CAPON'S

Marketing Essentials

Short Cases

INSTRUCTORS' NOTES

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Capon's Marketing Essentials

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Introduction to Short Cases for Instructors

Based on feedback from instructors, Wessex has developed a series of short marketing cases. For some teaching purposes, Harvard-type cases are appropriate; at other times, a much shorter teaching tool may be better. In an adjacent link, we offer a set of these cases for free download; students can also download these cases from the Capon's Marketing Essentials area of the website under *Short Cases*. In this document, we provide instructors notes for teaching the cases. In a second adjacent link there are a few helpful PowerPoint decks. Some instructors' notes are extensive; others are more modest. Purposely, we have removed dates from these cases; they deal with evergreen issues and can be used for many years. As always, we are pleased to receive feedback on the cases and the notes. Further, if you have a case that you would be prepared to have featured in this section of the website, please contact Wessex Press at *contact@wessexlearning.com*. Regardless, we expect to add to these cases over time, so please continue to check back.

Many of these short cases deal with multiple marketing issues and can appropriately be associated with more than one chapter of *Capon's Marketing Essentials*. In the following table, we note each chapter and the cases that you may find appropriate for that chapter.

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Chapter 17: Distribution, Retailing, Wholesaling

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10. Contact, Inc.
12. Production, Inc.
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8. Energy World, Inc.
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1. Sonik CD

Sonik CD is considering four strategic options: niche strategy, mass-market strategy, distribution strategy, and sell out. The accompanying PowerPoint slides lay out a way of teaching the case. In order to get the most out of the case, it is useful to put students into three sets of groups. Each group focuses on one of the first three options:

- **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.
- **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 estimated it could add 40,000-50,000 new subscribers per quarter, at a subscriber acquisition cost of $12.50, annual margin, $15, and a 60 percent customer retention rate.
- **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 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.
- **Question. Based on these data, which option should Sonik take?** An approach to this question is in the accompanying PowerPoint slides.

  Slide 1. Title

  Slide 2. Strategic options for Sonik

  Slide 3. Questions to consider for each of the three alternatives:

  - **Part 1.** This task is to identify the revenue sources and costs for current and future customers.
  - **Part 2.** This task is to figure out the LTV of a current customer and a new customer.
  - **Part 3.** We need to know the current customer base and the anticipated numbers of future customers based on the strategy that Sonik intends to employ.
  - **Part 4.** Using Part 2 and Part 3, we calculate the total LTV of current customers and the total LTV of new customers in the period that they will be acquired. We then need to discount the LTV of each future cohort back to the present to calculate the total LTV of the strategy being considered.

  Slides 4, 5, 6, 7. Niche Strategy. These slides lay out the calculations for the value of the niche strategy. They are self-explanatory.

  Slide 8. Mass-Market Strategy. This slide lays out the calculations for the value of the mass-market strategy. They are self-explanatory.

  Slide 9. Distribution Strategy. This slide lays out the calculations for the value of the distribution strategy. They are self-explanatory.

  Slide 10. Options. This slide reprises the value of three strategic options.

2. ICI Fibres Ltd.

The purpose of this case is to provide students with experience in identifying customer targets. The analysis should proceed at two levels: the level of the organizational entity, and the level of the specific individual or role within each entity. The instructor can also use the case for customer identification and targeting.

The discussion should begin with the question:

Who is ICI Fibres' customer?

The instructor should seek the simplistic answer: one of the spinners, Eckersley, Angus, Dunbar, or an as-yet-unidentified spinner. If no one offers this answer, the instructor should ask the question:

Who pays ICI Fibres for its Terylene® yarn?

An appropriate follow-up question is: Should ICI Fibres put its marketing effort into persuading/helping the spinners to spin and sell the Terylene/cotton-core spun yarn via technical assistance in the mills?

Students should rapidly come to the conclusion that such an allocation of effort is likely to be ineffective because other organizational entities have to be involved in the marketing process. Even if the Spinners solved all of their problems with spinning the Terylene/cotton-core spun yarn and were eager to promote the product, sales will not materialize unless the weavers, proofers, and makers-up are also convinced that they should be involved and have solved all their technical problems. In addition, trucking companies must be convinced there is value in the finished tarpaulin.

In order for this to happen, ICI Fibres will almost certainly have to supplement whatever effort the spinners can make with their direct customers, the weavers. It may need to supply technical assistance not only to the spinners, but also to the weavers, proofers, and makers-up. ICI Fibres may have to develop new-to-the-world expertise because of the special characteristics of the Terylene/ cotton-core spun yarn. In addition, ICI Fibres may have to get involved in creating demand for the proofed tarpaulins at the trucking companies. Thus, at the macro-level, ICI Fibres must be concerned with five potential customer targets: spinners, weavers, proofers, makers-up, and trucking companies.

At the micro-level, Malcolm Hand must decide what effort is needed within these potential customers. For example, at the Spinner, Eckersley Mills, key personnel were Alasdair MacLean (purchasing manager), Jack Philips (mill manager), and Bill Foulkes (national sales director); other key players were spinning technicians Doris, Enid, and Bruce. A similar micro-level analysis at the weavers, proofers, makers-up, and trucking companies would doubtless identify individuals and roles who must be considered in any approach to this market.

At the market strategy level, key micro-level customer targeting should focus on the critical roles for securing acceptance of the Terylene/cotton-core spun tarpaulin project. At the individual sales/technical person's effort, marketing must identify specific companies and individuals to target.

Students should be encouraged to identify key benefits for the different customer types (macro-level) and for the specific roles (micro-level). For example, macro-level trucking companies most likely seek cost efficiencies — tarpaulin costs per mile (or some such metric) and ease of handling. At the micro-level, individual drivers are probably most interested in handling ease. For spinners, weavers, proofers, and makers-up, the overall performance of the Terylene/cotton-core spun tarpaulin is probably only of second-order interest. They are most likely concerned about potential margin and throughput and in the extent to which ICI Fibers will provide technical and/or marketing assistance.

Other issues that the instructor can explore include other end uses that ICI Fibres does not appear to have investigated: e.g., tents, patio covers, sports field covers. Also, it does not appear to have investigated the specific needs of the truckers: What are they looking for in terms of cost, weight, strength etc.? Also, it is unclear if ICI Fibres has expertise in the specific spinning and weaving technology necessary for making this product. For example, rather than relying on Eckersley Mills for spinning technology, perhaps ICI Fibres should maintain its own spinning laboratory to develop this technology. It could then train potential spinning customers in how to manufacture the core-spun yarn.

What Happened?

ICI Fibres addressed all of the possible customer types discussed above. It worked with spinners to spin yarn, with weavers to weave fabric, with proofers to proof fabric, and with makers-up to manufacture tarpaulins. Technical personnel assisted in spinning technology at restricted numbers of spinners' plants; ICI Fibres designed various fabric constructions on its own looms, then gave help to interested weavers to weave fabric. It helped proofers to proof these new fabrics, and, finally, developed making-up technology so that the finished tarpaulins did not leak.

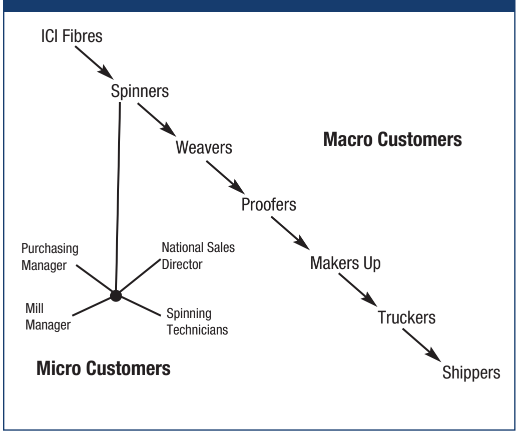
ICI Fibres developed standards for spun yarn, woven fabric, proofed fabric, and made-up tarpaulins. Spinners, weavers, proofers, and makers-up submitted product samples to ICI Fibres. Successful firms became certified manufacturers. ICI Fibres branded tarpaulins as *TCS tarpaulins* (Terylene core spun).

ICI Fibres communicated directly with truckers regarding the finished tarpaulins. It directed sales force effort at major truckers to encourage trial. Advertising in trucking magazines elicited interest in TCS tarpaulins. ICI Fibres provided truckers who contacted them with a list of certified makers-up from which they could purchase tarpaulins.

Initially much of ICI Fibres' effort was technical, designed to ensure that a high quality finished tarpaulins could be manufactured. Early effort focused on a limited number of spinners, weavers, proofers, and makers-up. Once a successful system was in place with a limited number of firms, sales and advertising effort focused on end users. Later, ICI Fibres certified other firms but only when volumes were sufficient. A key issue early on was that manufacturers were unwilling to put in the technical development effort unless they received some form of monopoly, at least over the short run.

ICI Fibres believed that, overall, its efforts in the tarpaulin market were relatively successful.

Who is ICI Fibres' Customer?



3. The Arden Company

Objective

The objectives of this case are twofold:

- To force students to analyze a competitive situation.
- To illustrate the importance of financial analysis for understanding competitive issues.

Teaching Plan

I typically start the case by asking students what they would do as Arden, then what they would do as Columbia. This process generates significant discussion. It also typically demonstrates that students have no methodology for dealing with the problem. I then move into the PowerPoints as a means to structure discussion. I tend to teach to the slides — others may prefer a more open-ended approach.

1. What are the short- and long-term possibilities for Columbia?
This question is answered in slide 1. The key issue is that, in the short term at least, there is a capacity constraint. Columbia can only increase revenues by **$48.67 million**. This translates into a **7.4%** market share increase.

For each 5% increased capacity utilization, Columbia could achieve 7.4%/1.5 = 1.5% market share = 1.5% × $661 = **$9.9 million** sales revenue.

2. How well are Arden and Columbia doing?
Slide 2 develops contribution-based income statements for Arden and Columbia from the data in the case.

3. What would happen if Arden cut price by 5% to stop Columbia?
Slide 3 demonstrates the answer. Contribution margin and net profit drop by a little over $20 million. This would be a very negative result for Arden. In effect, Arden would be investing $20 million p.a. in a no-growth business. Don't they have other businesses that are faster growing and that would make better investment opportunities?

