them, and I guess they feel that." He also mentioned his fishing trips with Mark Tyre, the recently retired national sales manager.

When Fischer and Feldman arrived at the district office shortly before 10 a.m., they found three people who seemed very much at home. Jim Heldring was engrossed in the sports pages of the local newspaper; Nick Levy was sipping coffee and working on his call reports; Len Fernandez was about to leave with an armful of point-of-sale materials. After half an hour's casual conversation about the industry and competitive pressures, Fernandez and Heldring invited Fischer to join them in the field. Feldman suggested that Fischer travel with Fernandez; he'd already arranged for Kent Horthy and Fischer to make calls later in the day.

Friday, October 5

The conference room at the district office began to fill up half an hour before the 2 p.m. meeting. Feldman introduced Fischer to Jacqueline Simone and Bill Schmitt, the two sales representatives he hadn't already met. Simone, Fischer thought, seemed guarded and a little sullen, as though she weren't entirely at ease among her male colleagues.

The meeting atmosphere was informal and low-key and confined to three routine issues. First, the group reviewed the posted sales figures for September and the third quarter, broken down by territory; no comparisons were made, however, to the previous month, the previous year, or other districts' sales. Second, Feldman scheduled his trips into the field with representatives for the coming month. Third, the group discussed (without much enthusiasm) a three-percent trade allowance on measuring instruments, to go into effect that Monday. Feldman had received preliminary information about trade and consumer promotions for the holiday season, but he made no mention of these programs. Nor was anything said about the need to improve the district's performance. There was a good deal of harmless teasing among some of the men; Feldman joined in good-humoredly. Feldman had told Fischer before the meeting that he was welcome to ask questions, but he didn't suggest that Fischer address the group.

On the flight home, Fischer spent the first hour looking through copies of Feldman's files on the sales force. Then he tried to draw some conclusions about what he'd learned and consider what actions he might take to improve the First District's performance.

1 This case was adapted from Benson P. Shapiro, Grafton Industries (B), 9-575-123, by permission of the Harvard Business School on behalf of the copyright holder, the President and Fellow of Harvard College.

Exhibit 1 *Recent First District Sales Performance*

	Prior Year				Current Year (First Half Only)	
Salesperson	Sales ($ thousands)	Percent of District Sales	Active Accounts*	Calls per Year	Sales ($ thousands)	Percent of District Sales
Heldring	$ 6,480	17.8%	205	1,120	$ 2,938	16.9%
Eckberg	5,866	16.1	310	1,350	2,728	15.7
Horthy	5,460	15.0	160	1,470	2,832	16.3
Fernandez	4,666	12.8	120	1,525	2,278	13.1
Levy	4,440	12.2	220	1,075	1,756	10.1
Chow	4,050	11.1	130	940	1,806	10.4
Simone	3,256	8.9	309	1,210	1,740	10.0
Schmitt	2,220	6.1	458	1,640	1,312	7.5
Total	$36,438	100.0%	1,910	10,330	$17,390	100.0%

*Active accounts placed an order in the past year.

Exhibit 2 *Prior Year Sales Compensation and Expenses: First District*

Salesperson	Salary	Commissions	Total Compensation	Expenses	Total
Heldring	$108,000	$ 96,000	$ 204,000	$ 22,200	$ 226,200
Eckberg	87,000	87,000	174,000	36,600	210,600
Horthy	60,000	81,000	141,000	23,100	164,100
Fernandez	75,000	69,000	144,000	21,000	165,000
Levy	69,000	66,000	135,000	39,900	174,900
Chow	81,000	60,000	141,000	18,900	159,900
Simone	51,000	48,000	99,000	48,000	147,000
Schmitt	39,000	33,000	72,000	39,300	111,300
Total	$570,000	$540,000	$1,110,000	$249,000	$1,359,000
Average	$ 71,250	$ 67,500	$ 138,750	$ 31,125	$ 169,875