4. What would be the impact on Columbia if it gained market share at current prices?
Slide 4 demonstrates the impact. Profits could increase up to $33 million if it filled its capacity.

5. What would be the impact on Columbia if it gained market share by dropping price 5%?
Slide 5 shows the impact. Note that the *marginal breakeven* on this price reduction is at about 85% capacity. In other words, if Columbia secures sufficient volume to fill capacity to over 85%, it would come out ahead. The key calculation here is figuring out the new contribution margin rate with the price reduction.

New CMR = new Contribution Margin/new Sales Revenue = (65.7 – 7.3)/(146 – 7.3) = **42.1%**

For these figures go to slide 4, 75% capacity utilization and cut price by 5%.

6. Are there any other impacts on Columbia if prices are cut by 5%?
Slide 6 shows that the breakeven point and the safety factor are reduced.

7. What would be the impact on Arden if Columbia gained market share at current prices?
Slide 7 demonstrates the profit impact on Arden. Note that Columbia would have to gain sufficient volume to be at over 95% capacity to be equivalent to the loss in profit that Arden would suffer if it cut price by 5% to hold volume.

8. What happens if Arden increases price?
At current volume, Arden's profit increases from $89 million to $119 million. Columbia would have to increase volume to almost 95% capacity before Arden made less profit than it does currently.

The key calculation here is for the new CMR. In a similar manner as for slide 5:

New CMR = new Contribution Margin/new Sales Revenue = (193.44 + 20.15)/(403 + 20.15) = **50.4%**

9. What are possible strategies for Arden and Columbia?
This slide lays out one possible strategy each for Columbia and Arden. For Columbia, the key is to target specific market segments and to run a tight ship cost-wise. Columbia should not spread itself too thin.

For Arden, a price rise is a distinct possibility. It should discourage plant additions. (Recall that we have completed just a short-term analysis.) It should invest in fixed-cost activities (e.g., advertising, promotion, service). Only as a last resort should it resort to price-cutting.

Students may be asked for examples from the real world. Long distance telephone is a good example.

10. Lessons from the Arden case
Slide 10 highlights some key lessons. The important point is that the firm should be very clear about its strategic objective before it develops strategy and tactics. It also argues for the critical importance of competitor analysis.

4. Unipro Inc.

Discussion questions

A. Will you assemble a team or let it slide?

B. What's it like in Fred Potter's office right now?
   A. Cost to Qualprod
   B. Pressure to furlough people/unions
   C. What prices — why?

Relevant data

Original prices	Unipro's business w/Qualprod
IBM — \$6.05 million	\$10 million
Accenture — \$5.8 million	\$15 million
Unipro — \$4.5 million	\$18 million
Amalfi — \$3.25 million	\$12 million
	\$10 million (est.)

Price options

1. **Cost plus** — 7 days — \$0.5 million + 50% = \$0.75 + 0.2 (penalties) — **\$0.95 million**
2. **Cost plus** — 10 days — \$0.7 million + 50% = \$1.05 + 0.2 million — **\$1.25 million**
3. **Match original Unipro bid** — \$4.75 million less \$3.25 million (Amalfi) — **\$1.5 million**
4. **Match original Unipro bid plus \$\$ for trouble** — \$1.75 + \$0.5 (say) — **\$2.25 million**
5. **Match Accenture bid** — \$5.8 million less \$3.25 million (Amalfi) — **\$2.55 million**
6. **Unipro vs. Accenture (to do work) 7 days vs. 10.5 days** — 3.5 days × \$1 million per day plant profit — **\$3.5 million**
7. **Unipro is the only game in town** — knows Accenture wouldn't do it anyway — **\$5 million**

Scenarios

1. Accenture just lost a big order in this space and has engineers twiddling their thumbs.
   A. Assume equivalent costs — 7 days — \$0.5 million × 1.5 = \$0.75 million
   B. Assume equivalent costs — 10 days — \$0.7 million × 1.5 = \$1.05 million
2. Fred says he's sorry — he screwed up by going with Amalfi. In future in Unipro's space he'll just ask you for a price and will be loyal in the future.
3. Qualprod just purchased by Hitosho Inc., which has a policy of always qualifying all possible vendors and going to the lowest-priced vendor.

Message

1. Understand the value to the customer.
2. Understand the customer's buying behavior.

5. Hausser Food Products Company

The Hausser case is an excellent teaching vehicle for dealing with managing a sales force. It has been widely used at all educational levels from undergraduate to Executive MBA and non-degree executive programs in sales force management. A very useful way to teach the case is having students work in small groups, then run a class discussion that feeds off their work. The accompanying PowerPoint slides offer a straightforward way of teaching the case and are important to talk through with students so as to get the most out of the cases.

Slide 1. Title

Slide 2. This is a simple model of sales performance. The key items to highlight are:

- The core factors that drive sales performance are sales competence and selling effort (moderated by sales task clarity) – the extent to which the salespersons know what to he or she is supposed to do.
- Conditional on sales performance, the salesperson receives performance outcomes like pay, promotion, and recognition.
- Sales competence is driven largely by the recruiting, selecting, training, retaining, replacing paradigm
- Three factors drive the motivational loop to selling effort: sales task clarity, managerial style (of the first line sales manager), and satisfaction with performance outcomes.

Slide 3. This lays out the basis for the Expectancy-Value model of motivation. It basically says that in any situation, performance outcomes feedback to thoughts that drive behavior.

Slide 4. This slide lays out the expectancy-value model in three steps:

- Expectancy regarding an outcome
- Value of the outcome
- Motivational force – expectancy × value

Slide 5. This slide shows three items:

- Outcomes
  - Delivered externally, like pay, promotions, work assignments
  - Delivered internally – like the satisfaction of a job well done; here the manager must create the appropriate environment
- Another expectancy related to job design and sales task clarity
- The extended Expectancy-Value Model:
  - Performance expectancy
  - Outcome expectancy
  - Motivational force – expectancy (P) × expectancy (O) × Value

Slide 6. This slide lays out the three items of the extended Expectancy-Value Model. This is the final teaching slide. Now we move to Hausser.

Slide 7. This slide sets up the students to work in small groups:

- The three questions for the groups to consider are at the top of the page. Groups should spend the most time on question 1.
- The graphic is the way to get at the first question. Jay has two options: Keep the information about the seniors market his group is working, or give the information to Brenda. The students' job is to identify all of the outcomes for Jay of taking these actions. For each outcome, students should identify:
  - Value: The value of the outcome for Jay: positive, neutral, or negative
  - Expectancy: What is Jay's belief that the outcome would occur: strong, medium, weak

When the students come back to the class, a useful approach is to have each group offer one or two outcomes together with values and expectancies. Generally, the balance is pretty clear: the preponderance of the opinions are that Jay will keep the information. From Hausser's point of view, this is not a good outcome.

Slide 8. This slide addresses questions 2 and 3 from slide 6. The slide is self-explanatory; it shows several of the problems at Hausser. The instructor can use these items for a discussion on what actions Hausser should take.

Slide 9. This slide is a repeat of slide 2 and is a useful way to wrap up the class.

6. The Mass Transit Railway in Hong Kong (MTR)

The basic issue in this case has to do with an inability to inventory a service. Demand and supply cannot be brought into balance by use of inventory; rather, demand must be reduced and/or supply increased. The problem is complicated by the fact that demand is excessive during the morning rush hour, so that we have a de-marketing situation.

On the supply side, we can think not just of capacity but of such concepts as optimum capacity utilization and maximum capacity. In this case it is useful to think of optimum capacity utilization involving passengers sitting and standing on the MTR but with room to move around. At peak hours, the MTR is at maximum capacity, where passengers are jammed in like sardines. On a given train, passenger load cannot exceed maximum capacity, but safety concerns arise when approaching maximum capacity.

The MTR has suffered significantly from the existing congestion problem — in particular, stations along the Nathan Road Corridor. It has to devise some effective policies to alleviate overloading. It is not usual practice for a private transport company to give up the opportunity to tap the whole potential market and persuade commuters to use other transport modes. However, the MTR must keep occupancy to a tolerable level and not jeopardize the safety and reliability of the system.

It is possible to find policies to please and capture the potential and existing markets without discouraging new passengers from choosing MTR or creating resentment among patrons during their travel to work. Educating passengers in proper traveling behavior, improving the flows of passengers and trains, and spreading out the demand to off-peak hours are possible directions to generate feasible solutions. The corporation will then benefit from more passengers without trading off the customer-service quality.

The instructor should ensure that students understand the various routes involved and why the Nathan Road corridor is so crowded between 8am and 9am.

Discussion Questions

1. What is the problem for the MTR? How serious a problem is it? How does your view of the problem differ if your role is a) CEO of the MTR? b) Director of the Hong Kong Government's Transportation Authority?
2. What are the key factors that make transportation an issue in Hong Kong?
3. How do you assess the MTR's competition?
4. How is the MTR doing?
5. What are the key options to solve the MTR's problem?

1. What is the problem for the MTR? How serious a problem is it? How does your view of the problem differ if your role is a) CEO of the MTR? b) Director of the Hong Kong Government's Transportation Authority?

- Overcrowding on the Nathan Road corridor due to:
  - two north-south lines converging at Prince Edward
  - increased population in new towns in the New Territories north of downtown Kowloon, resulting in increasing transfer traffic at Kowloon Tong
  - Major commercial districts in downtown Kowloon, (i.e., Tsim Sha Tsui)
  - Major business district on Hong Kong Island at Central and Admiralty
- You are mostly concerned with the MTR per se.
- You must be concerned with all of the transport modes and must endeavor to have them coordinate to improve public movement.