Exhibit 3 *Territory Data — Prior Year: First District*

Salesperson	Territory	Population	Square Miles	Potential Accounts*	Percent of National Retail Sales
Heldring	1	2,065,000	1,806	504	0.8603%
Eckberg	2	2,109,000	9,045	525	0.9971
Horthy	3	1,233,000	1,301	185	0.6809
Fernandez	4	618,000	61	139	0.2579
Levy	5	1,798,000	4,239	358	0.9171
Chow	6	1,120,000	6,524	427	0.4754
Simone	7	1,974,000	24,070	883	0.8204
Schmitt	8	2,196,000	28,738	933	0.7613
Total		13,113,000	75,784	3,954	5.7704%
Average		1,639,125	9,473	494	0.7213%

*Active accounts are a subset of Potential Accounts.

Exhibit 4 *Prior Year Sales by Product Line: First District ($000s)*

Line	Representative									
	Gross Margin	Heldring	Eckberg	Horthy	Fernandez	Levy	Chow	Simone	Schmitt	Total
Stationary Metalworking	40%	$ 196	$ 54	$ 396	$ 378	$ 298	$ 114	—	$ 74	$ 1,510
Stationary Woodworking	36%	1,036	228	1,102	844	750	484	318	308	5,070
Portable Power	33%	1,888	2,628	1,794	1,290	1,512	1,384	1,040	772	12,308
Hand Tools	30%	2,532	2,650	1,078	1,476	1,384	1,506	1,320	912	12,858
Masons' and others' tools	50%	190		558	240	138	238	258	48	1,670
Measuring Instruments	40%	642	306	534	412	360	326	318	106	3,004
Total	34%	$6,484	$5,866	$5,462	$4,640	$4,442	$4,052	$3,254	$2,220	$36,420

15. Merck

Bill Gibson, Director of Sales, General Motors (GM) Fleet and Commercial Operations, was considering Merck's ($22 billion pharmaceutical firm) fleet vehicle requirement. Ford had supplied most of Merck's U.S. fleet for the past eight years; GM bid unsuccessfully every year. GM was sole supplier to Merck Canada with a multi-year contract and provided high-end vehicles for senior executives. Merck had several suppliers in Latin America. Now Merck aimed to consolidate its Western Hemisphere (U.S., Canada, Latin America) purchase with one supplier. GM, Ford, and Daimler-Chrysler were the options. Merck had a top-ten vehicle size fleet — 12,800 cars in the Western Hemisphere for sales and research employees to visit physicians. Fleet cars lasted 65,000 miles (three to four years); annual replacement — 3,000 to 4,000 vehicles. Annual spend was $65 million.

During the 1990s, Merck was a Wall Street darling, then became somewhat of a whipping boy, with an unproductive new-product pipeline, legal battles over arthritis drug Vioxx, and significant patent expirations. Historically, Merck operated in silos; individual drug teams had a good deal of autonomy. CEO Richard Clark committed to changing the culture and organization to drive quicker, fact-based decisions. He aimed to stream the R&D-to-commercialization process and transform Procurement. Planned procurement savings were $1.2 billion on a $7.4 billion annual spend — equivalent to 11 percent earnings per share (EPS).

Merck operated in 54 countries. Each of its 31 manufacturing sites had a procurement department to assure continuous raw materials and packaging supply and to secure local services. Global Procurement (GP) provided centralized services to business units but could not implement procurement practices across businesses or champion joint buying by multiple sites. Merck neither leveraged economies of scale nor had a system for sharing best practices. Procurement jobs were often one element in a manager's job rotation, typically three years.

Willie Deese joined Merck from GlaxoSmithKline (GSK) to drive transformational change in Procurement. Deese believed GP should collaborate with business units rather than try to control expenditures; otherwise, customer needs could become secondary to cost control. Deese believed business units should define needs; GP should find cost-effective solutions. But Deese also believed that GP should control the sourcing process. Currently, business units controlled their own spending budgets in a culture expressed by "It's my budget, and I'll do what I think fit." Deese had to work with senior leadership and business unit heads to effect change in this attitude.

At Merck, GP influenced only 52 percent of the $7.4 billion annual spend; it had no influence on 48 percent of spending — healthcare benefits, legal, management consulting, car fleets, or significant spend outside the U.S. Deese first tried to understand Merck's patterns by placing all spend into four categories ranging from local to global. He found that local spend was 91 percent of total; GP was involved in only 15 percent. An early goal was to secure greater geographic consolidation to better leverage Merck's global footprint.

Deese hired consultants QP Group to jump-start the change in procurement and validate the savings opportunity. He also hired Exegy, a supplier of contract procurement professionals, to bolster Merck's bench strength and attack previously non-procurement spending categories. QP and Exegy trained all Procurement employees in a new five-step Sourcing Management Process (SMP) and launched waves of cross-functional teams to attack various spending categories. Deese restructured his Global Procurement Management Committee (GPMC) to expand its influence within Merck. Two major challenges were:

- Many supplier relationships were entrenched; making changes was difficult.
- GP had limited influence over many supplier relationships.

Deese organized a series of Supplier Forums to align Merck and senior supplier executives to Merck's changing expectations — 100 top direct material suppliers, top 100 indirect suppliers of services, and top 100 European suppliers. Deese told suppliers about Merck's difficult business climate, its strategy for change and cost control. He challenged suppliers to present plans to reduce Merck's costs by 20 percent over three years. He asked suppliers for white papers on how Merck could achieve its cost-saving targets — seven percent in year 1, seven percent in year 2, six percent in year 3. Deese requested immediate savings as refunds or rebates. He also bolstered his procurement team with outside talent and focused heavily on change management by extending GPMC to include representatives from Finance, Human Resources, Legal, IT, and Public Affairs.

Analysis of spending categories yielded general guidelines for 90 percent of Merck's spend:

- Just do it — 40%: Small percentage of total spend, low supplier power; procurement bought for Merck with minimal stakeholder involvement.
- Collaborative fast track — 30%: More complex sourcing processes, suppliers with substantial power. Procurement worked with smaller, ad-hoc teams.
- Joint strategic sourcing — 30%: A large percentage of total spend, moderate-to-high sourcing complexity. Procurement led cross-functional teams including all stakeholders.

An early GPMC task was publishing the Savings Rule Book, specifying procedures to classify, approve, and document all savings. Savings categories in importance order were:

- Absolute cost reduction from price last paid
- Cost reduction compared to market for new products
- Cost reduction versus budget

Only actual cost reduction counted toward savings; cost avoidance (like offsetting inflation or avoiding penalties) did not. Merck based procurement transformation on four

pillars; Sourcing Management Process (SMP), People development; Expense management, and Supplier management.

Pillar One: Sourcing Management Process. Merck sought quick wins both to build momentum and to develop medium- to long-term sourcing strategies by leveraging its global footprint. The five-stage process and tool kit comprised:

- Stage 1. Defining business requirements (AQSCI) based on: Assurance of supply, Quality/Regulatory needs; Service levels; Cost; and Innovation. AQS had absolute thresholds, C was scalable; Merck incorporated I if required.
- Stage 2. Gathering and analyzing internal and external market data
- Stage 3. Generating strategic options for innovation and breakthrough approaches
- Stage 4. Executing the strategy, usually by bidding or negotiating contracts
- Stage 5. Launching continuous improvement plans

In a typical SMP process for a category of spend, a GP Sourcing Manager lined up an Executive Sponsor (the functional head where the spend originated) and formed a cross-functional team with representation by all key stakeholders. The team adopted a Project Charter representing the authority the sponsor vested in the team to work on the sourcing category. The charter included the goal and purpose of the sourcing team, the role of each team member, and responsibility boundaries. Based on the Charter, the team developed an overall plan; it also used the Charter to measure progress against the original intent.

Pillar Two: People. Executing SMP and leading cross-functional teams required a very different skill set from before; also, performance targets for Sourcing Managers were different. GP needed a critical mass of managers with procurement process skills and subject matter expertise to attack the many new categories of spend. The GPMC and HR developed a skills assessment inventory of all Procurement employees via 90-minute interviews. It closed some identified skill gaps via training programs; other employees left the function or Merck. It also conducted an intensive six-month recruiting effort to add 50 people in the U.S. and 10 in Europe. One hundred fifty Procurement personnel at Merck's manufacturing sites were re-assigned to Procurement and trained in SMP.