2. What are the key factors that make transportation an issue in Hong Kong?

- High population density in Hong Kong
- Difficult topography — many hills
- Major parts of Hong Kong on two pieces of land (i.e., Hong Kong Island and the mainland, Kowloon) and need to cross Victoria Harbor

3. How do you assess the MTR's competition?

Strength and Weakness Analysis for MTR and its Competitors

Transport Modes	Strength	Weakness
MTR	• provide speedy, reliable, and comfortable service • dedicated staff • high ROI • gain privilege from government policy • the largest loading capacity • no train congestion	• difficult to change routes or need long time for planning and building new routes • high construction and operating costs • limited in redesign • serve only highly populated areas
Buses	• easier to change routes (added or removed) in order to cope with fluctuating demand of different routes • wide coverage and with intra-territories routes • large loading capacity on road • easy to redesign and large space to innovate, e.g., air-conditioned buses • lower operating cost cheaper price	• suffer serious road congestion • difficult to control the srevice environment • long queue and waiting time • easier to get involved in accidents • stronger labor union
Ferries	• lower operating cost lowest price • unique sea routes • go directly from pier to pier • provide service to isolated areas	• limitation in further route expansion • unfavorable to those people who may suffer from seasickness
KCR	• unique rail routes to serve eastern part of New Territories residents • unique rail routes to Mainland China • provide mass transit with speed and safety and comfortable service	• basically the same as those listed for MTR
Taxi and PLB	• more flexible routes • fast and comfortable service • door-to-door service	• charge premium prices • suffer road congestion • threat of road accidents by other traffic

4. How is the MTR doing?

The MTR is doing fine on a variety of criteria:

a. The system was running very efficiently.

b. Ridership continues to increase, and the MTR is increasing its share of the transportation market in Hong Kong.

c. Financial position was sound.

d. Customer satisfaction is high, and the MTR works very hard at this aspect of its operations.

5. What are the key options to solve the MTR's problem?

The answer to this question is best conceptualized as a branching network with more specific items further out on the branch. The key target is to bring capacity and demand into balance.

Increase Supply

Major capital expenditures:

- add a new line; extend the platforms

Minor capital expenditures:

- better signaling to improve train speed and therefore more station stops per hour; remove seats in the trains to accommodate more people

Process Improvements:

- educate passengers — how to board a train, where to stand (yellow lines on platform; platform assistants) — to reduce amount of time train is in station and increase station stops per hour

Reduce Demand

Focus directly on problem:

- reduce demand directly:
- raise prices from 8am to 9am
- cut out special fares from 8am to 9am
- ration passengers by restricting entrance to the system

Exercise persuasion:

- advertise (travel is better before 8am and after 9am)
- promote staggered working hours:
  - persuade government bodies to set an example
  - persuade businesses to aid their employees

Focus on alternatives:

- increase demand for other MTR offerings:
  - reduce prices from 7am to 8am, and 9am to 10am
  - reduce prices for the alternative route via Lam Tin and Quarry Bay
- work with competitors to ease intermodal transfers (e.g., MTR to ferries; KCR to Kowloon and buses to Tsim Sha Tsui)

Pros and Cons of Some of these Alternatives

1. Surcharge during peak hour

Pros	Cons
• Successfully shift price-sensitive passengers to other modes. • Reduce occupancy during peak hour along the Corridor back to under the tolerable limit. • Only 3% of the passengers are actually affected.	• No other modes can offer passengers high reliability and punctuality. • The policy should not be implemented for the whole year because only during summer time the occupancy may jeopardize the safety. • Stimulate the demand of salary increase and less consumption by the users. • Demand is inelastic and thus short-run effect. • Price discrimination and hence negative image. • People still have to work at specified time.

2. Early Bird Pass

Pros	Cons
• Great incentives to change the traveling habit of the commuters to earlier off-peak period. • People switching to earlier off-peak hour are benefited, leaving the MTR a more positive image.	• Not flexible enough – fixed routes and fixed time. • Commuters still have to go to work at specified working hours.

3. Eastern Harbor Crossing

Pros	Cons
• Discount offered to passengers as an incentive. • Serving as an alternative, EHC greatly relieves the load along the Corridor, especially during the peak hour. • Shorter traveling time for those going from eastern part of Kowloon to northern or eastern part of Hong Kong Island.	• Huge investment cost and long time planning. • Fail to induce those commuters traveling from the west Kowloon as increase in traveling time. • The extra capacity will be filled shortly.

4. Staggered Working Hours

Pros	Cons
• Achieve the coordination and cooperation with other three main transport modes in Hong Kong. • Companies can provide longer service hours without incurring higher labor cost. • Basic drive to shift the traveling demand to off-peak hours. • Employees living in different areas, far away or nearby, have more freedom to adjust their working hours. • Employees traveling to work at off-peak hours will find it easier to get on trains and can better budget their traveling time.	• Coordination is needed among interested companies. • As a commercial and financial center, Hong Kong has its working hours fixed as norm from 9 am to 5 pm. Not many companies, especially service ones, can shift operating or opening hours without considering the effect on other companies. • Infringement of the freedom of a company in its working hours. • Adaptation of the employees will be doubtful. • High operating costs, e.g. higher electricity consumption.

5. Platform Assistant and Platform Queuing

Pros	Cons
• Educate the traveling behavior (allowing the alighting passengers to get off first,and disciplining the boarding passengers to line up before the train arrival) of the commuters in the long run. • Faster departure of trains at each station. • Minimize the chance of conflict among hurrying passengers. • Safer traveling conditions, minimizing the chance of passengers falling on to the rail during waiting on the crowded platform.	• Enforcement is only in persuasive way, generating difficulty in the duty of the assistants. • Increase in the number of part-time staff and hence higher labor and training costs.

6. Waiving Concessionary Fares during Rush Hour

Pros	Cons
• Disincentive to those children, students,and senior citizens can reduce the occupancy during the peak hour (to line up before the train arrival) of the commuters in the long run. • Only small percentage of passengers are affected. (Just 12% of the daily load are students, and most of their school time starts about 8 am.)	• Price discrimination to the low/no income groups. • As the number of passengers affected is not significant, the effect of the measure will not give marking result.

7. Modifying the Signaling System

Pros	Cons
• Increase the tolerable limit to fit the soaring demand. • Shorter traveling time for passengers.	• High investment and operating costs. • Put heavier burden to the passenger flow in the concourse and platform areas.

8. Construction of the Western Harbor Crossing

Basically they are the same as those pros and cons in the case of the Eastern Harbor Crossing. But this time the problem can be relieved to a greater extent since the demands of the passengers from the west Kowloon, Tuen Mun, and Tsuen Wan contribute a lot to the existing congestion problem along the Nathan Road Corridor.

Measures Imposed by Other Transport Modes

1. KCR – Discounted fares to early travelers and feeder bus services

Pros	Cons
• Attract more passengers to go to work earlier, making better use of the discounts offered by the KCR and the MTR. • Attract some passengers who travel from eastern part of the New Territories to Tsim Sha Tsui to free bus services.	• Increase in operating costs in the KCR. • Maybe an increase in the traveling time to those passengers.

2. HYF – Higher frequency of hoverferry service from Tsuen Wan and Tuen Mun to Central; and better feeder service to the ferry piers

Pros	Cons
• Dwellers in Tuen Mun and Tsuen Wan can go directly to work in Central without the threat of congestion. • Comparatively cheaper price.	• Not flexible enough as the routes are limited and may not reach the destination of the passengers, thus increasing inconvenience and traveling time. • Some commuters may feel seasick and refrain from taking ferry to go to work. • Adversely affected by the reclamation project and the new harbor crossing tunnel.

3. KMB and CMB – Air-conditioned bus service and reduction in some tunnel bus fares

Pros	Cons
• Fit the demand of high quality service from more affluent Hong Kong people. • Government coordination and the offer of express routes can save the traveling time of the passengers. • Cheaper price compared to that charged by the MTR during peak time. • Broader service areas than the MTR.	• May suffer from road congestion, thus longer traveling time. • The stops of bus services may not be convenient enough to commuters.

7. Social Marketing Company, Bangladesh

Background

Social Marketing Company (SMC) is an outgrowth of Population Services International's (PSI) family planning project in Bangladesh. Some instructors will recall the PSI case (mid-1980s) written by Kash Rangan at Harvard. In essence, this case updates the mid-1980s case and poses a new set of problems.

Synopsis

SMC, with its social marketing approach, has been very successful in sales and retail distribution of condoms in Bangladesh, less so for contraceptive pills; recently it has added ORSaline for oral rehydration therapy (ORT) to combat diarrhea illnesses. Currently it faces several problems, perhaps the most serious of which is the imminent withdrawal of PSI's active involvement and with it a huge reservoir of social marketing expertise. In addition, a shift in donors means that condom products will come from different manufacturers, leading to problems in product uniformity. In pills, SMC will lose the use of two and possibly all three of its brand names.

SMC has had most success in condoms, but this is the slowest-growing product form; in pills, although sales are increasing, sales through the Bangladesh government's direct-distribution system are outstripping SMC.

Recently, SMC has introduced products that have higher cost recovery, some contraceptives and ORSaline; a critical issue is what degree of effort to place on these products. In addition, SMC is considering product manufacture, adding several related products to the line and a variety of other less-closely related ventures. In essence, SMC must make decisions at the corporate and marketing strategy level.

Teaching Objectives

1. To provide students with an understanding of public and nonprofit marketing in a complex international context.
2. To give students experience in making tough tradeoffs regarding company direction in a resource-scarce environment.
3. To attune students to marketing issues in an extremely poor country with major infrastructure problems.

Study Questions

1. What are the major problems facing SMC?
2. How do you assess the market for contraceptives and oral rehydration therapy?
3. How well is SMC doing?
4. How do you assess SMC's marketing strategy?
5. What are SMC's major strengths and weaknesses?
6. Compare and contrast the consumer decision process for condoms, contraceptive pills, and oral rehydration therapy.
7. How do you account for SMC's relatively greater success with condoms than oral contraceptives?
8. What corporate strategic decisions would you make? Specifically, should SMC:
   a. expand/contract the current set of businesses? If so, what should be added, dropped?
   b. become a manufacturing operation? If so, what products?
   c. allocate resources among its various current and potential businesses?
9. What market strategy would you set for condoms?
10. What market strategy would you set for contraceptive pills? How would you handle the brand transition?
11. What market strategy would you set for other products?
12. What are the objectives of social marketing programs?
13. What happened?

Note to Instructors

Cost recovery kicks around this case, but instructors are advised either to downplay the issue or use it as an entry to talk about objectives. Although some donors may care about it, others apparently do not. Mostly, the critical issue is well-run effective programs; SMC keeps an eye on cost recovery for the sake of dealing with donors, but it is not the major objective. An effective, well-run program may have quite low cost recovery; that is the nature of the product offered and need being met. Too high a focus on cost recovery leads to increased prices and lower sales, hence less fulfillment of the social marketing objective.

Analysis

1. What are the major problems facing SMC?

a. Although SMC has lead market share in condoms, the condom share of contraceptives is declining in an overall growth market.

b. Although SMC's oral contraceptive brands have the largest market share at retail, direct distribution channels are securing increasingly greater market share.

c. A shift in donors is giving product uniformity problems; this is sufficiently severe in pills that two or maybe all three established brand names will have to be scrapped. This is a special problem because much of the population is illiterate.

d. Cost recovery on many products is very low; potential future problems in securing donor funds.

e. SMC must make decisions relating to overall organizational thrust. It could refocus its efforts on birth control and make greater efforts at direct distribution for pills where the government seems to be quite effective. Alternatively it could build on its core competence, packaged goods marketing, and push an increased number of products through its retail channels; ORSaline, Vitamin A, and several other products might fit with this strategy. This is a crucial strategic choice.

2. How do you assess the market for contraceptives and oral rehydration therapy?

Contraceptives

a. Market for contraceptives is very large; population growth rate is dropping but still above government goal of zero population growth.

b. 35 million women of reproductive age

Oral Rehydration Therapy

c. Market size: 21 million children under 5 × 3.5 episodes p.a. × 4 sachets per episode = 294 million sachets. SMC sells 35 million sachets annually with 40 percent market share – therefore market size is 35/0.4 = 87.5 million – 87.5/294 = 30% of potential. In addition, other children and adults over 55 years are significant market segments; big market available.

3. How well is SMC doing?
The response to this question has several dimensions:

a. Volume:

   Condoms: volume now 154 million p.a.; 1.4 million CYP; but market growth slowing

   Pills: now up to 11.5 million cycles; almost 0.9 million CYP; but market growth slowing

   ORSaline: now up to 35 million sachets, fast growth

b. Market share by retail distribution: SMC dominates retail distribution in all product categories except sanitary napkins.

   Condoms: 100%; Pills: 83%; ORSaline: 85%

   Sanitary napkins: 5% of pulp; 2-3% total (pulp + cotton); very poor

c. Total Market Share:

   Condoms: strong leader – 70 percent

   Pills: weak position – 13 percent

   ORSaline: strong position – 40 percent

d. Major problem for SMC is that market share is strong in condoms — this is a fairly stagnant market — but is low in pills, which is a growing market and where the brand-name-change issue is acute.

e. Financially, SMC does not cover its operating costs on either condoms or pills, although the more high-priced products fare better. On ORSaline, SMC covers commodity cost or direct operating cost. Cost recovery is low or stagnant in condoms (<15%), dropping in pills (1994, 13%), and increasing for ORSaline (1994, 58%). However, this may not be a serious issue in the near term.

f. Sales revenue from ORSaline now exceeds contraceptive revenue.

g. SMC has broadened its contraceptive product line and is doing quite well with upmarket products. Cost recovery for higher-priced products is better than for Raja and Maya, but this is not a major near-term issue for SMC.

4. How do you assess SMC's market strategy?
SMC has a two-pronged strategy for contraceptives. The condom strategy seems to work well. Condoms are widely available, fitting well with a product that is to some extent an impulse purchase; they are extensively advertised so that consumer awareness appears to be very high. SMC's segmentation seems to make sense, and sales for its upmarket products are increasing. For pills, the strategy is less successful. The different consumer decision process makes this product much more susceptible to a personal consultation approach, hence the success of the government's efforts. SMC's efforts through RMPs are worthwhile, but it does not seem to be able to compete effectively with the government. Some changes are clearly needed; the obvious alternatives are beefing up the RMP strategy or undertaking direct distribution. The ORSaline strategy builds on SMC's packaged goods expertise and seems a nice fit with condoms; the results seem to support this assessment.

5. What are SMC's major strengths and weaknesses?

Strengths:

a. Extensive retail distribution (124,000 outlets); good relationships through the channel

b. Ability to develop and support new brand names; knowledge of advertising system, ability to get good buys on advertising space as largest Bangladeshi advertiser

c. Expertise in marketing research; study design, relationships with suppliers, etc.

d. A logistics infrastructure that includes minor manufacturing (relabeling) and physical distribution throughout Bangladesh

e. Proven ability to introduce new products

Weaknesses:

a. About to lose two or three pill brand names

b. Product uniformity problems with supplier switches

c. Weakly positioned in key growth market (pills); little position in direct distribution

d. Cost recovery issue; potentially a long-term donor concern

6. Compare and contrast the consumer decision process for condoms, contraceptive pills, and oral rehydration therapy.

Condoms and Pills: no immediate negative effect of non-using; in fact, positive benefits of not using

Condoms:

a. Typically a male decision, males do most purchasing

b. Often an impulse purchase, available at pan stores

c. No health issue for male or female

d. Several problems with the product type (i.e., bursting, bad smell, disposal, lack of sexual pleasure)

Pills:

a. Probably a joint husband/wife decision; males do purchasing; patriarchal society

b. Significant outside the family influence: government health-care workers very successful; RMPs influential in rural areas and financially interested in pushing SMC brands

c. Health risks to female; different brands/pill formulations affect women differently; may need to search for the best pill; may not be able to use any pill

d. Can be purchased only at pharmacies or from RMPs

e. Mainly affects the female

Oral Rehydration Therapy:

a. Definite and obvious need exists periodically; cures ill child, prevents death

b. Needs pure water as a complement to the product

c. Available at any retail outlet (if SMC does a better distribution job)

d. Direct concern to both husband and wife

7. How do you account for SMC's relatively greater success with condoms than oral contraceptives?

a. Pills: More complex decision process involving husband, wife, and some medical professional. Serious side effects possible, need to be discussed. Government health workers probably pushing pills more vigorously

b. Condoms: basically a male decision; no serious side effect for husband or wife

c. Condoms lend themselves more to packaged goods marketing techniques used by SMC; the pill is a more difficult decision and lends itself to some interpersonal communication (which RMPs do for SMC products)

d. In sum, condoms are more amenable to SMC's approach

8. What corporate strategic decisions would you make?

a. expand/contract the current set of businesses? If so, what should be added, dropped?

i. SMC has already modified its corporate mission from the original PSI mission based on birth control. ORSaline revenues have surpassed contraceptives so that its current mission is focused on "quality of life" and improved health and welfare benefits rather than just birth control. Keeping close to this mission, SMC could add Vitamin A supplement; this seems a natural addition from a product/market perspective. Also, the market is untapped, so it's a very similar situation to ORSaline that has proved so successful.

ii. Flavored ORSaline is also a good possibility; it would have a positive taste benefit and assist in solving the dehydration problem. WHO and UNICEF concerns can probably be ignored. Health care professionals in general are not sold on SMC's approach anyway, and other countries are successful with it.

iii. Conversely there seems to be little point in continuing with sanitary napkins. Several other suppliers are in the market; SMC has minimal market share; product supply is not assured, and product quality is variable. Furthermore, one could argue that it's not a genuine "health" product, unlike the rest of the product line.

iv. Of the other ventures, those that seem of most interest are those using SMC's key strengths: retail distribution, advertising strength, and marketing research competence. These seem more viable than operating a health clinic, advertising agency, or diagnostic laboratory. SMC would have to separate very clearly social marketing products versus for-profit products where supplies were purchased and sold at market prices and profit was the clear objective. In developing markets, distribution is critical, especially in a country with Bangladesh's topography. Carefully chosen products could lead to SMC becoming a powerhouse distributor. SMC might consider setting up an independent for-profit corporation with SMC as the sole shareholder, using SMC's expertise.

b. become a manufacturing operation? If so, what products? This decision is not clear-cut. In favor are product uniformity and supply difficulties caused by contract bidding and the shift from USAID to EU funding. However, this is possibly a temporary phenomenon, and when EU supply settles down, the difficulties may evaporate. The uniformity issue ought to be dealt with by good procurement contracts. Being captive to a competitor supplier as with ORSaline is a reason to consider manufacture, but SMC would perhaps be better advised to help a couple of other companies get started than to enter into manufacturing where it has no expertise.

Using manufacturing as a means to increase margin to improve cost recovery probably makes the least sense. SMC has no manufacturing skill. It would probably be better off using its core strengths and distributing other products. After all, in the decision of whether the firm would rather own a "market" or a "plant," the best answer is a market. If it does head for manufacturing to capture more of the "value added," it should start with the simplest technology to reduce the failure potential; this probably means ORSaline. Manufacturing ORSaline require little expertise compared to oral contraceptives (unless some final process stage is a possibility).

c. *allocate resources among its various current and potential businesses?*
   i. In a portfolio sense, ORSaline seems the best bet for resources; growth market, strong market position, and should probably receive considerable resources. Vitamin A will probably be a similar product
   ii. SMC has a strong position in condoms; this seems mature but will provide 1 million CYP p.a., making a significant impact on Bangladesh's population problem. Raja should probably be managed as a mature brand and more effort put into Panther and Sensation
   iii. Pills are a more difficult situation. As a high-strength product, Maya is not well liked, but seems to have a loyal following; managing a brand-name transition will be tricky, especially because so much of the population, especially women, is illiterate. Maya should be a "hold" in terms of the current users; more effort should be placed in other pill brands.
   iv. If they are to be pursued, new for-profit ventures must receive adequate funding, but this will need to be kept separate from current products for donor reasons. Perhaps SMC can negotiate up-front fees for marketing investment from suppliers. However, there is a real question whether this strategy makes sense in such a poor country as Bangladesh. SMC would probably be better advised to stick to products related to its mission and put money-raising efforts into working with donors rather than expending efforts on low-margin products using its current distribution system.

9. What market strategy would you set for condoms?
The condom strategy seems to be working fine: lots of advertising, trade incentives to secure the broadest possible distribution. SMC is discovering some segmentation and now has three condom products. However, it seems to have fallen into these rather than making a conscious action to identify market segments. Perhaps it should be more aggressive in linking its market research with product design. In the vast poor and largely rural market, another brand or two with some extra advantage might find a ready market. (How much more would it cost to source a ribbed product; poor people want sexual satisfaction too!) In addition, attention on the middle, upper middle, and upper class might lead to profitable products to help fund the broad low-income market. There seems little point to embarking on direct distribution for condoms.