Pillar Three: Expense Management. Historically, Procurement focused on price, terms, and purchase conditions; measured savings were reductions from last price paid. It did not consider approaches like total cost of ownership (capital plus ongoing maintenance expense) or opportunities to use less. The new Procurement regime explored less expensive goods or services, eliminating waste, and abolishing certain types of spend. Some approaches involved changing policy, like implementing a single travel policy for all business units, eliminating steps that created wasted effort, ensuring compliance with preferred provider contracts, and standardization to reduce the number of items in a category. Some approaches surfaced from the supplier white papers.

Pillar Four: Supplier Management. Forty percent of Merck's products relied heavily on third-party partnerships; 30 percent were with 30 different suppliers. Many partnerships/supplier relationships dated back 20 to 30 years. From the 196 white papers it received, Merck realized many suppliers were far ahead in procurement best practices. A commonly suggested improvement area was process rationalization. Suppliers knew that some Merck processes were inefficient and high cost, like packaging and branded promotion items — Merck was using 200 different models of pens!

Going forward, GP, the business units, and corporate functions would jointly share relationship ownership. For core and unique services, Merck implemented a higher level of scrutiny and supplier management whose goal was to secure greater cost discipline and strategic alignment. High-performing supplier relations became a key value driver for Merck. Merck segmented suppliers on scale and importance of spend category. It leveraged some supplier relationships to secure the lowest possible costs; others would be long-term strategic partners, and Merck would deal with them more collaboratively. Merck selected suppliers for accessibility, technological superiority, competitiveness, and global influence. Cost savings was a major criterion, but each supplier had to meet thresholds of assurance of supply, quality, and service. Suppliers delivering innovation were most favored, especially for advanced pharmaceutical ingredients, critical to drug development and manufacturing.

Merck discovered that many middle-tier suppliers were more nimble and willing to accept its challenges than bigger firms. Larger suppliers often had a global footprint but structural inefficiencies similar to Merck; lack of standardization made worldwide collaboration difficult and cumbersome.

Within one year, GP had over 30 procurement teams and 130 staff trained in the new sourcing methodology and was on track to meet spending reduction targets. To build momentum, the GPMC used cash awards and other forms of recognition to motivate team members. Frequently circulated News Flashes helped communicate early successes, share best practices, and recognize the cross-functional team efforts.

Back at GM. In his meetings with Merck managers, Bill Gibson gained some insight into Merck's transformation of Procurement. He wondered how these changes would affect GM's ability to secure significant business. Certainly, its approach would have to be very different from its previous years' losses. If it were to win, GM would have to beat Daimler-Chrysler and also displace Ford.

16. Citibikes[1]

Your town was considering implementing a bicycle-sharing plan as a means of easing street congestion, reducing vehicular emissions, and promoting a healthy lifestyle. Some U.S. cities had embarked on pilot programs, often drawing inspiration from European models. The mayor requested both a bicycle-sharing strategy and an implementation plan including bicycle storage locations and numbers of bicycles per location.

European cites with bicycle-sharing programs included Paris (20,000 bicycles), Lyon, and Rennes in France; Barcelona and Pamplona in Spain; and Düsseldorf in Germany. Copenhagen, and Amsterdam had similar programs. From the perspective of transportation policy, a city could secure a considerable fleet of bicycles for the cost of a bus. For residents, bicycles offered a low-cost, healthy alternative to often-crowded public transportation.

The most successful programs were so-called third generation. First-generation programs involved scattering old bicycles around the streets where they could be used for free. Second-generation programs accepted coins. Third-generation programs used new bicycles and advanced technology to gain bicycle access. In one program, users paid an annual $30 membership fee and received a smart card that secured a bicycle from a mechanized rack. The first 30 minutes were free, then the rider paid 30 cents per half hour — if the bicycle was not back in a rack within two hours, the card might be deactivated. In an alternative system, members received cell-phone text messages containing codes to unlock the bikes. In southern European cities, the average bicycle was used 10 times per day. Observers believed the strong car culture, longer commutes, and a preference for wearing helmets had slowed U.S. adoption.