10. What market strategy would you set for contraceptive pills? How would you handle the brand transition?
The brand transition is a critical issue. SMC should be planning this already and using advertising that links existing brand names/symbols to the new brand names/symbols; this will take a lot of communication both to consumers and to the trade and medical community, especially the rural medical practitioners.

11. What market strategy would you set for other products?
Essentially, SMC should follow the model of previous products: understand the customer decision system, develop an appropriate communications strategy, train the sales force, and sell through distribution. This process was very successful for condoms; in the early years PSI made a mistake with contraceptive pills inasmuch as it did not involve the RMPs who effectively acted as spoilers. This seems to have been dealt with, and RMPs are now active sellers. Also, SMC has done very well with its most recent launch; this bodes well for new product introductions.

12. What are the objectives of social marketing programs?
The objectives of social marketing programs are the fulfillment of some social purpose — in this case preventing births (contraception) and saving lives (ORSaline). These programs eschew the normal financial goals set in FP marketing. Success is frequently measured in volume rather than financial terms; indeed, too heavy a focus on financial issues can subvert the major purpose of the program. For example, raising prices to improve cost recovery leads to lower volumes and does not further the program's primary purpose. Financial issues are better viewed as a constraint to be dealt with or minimized (e.g., increase donor funds) rather than function as an objective to be maximized.

13. What happened?
In the years immediately following the case:

a. SMC did a major rationalization of contraceptive pills. In particular, it abandoned the Tk. 1.5 price point (Maya) believing it was too close to the free government pill.
b. SMC secured lower-cost Asian suppliers for condoms and pills.
c. SMC made no moves on product additions or manufacturing, although there was considerable internal support for manufacturing ORSaline.

8. Energy World, Inc.

The purpose of this case is to initiate a discussion of monitor-and-control systems — the topic of Chapter 20 in *Capon's Marketing Essentials*. A good starting point is to examine Sam Johnson's marketing planning model as laid out in Exhibit 1. It comprises several important features:

- The planning model is completely bottom-up. Unlike systems in many organizations, there is no top-down element, nor a negotiation process to bring bottom-up and top-down approaches into sync. Hence, if the operating divisions do not achieve milestones and metrics, they cannot blame their poor performance on heavy-handed upper management.
- In terms of measureable performance, the system does not rely only on output metrics. Rather, for initiatives taking

greater than two years to complete, the planning model requires the business unit to set milestones.

- The review cycle is six months. There is a serious question about the length of time for review. It seems like *post-action* control rather than *steering* control. Sam has been off doing other things and the business-unit leaders have been following their own devices. Has Sam abdicated his responsibility the past few months?

With this context, the instructor should move to examine the plans, actions, and results of the three divisions:

Division 1. Oil Refinery Equipment. This division is beating sales and profitability targets by over 30 percent but:

- The plan called for an overseas focus and overseas revenues.
- The division did not invest overseas; rather it focused in the U.S.

Is there a problem? If so, what is the problem?

- This division did not follow its plan. Possible interpretations:
  - The planning was terrible; the division did not foresee the U.S. market growth.
  - The planning was fine – securing international position was a key strategic goal. Division leaders ignored the plan and instead went after easy revenues, possibly because near-term sales and profit drove their financial compensation. By focusing on short-term U.S. business, the division made a major strategic error.
  - If the U.S. upturn was truly unexpected, why didn't division leaders talk to Sam and secure additional resources, rather than abandon their strategic initiative to secure a position overseas?
  - Regarding the six-month review, Sam should not have abandoned these divisions while he pursued acquisition targets. He focused only on output metrics and did not examine either the division's actions or how it was doing relative to its milestones.

Division 2. Liquified Natural Gas Equipment. This division planned for international expansion and implemented its plan. But international revenues and profits are below expectations. Overall sales and profits are more or less on target because of strength in the U.S. market. This division's performance shows the iceberg principle in practice:

- The division is more or less on target overall, but strength in U.S. markets masks a failure overseas.

Is there a problem? If so, what is the problem?

- The international market failure is a serious problem. This appears to be a planning failure. The division had insufficient insight about the market in general and customers in particular. Also, it seems to have done a poor job understanding competitors, in particular the type of competitive action it would be up against.
- The greater than unexpected success in the U.S. is also a planning failure. As with Division 1, this division seems to have underestimated market demand. This sort of planning failure can play havoc with capacity and human resource planning.

Division 3: Solar and Wind. This division followed its plan but was well behind on sales and profit.

Is there a problem? If so, what is the problem?

- One interpretation is a planning problem. The division was just too optimistic in its planning.
- A second interpretation is that the planning was fine but this division is operating poorly.
- Where has Sam been for six months? Regular reviews would have surfaced this division's results much sooner and Sam could have taken action. If the actual growth in this area is indeed much slower than expected, perhaps Sam could have transferred resources from Division 3 to Division 1.

This case highlights the danger of *postaction* control versus *steering* control and of focusing only on output measures. Relatedly, it highlights the need for three types of control requiring very different questions:

- **Strategy Control.** Is the strategy well conceived and on target? Did we do a good job in developing the strategy, and/or has the market changed so that the original strategy is now out of date?
- **Implementation Control.** Did we do what we said we were going to do?
- **Performance Control.** Did we achieve the results we said we would achieve?

9. Software Consulting, Inc.

The issue in this case concerns the nature of the engagement model as Software Consulting, Inc. (SCI) has grown. What worked early on in SCI's life is no longer optimal. It's important that students understand how the current system developed and the current problems:

- Initially, SSI secured business from account managers (AMs). AMs made sales at small to medium-sized firms. When an AM made a sale, SCI installed a project manager (PM) to manage the engagement. The AM's job was done, and he or she moved on to follow up leads and generally seek new business. SCI paid AMs largely on commission. SCI believed this system was highly effective.
- The current problem arose when SCI shifted direction and sought business with large customers. These engagements might involve several individual projects. PMs continued to manage individual projects, but SCI appointed engagement managers (EMs) with responsibility for the customer. An EM would be responsible for coordinating the several PMs. That element of the EM's job seems to work fine.
- The problem arises in securing more business at one of these large customers. Right now, SCI does not have a

coherent approach. Indeed, there are three separated approaches:

- **Engagement Manager.** The EM has responsibility for the account. In addition to managing the PMs, the EM is supposed to prospect for new business. Furthermore, because projects are occurring within the customer, leads arrive because relationships develop from the current projects.
- **Account Manager.** The AMs are paid on commission. They bring in the big accounts and so are motivated to work on new business in one of these accounts.
- **Senior Partners.** Because there is so much potential in a large account, senior managers want to get in on the act also. They try to build relationships and make sales, often independently of the EMs and EMs. [EMs and ?]

The reason for the problem is simple. SCI changed the customer target to include large accounts but has not thought through the engagement model. The EM system seems to work with existing projects but there are too many cooks for securing new business. Among the options for SCI are:

- Formally separate large accounts from small and medium-sized accounts. Put the large-account salespeople on salary and bonus rather than commission. When the account is large enough to warrant an EM, the salesperson drops out of the picture. The EM then has full responsibility both to manage the PMs and to secure new business. The EM becomes a classic key/strategic account manager. SCI also formalizes the role of partners; their visits are coordinated by the EM, and *ad hoc* senior partner visits cease. The EM has revenue and profit responsibility for the account.
- Similar to the former except that the salesperson continues to be responsible for sales, and the EM's job is solely to manage the PMs.

10. Contact, Inc.

Contact, Inc. (CI) has a serious problem. Its major customers, office superstores, are trying to differentiate themselves from competitors by offering private-label products. They are giving more shelf space to their private labels and pricing them lower than branded products. Hence they are serious competitors as well as being customers. If this trend continues, Contact will be squeezed, and sales and profits will fall.

This case offers students the ability to be creative. Contact does not have any good or obvious options. Some possibilities include:

- Focus efforts against branded competitors so as to secure a larger share of the apparently shrinking branded-products pie.
- Become a private-label supplier to the office superstores. CI would grow its volume. The private-label business would have lower margins, but if volume rose significantly, there could be economy-of-scale benefits.
- Develop branded private-label products for individual store chains — one brand for Staples, a second brand for Office Depot. Price realization would be greater than for regular private label. Private-label brands provide the stores with the differentiation they are seeking.
- Continually innovate new products to make obsolete the products that the superstores offer as private labels.

11. Jack Adams

The Jack Adams case illustrates a classic problem in managing global accounts. Most multinationals grew by adding countries and geographic regions to their corporate portfolios, and developed country- and geographic-region focused organizations. This was true from multinationals as both customers and suppliers. In this case, Consulting, Inc. (CI), Jack's customer, has decided to source its travel needs globally; Jack has responsibility for Travel Inc's (TI) sales to CI around the world.

Jack's basic problem is that TI does not have a global organization to address CI. Jack reports to the Great Britain country manager and only dotted line into the global organization. This organization structure results in many conflicts. Among the problems are:

- **Budgets.** Jack wants to travel to Asia Pacific to address customer issues directly. From the perspective of the British country manager, such a trip does not help improve the British performance, and s/he is expected to pay for it!
- **Global Account Importance.** CI may be important to TI overall, hence its global account status, but it may not be important to the British country manager. S/he may have local customers that are far more important locally and demand local resources.
- **P&L.** This runs through the geographies, but the product divisions also have targets. We do not know if Jack also has shadow-P&L responsibility for CI or, indeed, if TI has the system in place to measure P&L by individual customer.

The underlying issue is a misalignment of authority and responsibility and a need to make the matrix work. This is a very difficult issue for an individual global account manager to solve and requires firm-wide action. Among the options are:

- **Culture Change.** TI's top management must make it clear that, regardless of other issues, global customers are critical for TI and the firm expects geographic and product executives to fully support global account mangers.
- **Global Customer Committee.** Chaired by the CEO or COO, this committee, including geographic-area and product-division heads and the global account director,

meets periodically to address global account issues. Geographic-area and product-division heads would not want to be seen as hampering the global customer effort by withholding needed resources.