In several cities, private organizations operated bicycle-sharing programs. In a typical arrangement, the city gave a private company rights to advertise on city-owned properties in exchange for the program; the private firm secured revenues by selling the advertising space. Bicycle-sharing programs were not without their problems. Car owners complained about the removal of parking spaces to accommodate bicycle racks. Demand and supply were sometimes misbalanced; some racks might run out of bicycles, and racks in popular areas might fill up, so riders had to search for parking. Some cites have a central monitoring station; employees using trucks rebalanced the system. Regardless, Your Town's mayor was keen to explore the possibility of a bike-sharing program and has asked you to develop the market strategy and implementation plan for a potential program.

1 Based on an article in *The New York Times*.

17. Sotheby's Auction House

Together, Sotheby's and Christie's account for more than 90 percent of all fine art auction sales worldwide, more or less splitting the market between them. Sotheby's is publicly traded (NYSE – BID); François Pinault, the French department store mogul, owns Christie's. Sotheby's has operations in London, New York, Paris, Milan, Geneva, Zürich, Amsterdam, Hong Kong, Melbourne, and Sydney.

Generally, auction houses receive property on consignment, then sell that property at a live public auction according to state and/or country regulations. The primary competition between the two houses concerns consignment. Since the available inventory of very high value objects is extremely limited, Sotheby's and Christie's compete strongly for auction inventory.

Two primary customer types drive auction sales: dealers (trade) and private collectors. Dealers purchase art objects with the intent of re-selling at a higher retail price in the future; they sell objects from their inventory or on behalf of personal clients for commissions. Private collectors buy art objects for personal enjoyment or investment; they sell for five primary reasons — death, divorce, debt, disease, and discretion (the 5Ds).

Auction houses earn revenues from both buyers and sellers. They charge buyers a "Buyer Premium" (BP) for the right to purchase at their houses; for example, 20 percent on the first $200,000 and 12 percent on the remainder. They add these amounts to the final bid amount. The houses also negotiate a "Vendor Commission" (VC) with the seller (consignee); the seller pays after the object's successful sale. During the 1980s art boom, both houses began to waive the VC so as to increase their inventories. This practice led to a VC price war that practically eliminated VC revenue. More recently, in addition to waiving VCs, the houses have offered sellers some of the BP for highest valued property or collections.

Both Sotheby's and Christie's also guarantee prices for consigned property. The auction house promises to pay the buyer an agreed-on price for the property, regardless of the highest bid. This practice is somewhat controversial; many buyers believe it subverts the open market by artificially inflating prices. Guaranteeing property can also be risky for the auction house if the art market takes a dramatic downturn as has occurred periodically. Post 9/11 2001, Phillips auction house almost went bankrupt after guaranteeing large portions of its Contemporary and Impressionist sales. Costs incurred by auction houses are primarily associated with handling, storage, and administration for property and sales exhibitions. Consignors and buyers cover costs like shipping and insurance. An additional significant cost is salaries to retain senior business developers who maintain relationships with key private collectors, executor/fiduciaries, and dealers. In 2001, Christie's and Sotheby's were both found guilty of price fixing and collusion, and were ordered to pay over $300 million each in fines and reimbursements to consignors who paid VC fees agreed upon by the heads of both houses. Since then the price war has continued and price competition remains fierce.

Sotheby's Marketing Chief, Antoine Jackson, reviewed recent industry history. Price competition had dominated the industry the past several years, culminating in the price-fixing scandal. He knew that Christie's under François Pinault remained a very tough competitor. He knew how successful some firms had been through branding initiatives and wondered if that direction would be worthwhile. If so, what would this imply in terms of communications strategy?

18. ABC Symphony Orchestra[1]

After several rounds of interviews, Sonia Smith was selected as Marketing Director for ABC Orchestra located in a major metropolitan area. During the interviewing process, Sonia heard rumblings about the state of the organization. She just confirmed that this season's subscriptions are down by 1,500 seats; last year at this time subscriptions totaled 8,200. Single-ticket sales are tracking 10 percent below last year despite consistent direct mail activity; the orchestra sent 100,000 pieces very recently.

ABC Orchestra is facing a deficit, but Sonia isn't sure why. The orchestra faces local competition for the arts dollar, but the orchestra is the crown jewel and has been a strong presence for many years. Sonia must quickly assess the situation and decide how to move forward.

As Sonia contemplated the situation, three areas seemed important:

Data Collection

- Subscriptions are down. To get a grasp on the state of subscriptions, what key performance indicators (KPIs) must Sonia start to measure immediately?
- What does Sonia need to know about subscribers' and single-ticket buyers' purchase behavior before she plunges into developing a market strategy?
- What data should Sonia ask for immediately to help her become more informed regarding ABC and her marketing position?

Market Strategy

- What primary data does Sonia need to access the 100,000 direct-mail strategy drop?
- What other direct marketing strategies should Sonia consider introducing?
- What data does Sonia need to evaluate her budget? What must she know about ABC's overall budget?
- One option may be new programming for both existing and potential audiences. How should Sonia approach this task?

Relationship Marketing

- As Marketing Director, what key internal and external relationships — functional roles and organizations — should Sonia develop right away? Why?
- In her first two weeks on the job, with which department(s) should Sonia spend considerable time observing and learning from?
- How should Sonia find out about the marketing/sales channels (vendors, marketing tools) ABC already employs? What major channels should she become very familiar with immediately?

Define and Measure Success: How should Sonia measure her success? What benchmarks and milestones must she set for herself on a weekly and monthly basis?

19. William Chung[2]

William Chung (Bill) was in his final year of a business degree program. During the previous academic year, together with his twin brother, Jim, Bill founded a small import-export firm specializing in goods sourced from Indonesia, their home country. Bill lived in New Jersey, while Jim had recently moved to Amsterdam. In both locations, goods arrived by sea from Jakarta and were stored in small warehouses near the brothers' apartments. Part-time employees handled fulfillment. During the past year, Bill and Jim worked together in New Jersey. Now that the U.S. operation had some success, Jim was launching the firm's European branch. The first Amsterdam shipment had just arrived. During the first year, U.S. sales were slow but growing. The brothers purchased and culled e-mail lists that suggested Indonesian heritage or interest in Indonesia, but they spent less than $10,000 on the e-mail program. After six months the brothers started sending a bi-monthly newsletter to 1,000 names. In six months, the list grew to 1,500 names, largely through sign-ups on the website.

When Bill presented his entrepreneurial activity for a final class project, fellow students and his marketing professor suggested he put more effort into making the website more engaging and developing his e-mail program. They also suggested that Bill enter his company in the school's annual student-entrepreneur-of-the-year competition. His marketing professor suggested that Bill demonstrate how he would build on the first year's experience to redesign the website and improve the e-mail program. Specifically, she suggested that Bill:

- Develop parameters for the website designer.
- Decide types of e-mail should be sent, and when.
- Identify e-mail content and figure out who would write it.
- Decide how to measure the success of these efforts.

1 Thanks to Professor Sandy Becker for permission to use this case study.

2 Thanks to Professor Sandy Becker for permission to use this case study.

- Provide a rationale for the online strategy, along with associated benefits/risks.
- Identify how Bill's approach to the U.S. market will affect Jim's startup in Europe.

Bill would have no more than 10 minutes to present his approach. He decided to get down to work.

20. Centaur Consulting[1]

Many executives believe that the key to successfully developing differential advantage in the future will be intellectual capital and the firm's human-resource assets. It follows that providing employees with learning and development opportunities like team effectiveness, leadership, diversity, coaching and counseling, and overall management expertise will be critical for business success. In addition, learning and development can be an excellent tool for firms to retain their most valued employees.

However, the pressures of justifying every budget request, a sluggish economy, constant merger and acquisition activity, downsizing, and many other forces that firms face can easily lead to reduced training and development budgets.