- **Travel Budgets.** Give the global account director budgetary responsibility for out-of-country travel for global account managers. This removes the budgetary conflict for country managers.
- **Organizational Realignment.** Reverse the solid-line/dotted-line reporting relationships for the global account manager. This approach downgrades country managers but provides a global approach to addressing global customers.

For more information, see Capon, Potter, and Schindler, *Managing Global Accounts*, available from Wessex on this website.

12. Production, Inc.

This case illustrates a classic problem for growing companies. Early in life, reaching customers is a major problem. They typically use some form of distribution system to solve this problem; this was Production, Inc.'s (PI) history. Over time, end-user customers grow and want to deal direct; the end user knows that the distributor is earning a margin and wants some of that margin in lower prices. Furthermore, since it now purchases in large amounts, it knows that the supplier could ship direct and hence reduce supply-chain costs.

The problem for PI is the relationship with its distribution system. Its distributors believe they contributed to PI's growth though their distribution efforts early on. If PI serves these large customers direct, they will feel stabbed in the back. On the other hand, the now-large end-user customers have options. They may value PI's technology for newer products, but for old products there are many adequate suppliers. If PI continues to sell exclusively through distributors, it will lose sales to these smaller suppliers who are happy to go direct.

Up to now, PI has done nothing to solve this dilemma and has lost significant sales. Now it must seriously decide what to do. If PI goes direct, it will regain at least some of the lost sales to major end-user customers. It will also be able to repair strained relationships resulting from its prior refusal to go direct. The real question is: What will its distributors do?

If distributors are outraged by PI's action in going direct and dump PI, this would be a significant problem. Their ability to do so is conditioned on the options. Note that PI's distributors are exclusive and that PI's competitors also have exclusive distributors. (PI's competitors may have a similar problem.) Hence, for a distributor to sever the relationship with PI, it would have to go to the fourth-biggest supplier. The decision for one of PI's irate distributors boils down to the ability of this fourth supplier to match PI's offerings in product line breadth, quality, service, prices, and so forth.

13. Newlines Airways

The main purpose of this case is to explore segmentation issues and to show how firms can be successful by targeting different types of segments with specialized products.

There are several ways to segment the airline market: These include the purpose of travel — business versus leisure — and requirement for comfort. The case identifies two ways in which major airlines discriminate between business and leisure travelers — Saturday-night stay-over and booking time. They address the requirement for comfort with different classes of service — coach, business, and sometimes first class. However, the major airlines put all segments of passengers on the same plane. This is obviously a problem. For example, coach passengers can see how poorly they are treated compared to business class travelers: first on – first off, better meals, bathrooms with less traffic, better/bigger seats, and so forth. Conversely, the few business passengers have to put up with many times their numbers on the plane, many passengers passing them to get to their seats, and other discomforts.

Newer airlines have attempted to offer entire airplanes to individual segments. Southwest Airlines, Ryanair, easyJet, and others focus exclusively on passengers with a low desire for comfort relative to price. These airlines' business models focus laser-like on costs so they can offer basic air travel at low prices. Essentially, these airlines are the modern-day airline equivalent of the Model T Ford. Julian Cook is trying to do the same thing at the other end of the market — one plane for travelers who have a high comfort requirement. He has chosen a long-haul route from London to New York. Because of the open-skies agreement there are no regulatory impediments to this service.

The notion of developing special products for individual segments is fundamental but is relatively rare in the airline industry. An early focus on low price includes Freddie Laker on the London-to-New York route, and People Express in the U.S. Southwest Airlines is the major example in the U.S.; Ryanair and easyJet are good exemplars in Europe.

A question that the case raises is Julian's probability of success. There are several issues:

- Is there a market for this service? The answer seems to be yes. The case states that 1.14 million passengers annually make the London-to-New York transatlantic trip. Newlines would only need a two percent market share to be viable.
- How will competitors respond? The answer is probably very little. The major airlines earn huge margins on business-class travel. The last thing they will do is compete on price. Since Newlines is so small, they will probably wait and see. If the model is successful, they may develop a similar or related model, but that is in the future.
- How will customers respond? There is a segmentation task and a positioning decision to make. Many customers for this service, like the banks and consulting firms, are getting pretty good prices already, so Newlines' prices may not be so attractive to them. But the volume is large so

that price savings may be substantial. The most attractive segments may be small/medium-size businesses, especially those located in the British Midland within easy reach of Stansted. Newlines' challenge will be to reach them. Early on, Newlines may want to make deals with high-volume travelers, who are easy to locate, to fill the plane, while it embarks on the longer-term task of locating the more attractive customers. Some customers will be concerned that Newlines only has two planes; if one plane has a problem, flight cancellations could be a big problem. Lack of a route structure to use frequent-flier miles may also be a problem.

- Can Julian raise enough money to get started? In fact he was unable to do so, and Newlines folded. Angel investors received 35 cents back on the dollar.

What happened?

- To the Newlines business model. Several airlines started up using Julian's model — Eos, Maxjet, Silverjet, among others. These all folded. At the time of writing, Lufthansa offered a transatlantic service from Germany; British Airways offers a similar service from Paris.
- To Julian? He launched Flybaboo, European routes from Geneva: *http://www.flybaboo.com/*.

14. Madison Industries[1]

This is one of the best-ever sales force management cases. There is a lot of data so that students can really dig into the numbers. Ron Fischer is the new regional sales manager (RSM). The case deals with the situation in one of his districts, the First District. Fischer believes there is a problem in the First District — the case glosses over any comparison with his other districts and those in other regions. so the instructor and students should just accept that there is a problem.

Two additional cases are included in this note, together with instructors' notes. Madison Industries (B) deals with Fischer's choice of a replacement. He has to decide if he should replace Feldman as district sales manager (DSM), then has four candidates for the position; the question is which candidate he should choose. In Madison Industries (C), we return to the cast of salespeople in the First District from the Madison Industries case; the new DSM has to decide what actions to take. We have made Madison Industries (B) and Madison Industries (C) each available separately for easy reproduction.

In analyzing the Madison Industries case, students should focus on the role played by information in allowing the sales manager to diagnose and monitor sales force performance. Three sorts of measures are important:

- **Input measures** — like sales effort, expenses, salesperson (and sales manager) competence
- **Territory measures** — sales potential and workload
- **Output measures** — sales volume (units and dollars), profit contribution, customer satisfaction, and so forth. (Intermediate measures like coop advertising and number of factory trials cannot be secured from case data.)

We lay out specific measures in detail in *Exhibit 1*. Students should use a variety of numerical analyses to dig into the Madison case — sometimes raw data, but more often the combination of two or more items in the form of ratios to develop insight into Madison's sales force. Frequently, a single measure does not provide insight alone; rather, a variety of measures is necessary for the sales manager to develop a fabric from which insight can be drawn regarding sales force functioning.

Indeed, sometimes a single measure can be downright misleading. For example, one salesperson may have high sales per active account. If the salesperson has many active accounts relative to his/her potential accounts, this may represent high performance. But a salesperson can also achieve high sales per active account with low sales and a small number of active accounts!

Teaching the Case

One way to teach this case with very good results is to have students work in groups, either as pre-work or during class. Their job is to select what they think are the most important measures and to figure out the numerical score for each salesperson on each measure.

Instructors get the best discussion when they write down the names of all of the salespeople on the board from top to bottom, Heldring to Schmitt. The first group gets to pick a measure, and the instructor writes down the set of eight numbers for that measure — one for each salesperson. The second group picks a new measure and so forth until groups run out of measures. One caution: Students tend to develop complex measures — that's fine so long as they can explain what they mean — but the instructor should make sure that important single measures like territory area are included. At the conclusion of this process, the board is full of numbers. Now the task is to figure out what they mean.

A good approach is to assign individual salespeople to groups or to hold a class discussion focusing on one salesperson at a time. Each salesperson is unique, and a well-run discussion can produce a good sense of each of them. The instructor can provide students with the following measures ahead of time or give them out after the case discussion as a wrap-up.

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Exhibit 1 *Sales Force Measures*

We can partition input measures into effort-related measures and expense-related measures.

Effort-Related Measures

Measure	Value	Limitations
Calls per day	Identifies level of calling effort	Measures quantity of calls, not quality
Calls per account	Identifies level of calling effort	Measures quantity of calls, not quality
Calls per new account	Identifies where time is spent, link to sales strategy	Should be used together with calls per existing account
Calls per existing account	Identifies where time is spent, link to sales strategy	Should be used together with calls per new account

Expense-Related Measures

Measure	Value	Limitations
Total expenses	Measures discretionary cost of salesperson	Doesn't consider territory design
Total salary plus expenses	Measures fixed cost of salesperson	Doesn't consider territory design

Territory Potential Measures

Measure	Value	Limitations
Territory size in square miles	Provides a rough indication of salesperson workload, useful for territory design	Doesn't consider geographic customer concentration
Territory potential	Identifies sales potential	Doesn't consider geographic factors
Sales potential per territory size	Identifies territory richness, useful for territory design	Doesn't consider geographic customer concentration

Output-related Measures

Measure	Value	Limitations
Sales	Indicates overall territory value secured today in revenues	Doesn't consider sales potential, plan, or previous year's results; doesn't consider profitability
Sales Growth – Current versus prior year's sales	Identifies progress versus previous year	Doesn't consider sales potential or plan
Sales versus planned sales	Identifies progress; linked to planning system	Doesn't take into account unexpected events
Total profit contribution	Determines profits from sales volume	Doesn't consider profit potential, plan, or previous year's results
Average profit margin	Identifies profitability; useful to monitor trends	Doesn't consider customer account differences
Number of active accounts	Identifies success in opening accounts	Doesn't consider potential accounts