Centaur Consulting Inc. (*www.centaurconsultinginc.com*) is an established national learning and development organization. It focuses in three key areas: customer service, management/employee development, and business systems/methods. Centaur sees its marketing challenge as defining appropriate segments to target, developing positioning for each segment — including customer and competitor targets, value proposition, reason to believe, and defining an implementation plan.

Centaur has asked you to assist in this task. It has also asked you to address some related and overlapping questions:

- What recommendation do you have for establishing Centaur Consulting's brand?
- How can Centaur clearly differentiate from other firms that claim common competencies?
- Should Centaur develop and market unique offers, or a complete package of Instructional Design and Training courseware? Does Centaur offer too many services?
- What information should you capture about potential client training needs to support your strategic decisions regarding branding, positioning, and competitive strategy?
- How can Centaur justify its fees for Instructional design, Course development, and Training delivery?

1 Thanks to Professor Sandy Becker for permission to use this case study.

21. John Andrews

Budapest, Hungary

In early June, John Andrews was contemplating his options and trying to decide what action to take. He had just finished meeting with his employer, Nickolai Slavic, CEO of Galactic Electronics. When he had kissed his wife good-bye at the Atlanta airport three days ago, everything seemed great. He mused, "How things can change so quickly!"

John Andrews was an MBA student at Emory Business School in Atlanta. He had just finished his first-year program and was taking the summer off before returning in the fall to complete his studies. Immediately prior to starting at Emory, John had worked in procurement for the United States Air Force at several bases in the U.S. and Asia. A graduate of the United States Air Force Academy (USAFA) in Colorado Springs, John had hoped to become a fighter pilot. However, when he failed an eye test in his junior year, John decided to "five and dive," sign up for five years' active duty, then become a civilian. His performance at USAFA and full-time procurement experience gained him acceptance at Emory.

The previous winter, John had interviewed for a summer job with a senior Galactic executive in Atlanta. The interviewer described the two-month assignment as market research requiring travel in Europe. John felt very fortunate to secure the position. He was not happy about leaving his wife, Natalie, in Atlanta for the summer, but the job allowed them to plan a two-week vacation in Poland starting in mid-August. Natalie was of Polish descent but had never been to Poland. She was eagerly looking forward to visiting her parents' childhood home and meeting her many cousins for the first time.

In the morning meeting, Slavic had elaborated his expectations. He explained that the European Union was gathering strength. Historically, Galactic was well placed in Hungary but faced increasing competition from European firms based in Western Europe. John's project was to figure out these firms' likely actions within the next two to three years. Slavic said that he wanted John to interview key people at these companies — there was a modest budget for travel, mainly by train, to the various countries. In order to get good information, Slavic told John he should present himself as a USAFA graduate, now an Emory student, collecting industry data for a term paper. The cover story was that John was combining a summer vacation in Europe with his studies. Slavic said that if the firms had any idea he was working for Galactic, they would not want to meet with him.

Slavic reviewed the financial arrangements. For safekeeping, Galactic would hold onto John's return ticket from Europe to the U.S. until the project was finished. John would receive 50 percent of his salary weekly and 50 percent when he received the return ticket. Galactic would pay rent for John's apartment from his weekly salary. Slavic expected John to meet with him every seven to ten days for updates.

The meeting stunned John. Should he misrepresent himself? But, Slavic was very clear: no work, no cash. What should he do? It was too late for other summer jobs. He could not contact Natalie — she was attending a two-week retreat with her parents. Most of John's savings from the Air Force had been paid to Emory, and the remainder was budgeted for living expenses for next year. With Natalie now pregnant and unable to work, if he quit Galactic, the loss of the summer salary could be devastating. Furthermore, he would be on his own to get back to Atlanta. And what about the Polish vacation?

Questions:

1. What should John Andrews do?
2. What issues should enter his decision?
3. Why did John get into this situation?

22. Top City Movie Theaters[1]

Richard Charles, newly appointed marketing director at Top City Movie Theaters, was contemplating a change in market strategy for the 1,000-screen chain. Top City's movie theaters ranged in size from four to 16 screens, depending on location, and typically showed mainstream movies. The focus of Charles' attention was pricing.