Combination Measures

Measure	Value	Limitations
Expenses per call	Indicates the cost of sales effort	Doesn't consider geographic and customer-related factors
Sales per call	Identifies sales productivity, independent of territory characteristics	Doesn't consider sales potential or plan
Calls per square mile	A rough measure of salesperson effort	Doesn't consider geographic customer concentration
Sales per square mile	A rough measure of sales per degree of effort required in covering the territory	Doesn't consider profit potential, plan, or previous year's results
Average profit margin	Identifies the extent to which current customers deliver sales volume	Doesn't consider sales potential, plan, or previous year's results; doesn't consider profitability
Sales per active account	Identifies success in opening accounts	Doesn't consider potential accounts
Profit contribution per active account	Identifies the extent to which current customers deliver profits	Doesn't consider potential accounts
Percent active/potential accounts	Indicates extent to which territory potential is being tapped	Doesn't consider account characteristics

14. Madison Industries (B)[1]

Monday. October 8. 1994

Ron Fischer returned to Madison Industries headquarters after a two-day trip to the First District. He believed he had a clear sense of the First District's problems, where sales performance had been under par for some time. He decided that prompt action was necessary. An e-mail from Dick Coccaro, the previous regional sales manager, confirmed Fischer's own conclusions. He was particularly interested in Coccaro's view of DSM, Dave Feldman. In part, Coccaro's e-mail read:

> *Dave Feldman has been district manager for 12 years, with Madison for more than 30 years, and is close to retirement age. I'm not sure Dave recognizes all the recent industry changes. He likes to swap stories with his reps but seems to make calls with some of them too frequently. He's too interested in day-to-day details rather than the big picture. Perhaps we should have taken some action, but he's two years from retirement and healthy, and it didn't seem right to replace him. I've recognized for some time that he's not as effective as he might be.*

Fischer mused: "Can I solve the district's problems without getting rid of Feldman? And even if I can, is it worth the investment on my part? I don't want to spend a lot of time and energy working with Feldman to change things around and then have him retire just when he's become the manager we need. On the other hand, if I try to get him out — offer him early retirement, say, or a job here at headquarters — should I worry about the reaction from my other DSMs? If Feldman does go, whom do I get to take over the First District? It will be a tough job. I could do it myself by spending three or four days a week in the district. In a few months I could turn the situation around and hand the reins to someone else. But I have the rest of the region to attend to."

Without making a decision, Fischer identified potential candidates for the DSM position:

- **Janice Maisonrouge.** Tim Hingham, Midwest Regional Manager, had called Fischer's attention to Maisonrouge (29 years) an assistant product manager. She was previously Madison's sales representative in a major urban center and surrounding suburbs. Maisonrouge had achieved an undergraduate honors degree in economics, then worked at a city-planning agency for three years. She earned an MBA at a top-ranked business school, then joined Madison. She won several sales contests before being appointed assistant product manager. Hingham said she was unflappable, had a good grasp of the issues, and worked very hard. In a telephone conversation, Maisonrouge, although soft-spoken, impressed Fischer as a highly determined, disciplined, and ambitious young woman.
- **Scott Lowell.** Lowell was a friend of Fischer's, a colleague at Chase Tools (Fischer's former employer), and a successful sales manager at Chase. A dynamic, exuberant man with a liberal arts degree, his interests ranged from the opera to sports cars. Lowell had a flair for turning situations around; at Chase, a poor district became a top performer. Fischer believed that Lowell was moveable; he was restless now that his Chase district was healthy. Since Madison's revenues were three times that of Chase, sales manager in the First District would represent a "promotion" and give Lowell the kind of challenge he enjoyed.
- **Kent Horthy.** Horthy, a sales representative in the First District, had been with Madison for five years. He held a two-year diploma in business and previously worked as sales representative for an appliance manufacturer. In his early forties, Horthy was an outstanding performer and had impressed Fischer during his recent trip to the district. His customer rapport was excellent, his accounts were efficiently serviced, and both his presentation and follow-through were of a high order. At the district sales meeting, the other reps seemed to like and respect Horthy. His manner was brisk and no-nonsense without being abrasive. He did not enter much into the general teasing and banter, but his opinions made sense and were obviously respected by his colleagues.

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14. Madison Industries (B) – Instructor's Note

The Madison Industries case demonstrates several problems in the First District. In the Madison (B) case, Fischer's problem is how to deal with the issues. The options seem to be:

- Work with Feldman to make him more effective
- Replace Feldman

If Fischer decides to replace Feldman, the options seem to be:

- Fischer takes over to turn the district around, then hands it over to a new DSM at a future date
- Fischer hires a new DSM right away

If Fisher hires a new DSM the options are:

- Janice Maisonrouge
- Scott Lowell
- Kent Horthy
- Someone else

1. What should Fischer do about Dave Feldman?

- Work with Feldman to make him more effective
- Replace Feldman

Most students prefer the second option. They argue that Feldman has been in the position for a long time and it would be difficult to turn him around. Furthermore, Fischer needs to show success quickly and does not have time to babysit Feldman. Then the question becomes: How should Fischer proceed with Feldman? Among the options are:

- Fire Feldman
- Give Feldman a retirement package
- Find a position for Feldman elsewhere within Madison

The first option is probably a non-starter. No one ever told Feldman he wasn't doing a good job. To the contrary, as far as Feldman knew, Coccaro was quite satisfied with his performance. Both of the other options require Fischer to have detailed discussions with HR. Option 3 is unlikely but could be possible. Perhaps option 2 — retirement package — is the most likely.

When the students get to this position, a role-play is in order. Assume the following:

- Fischer has received HR approval to offer Feldman a generous financial package to retire, based on his many years of service to Madison.
- Feldman doesn't want to retire. He likes his job. No one ever told him he wasn't doing a good job. Everything was fine, and now this young guy Fischer is coming along to shake things up.

The role-play involves a meeting between Fischer and Feldman. Choose the students to role-play carefully, then debrief with members of the class. There can be a lot of learning from this exercise.

2. Who should be the new DSM?
It's best to address this question in two parts:

- Fischer takes over to turn the district around, then hands it over to a new DSM
- Fischer hires a new DSM right away

There may be some arguments in favor of the first option. The First District is not in good shape and needs a quick turnaround. The problem with this option is that Fisher is the RSM, not a DSM. As an RSM, one of his jobs is to appoint good DSMs. Furthermore, there are other districts that need managing; if Fisher spent a considerable amount of time in the First District, he would miss the opportunity to work with his other DSMs

That leaves Fischer with hiring a new DSM. He has identified three candidates. The options are:

- Janice Maisonrouge
- Scott Lowell
- Kent Horthy
- Someone else

Each named candidates has pros and cons:

Janice Maisonrouge

- *Pros:* sales and marketing experience, well educated, good affirmative action hire, strongly pushed by a RSM, internal hire
- *Cons:* youth, could have more experience, may be difficult to deal with the old-timers in the First District, no real managerial experience

Scott Lowell

- *Pros:* experienced sales manager, industry/competitive experience, turnaround manager
- *Cons:* friend of Fischer's, another external hire, may leave after a turnaround (this may not be a con)

Kent Horthy

- *Pros:* high performing sales rep, knows the district and sales reps, respected by colleagues
- *Cons:* no managerial experience, managing former colleagues

A key issue with Horthy is career goals. If he is happy being a sales representative then a promotion might be a poor idea — get a lousy sales manager and lose a good sales rep. On the other hand, if he has managerial ambitions, not being appointed may seem like a cut, and he could leave. That leads to the final option:

- Someone else. One option is a leading sales rep from one of Fischer's other districts or from another region who is looking for career advancement into management. Fischer may need to work out policy with the national sales manager, but this could be the route to promoting Horthy in the future and could address potential bad feelings.

14. Madison Industries (C)[1]

In late October, Janice Maisonrouge was made DSM in Madison Industries' First District. Maisonrouge's predecessor, Dave Feldman, responded favorably to a suggestion from RSM, Ron Fischer, that he take early retirement. Fischer, whose tenure at Madison was little more than one month, charged Maisonrouge to bring the slumping district's performance to an acceptable level.

After spending several weeks travelling with the eight sales reps and settling into her new position, Maisonrouge discussed the district with Fischer. They agreed that four sales reps had particular performance problems: Jim Heldring, Nick Levy, Paul Chow, and Jacqueline Simone. Fischer gave Maisonrouge the latitude to act as she saw fit. He gave her his own notes on the district, the personnel files he'd obtained from Dave Feldman, and the report from Dick Coccaro, the previous RSM. They reinforced Maisonrouge's feeling that she should take definite action.

Jim Heldring

Heldring was the district volume leader. He was 62 years old and had worked for Madison for 35 years. In spite of his age and a fairly severe case of osteo (non-crippling) arthritis, he seemed robust and cheerful. He was well known and respected within Madison and was active in a number of industry and general sales organizations.

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What concerned Maisonrouge and Fischer was the size of Heldring's territory; it seemed too large for a single rep. From the files, Maisonrouge gathered that both Feldman and Coccaro believed the territory would produce more volume if another rep were added. But when Feldman had broached the issue with Heldring a few years previously, Heldring vehemently denied the need for such a step. Feldman never suggested it to him again.

Heldring greeted the new DSM with impersonal geniality and remarked several times that he'd be glad to help Maisonrouge learn the ropes. These offers were friendly enough but conveyed a sense on Heldring's part that the younger woman had no authority over him. During Maisonrouge's first month, she and Heldring dealt with each other amicably enough, but there was little real contact between them. The day they traveled together in Heldring's territory was uneventful. Maisonrouge made a conscious decision to avoid Heldring until she knew the district better.

Nick Levy

According to Feldman's files and the data Fischer collected, Levy had been a fairly good performer during his first six years in the sales force. A handsome man and fashionable dresser, it was common knowledge among the other reps that he was a heavy drinker and an accomplished ladies' man. Feldman's attitude toward Levy, as Coccaro noted, was that "as long as he gets the job done, it's none of our business what he does on his own time." The district salespeople seemed to accept Levy's activities, although several mentioned to Maisonrouge that he "talked too much when he drank"; others expressed sympathy for his wife, who was described as "very sweet and long-suffering."

Feldman had made no entries in Levy's file until two years previously when he noted an increase in Levy's after-hour activities and a decline in customer service. Feldman expressed concern about Levy's drinking and observed he often seemed tired at the monthly sales meetings. Last year Feldman wrote, "Nick seems OK again. I've traveled with him four times so far this year, and I've never seen him act in an objectionable fashion. He seems to know his customers and they appear to be well serviced. He didn't drink during either lunch or dinner when we were in his territory together."