Charles' previous position was marketing director for a music entertainment organization. He booked bands, designed tours, contracted for performance spaces, and priced tickets. Ticket prices varied from band to band, and for a single band by seat location in the theater. He knew that prices for other types of performances like symphony orchestras and opera varied similarly. The approach to pricing at Top City was quite different. Essentially prices were identical regardless of the popularity of the movie and of the seat in the theater. There was some variation by theater location so that prices in major cities were typically a little higher than elsewhere.

Charles believed he had the opportunity to make a major change in movie pricing. He was considering pricing popular movies somewhat higher than the average and less-popular movies somewhat lower. He also wondered about the feasibility of setting different prices for seats in different parts of the theater. Charles was not aware of previous attempts at movie price differentiation and believed his proposed approach would be revolutionary. He knew that Top City retained about 40 percent of box office receipts and that 40 percent went to the studios and other parties. He decided to complete a pro/con analysis. He also wondered about the branding implications of a variable-pricing strategy.

1 Thanks to Professor Hitendra Wadhwa for permission to use this case study.

23. Gorgeous Gardens

Gorgeous Gardens (GG) distributes lawnmowers and other gardening products to the consumer market. Traditionally, GG reached consumers through a dealer network of retail outlets specializing in home and garden products. These outlets provide a variety of pre-sales and after-sales consumer services like product education, sales support, and repairs.

Heinz Schotte, newly appointed marketing manager at GG is interested in growing GG's business by entering discount stores like Walmart and Carrefour. In formulating his plans, Heinz is conscious that existing channel partners might resist this move and wonders what actions GG might take to mitigate the conflict.

24. Buckstar[2]

Buckstar is an upscale café chain with outlets on many street corners across the country. Facing an acute shortage of new locations, Buckstar is re-focusing its strategy on growing same-store revenues. It plans to introduce a new sandwich line next year. Despite its broad beverage selection, hitherto Buckstar has offered limited food choices — bagels and muffins. Janet Rowling, Buckstar's marketing manager has responsibility for conducting store tests to evaluate customers' willingness to pay for the sandwiches and to recommend pricing. Janet completed her analysis and described the results to management:

"The target market for our sandwiches is people who are in our stores at lunchtime, 11:30 a.m. to 2:30 p.m.; we expect to sell very few sandwiches at other times. I selected five representative stores across the country, and last month we tested our new offering in that timeframe.

"We tested three price points: \$3, \$4, and \$5. For every 100 customers in our stores between 11:30 a.m. and 2:30 p.m., we saw the following demand:

\$3 price → 20 units sold

\$4 price → 15 units sold

\$5 price → 10 units sold

"Our variable cost per sandwich is \$1.50. These data should help determine the optimal price."

Janet's manager pointed out that sandwich sales were likely to:

- drive additional sales of certain beverages like juices, and
- cannibalize sales of certain other beverages and food items.

2 Thanks to Professor Hitendra Wadhwa for permission to use this case study.

Janet extracted the following additional data from the test results. Every 10 sandwich sales drove:

- 4 additional purchases of juice beverages (gross margin $2 per bottle of juice)
- 4 fewer purchases of coffee beverages (average gross margin $1 per cup)
- 6 fewer purchases of bagels and other food items (average gross margin $2 per item)

With these new data in hand, Janet decided to seek answers to several questions:

- Considering only the three price points ($3, $4, $5), what is the optimal sandwich price, ignoring the impact of other product sales?
- Considering only the three price points ($3, $4, $5), what is the optimal sandwich price, including the impact of other product sales?

Janet also wanted to consider a $6 sandwich price. Unfortunately, she could not forecast sandwich sales — she had not tested $6. Instead, she asked: How many sandwiches (break-even) would Buckstar have to sell at $6 to earn the same profits as for the optimal price when the impact of other product sales was included (second question)?

Janet knew that pricing recommendations would be based on her market research. She asked herself: Was the study complete or are there shortcomings I should rectify in a second attempt?