Soon after her appointment, Maisonrouge took a two-day trip with Levy. They covered several small towns and rural areas and one fair-sized city. Some customers greeted Levy warmly; others kept their distance. Maisonrouge observed many accounts that were under-stocked and haphazard displays. Retail store clerks were pleased to see Levy, but seemed surprised at his visit. Judging by the routing pattern, Maisonrouge suspected the trip skipped some fairly large prospects and accounts. When she mentioned this, Levy replied smoothly that they'd covered the most interesting accounts for Maisonrouge. Levy's sales figures showed no new accounts in the past year and a loss or substantial volume decreases from some larger accounts. She met with Levy in her office and expressed her concerns.

At first Levy was defensive and accused Maisonrouge of overlooking the intensified competition in his territory. Maisonrouge listened silently and Levy began to pace up and down the office. "The fact is," he said in a low, strained voice, "my wife and I are trying to work out some problems." He told Maisonrouge that in May his wife had asked for a divorce; he'd kept this secret from the other reps. He'd been seeing another woman, but in September the Levys decided to attempt a reconciliation. As he talked, Levy's voice broke and he was visibly shaken. "I just need a few months to pull my life together; that's all I'm asking you for," he said desperately. Then he let out a long shuddery breath and fell silent, avoiding Maisonrouge's gaze. The meeting ended without resolution.

Paul Chow

Paul Chow had been with Madison for more than 20 years; both he and his wife were from comfortable if not wealthy families. Chow successfully invested in real estate and seemed to be losing interest in Madison. His property holdings apparently provided sufficient income to insulate him from financial pressures. Chow was in his early fifties and had been a solid performer for many years.

When Maisonrouge traveled with Chow she found him thoroughly knowledgeable about the product line, his territory, and the customers. They generally started out at about 9:30 a.m. and finished by 4:00 p.m. Their most recent day together included a long, leisurely lunch with the owner of a prosperous hardware store chain. Chow was close to the customer socially, and Maisonrouge gathered they had some real estate investments together. On their way back, they passed a large new home-center store without stopping. When Maisonrouge queried Chow, he said: "It wouldn't be a good idea to do business with those people. They're very aggressive price-cutters, and my customers would think I was disloyal. That would only hurt Madison in the long run. Anyway, I've got enough customers to keep me happy."

Feldman had made very few comments in Chow's file during the past five years. The other reps seemed to view him with respect tinged with envy. It was common knowledge that Chow often worked a four-day week and spent long weekends at fashionable resorts. He took ski trips with major Madison customers who were old friends from college.

Jacqueline Simon

Feldman made the most entries in Simon's file. Two years ago when she was hired, his remarks were brief and favorable; she was "bright and personable." Simon impressed headquarters with her "ability to understand our programs and projects." Feldman traveled with her several times early on and wrote approvingly of her "rapport with the buyers, especially the younger ones." Simon was then a 27-year-old college graduate with previous experience in toy sales.

Last year, Feldman's comments grew negative. In March he said that Simon was not making enough calls on existing customers: "She tells me she's concentrating on breaking into the larger accounts." A couple of months later he noted, "Jacqueline seems lackadaisical about her work; she should be more familiar with her territory. I'm not sure about her work ethic." In August, he reported a conversation he'd had with a customer: "Porter told me they're pleased with her headquarters attention but not her follow-up with branch stores. When I mentioned this, Jacqueline promised to improve." Feldman's October entry expressed dissatisfaction and during two days of joint pre-Christmas calls he found in-store displays inadequate. "I talked to her about it; she said she was spending her time with the 'big guns' — the larger stores. Of course if she can get a couple of big new accounts it will be a plus for Madison, but even servicing her larger customers seems under par. She got defensive and complained about support." Feldman's final comments, three months ago, said that Simon hadn't lived up to expectations. He noted that she was complaining about the factory service, but concluded, "1 don't like her attitude; I wonder if she'll ever change."

Fischer also observed poor account service and that Simon might need more guidance than Feldman was providing. When Maisonrouge traveled with her for two days in mid-November, she was struck by her indifference to existing smaller accounts. Simon told her she was, "just about to crack some major accounts," but when Maisonrouge questioned her further she turned edgy. "I don't want to jinx things by talking about them before they pan out." Then she changed the subject by complaining about the factory's slowness in responding to her requests.

Maisonrouge's Options

Maisonrouge decided to craft a course of action before reporting to Fischer. She knew that Madison's policy and tradition and Fischer's injunction gave the DSM a relatively free hand. She could fire any or all of the representatives if she chose, or place them on probation. Probation comprised a 90-day written warning. If the salesperson's performance was still not up to par, he or she was discharged. Other, less-formal options were available. For example, in early February, salary reviews followed the year-end sales results. DSMs had latitude to determine annual increases. To Maisonrouge's knowledge, Madison had never used salary decreases.

Exhibit 1 (D) provides data on the four salespeople and the district as a whole. For other data on these salespeople, see the Madison Industries case.

14. Madison Industries (C) – Instructor's Note

What Happened

Maisonrouge took the following actions. Students should not assume that they were necessarily optimal.

- **Heldring.** Maisonrouge appointed a sales assistant to work with Heldring. Her rationale was that she didn't want to upset Heldring, as he was very powerful in the industry. She structured the compensation so that Heldring would earn if the assistant opened up new accounts. Her plan was for the assistant to take over the territory when Heldring retired in a couple of years.
- **Levy.** Essentially, Maisonrouge turned Levy over to HR. She believed it would be very dangerous for her to get involved in Levy's personal problems and that HR would find expert counseling. She did, however, put Levy on probation. The combination of these two efforts was very successful. Levy reconciled with his wife, turned his performance around, and became a fierce advocate for Maisonrouge.
- **Chow.** In a long interview, Chow agreed with Maisonrouge that he had been coasting but promised to start putting in full-time effort. He was as good as his word in the winter months, but in the spring the golf course beckoned, he returned to his earlier ways, and Maisonrouge fired him.
- **Simon.** Maisonrouge cut down Simon's territory and spent significant time helping her plan territory coverage. She showed improvement but continued to be a problem for some period.

Maisonrouge also made some territory alignment adjustments.

Exhibit 1 *First District Sales Performance and Compensation Data*

Salesperson	Sales ($K)	Sales ($K)	Sales ($K)	Active Accounts	Calls	Calls	Salary	Commission	Total Compensation	Expenses	Total
	Prior Year	Current Year: First Half	Current Year: Third Quarter	Current Year: Third Quarter	Current Year: First Half	Current Year: Third Quarter	Current Year: First Nine Months	Current Year: First Nine Months	Current Year: First Nine Months	Current Year: First Nine Months	
Simon	$ 3,256	$ 1,740	$ 1,012	250	575	325	$ 39,000	$ 41,250	$ 80,250	$ 40,500	$ 120,750
Heldring	6,480	2,938	2,082	201	515	280	84,000	75,300	159,300	17,700	177,000
Levy	4,440	1,754	736	175	480	210	54,000	37,350	91,350	31,800	123,150
Chow	4,050	1,806	1,188	130	410	225	63,000	44,910	107,910	15,000	122,910
Other Dist. Salespeople	18,226	9,142	5,926	1,020	2,840	1,520	210,000	225,990	435,990	105,000	540,990
Total	$36,452	$17,380	$10,944	1,776	4,820	2,560	$450,000	$424,800	$874,800	$210,000	$1,084,800

Source: Company records, including call reports for data on number

15. Merck

From experience, marketing faculty and hence their students know a lot about consumer buying behavior, but much less about organizational buying behavior. This case is about modern-day organizational buying behavior. It shows the transformation of a major U.S. company that purchased in a classic traditional manner into a modern-day procurement organization. In making the change, Merck reduced its procurement costs by millions of dollars. The setting for the case is Merck's requirement for automobiles and the actions that Bill Gibson from GM should take to wrest the major U.S. business away from Ford.

Potential discussion questions include:

1. How does Merck's approach to procuring automobiles differ from previous years?

- Previously Merck procured separately in different parts of the Western Hemisphere. This time is will make one overall purchase.
- Rather than making an annual purchase, Merck is going for a three-year deal.
- Cost of ownership is going to play a major role in the decision of who gets the contract.

2. What has been Merck's historical approach to purchasing?

- Decentralized – mainly located at individual plants
- Individual heads had procurement budgets that they could spend as they saw fit.
- Small amount of purchasing across country boundaries
- Little or no coordination among different buying centers
- Little development of deep procurement expertise – purchasing just one element on a rising manager's career rotation
- Purchasing departments focused on products and services for the plants and R&D.
- Global Procurement had a vague oversight role but no authority to enforce changes.

3. What core changes has Merck made in its purchasing practices?

- "Purchasing" has been rebranded as "procurement."
- Global Procurement has authority to make changes in procurement practices.
- Procurement now has responsibility for non-factory-related spending, like travel and entertainment, consulting services, healthcare, legal, etc.
- Procurement has well-defined performance targets to reduce spending.
- Build the transformation on four pillars:
  - Pillar 1 — sourcing management process
  - Pillar 2 — people
  - Pillar 3 — expense management
  - Pillar 4 — supplier management
- Developed a five-stage sourcing management process
  - Stage 1 – define business requirements based on AQSCI
    - **A**ssurance of supply
    - **Q**uality/Regulatory needs
    - **S**ervice levels
    - **C**ost
    - **I**nnovation
  - Stage 2 – gathering and analyzing internal and external 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
- Developed strategic partnerships with core suppliers

4. What steps did Merck take to change to the new procurement organization?

- Hired experts to validate the potential for savings
- Hired procurement experts
- Extensive training in the new procurement approach
- Focused heavily on change management within Merck
- Set performance targets
- Assigned teams to work on specific procurement categories
- Used multifunctional teams with careful selection of stakeholders
- Put in measurement system to validate savings
- Challenged suppliers to provide savings to Merck
- Required suppliers to present white papers laying out savings plans for Merck
- Learned best practices from suppliers

5. How should GM approach the upcoming Merck contract?

- Be very clear who is going to make the procurement decision.
- Identify Merck's key criteria for the contract – the AQSCI.
- Secure data on how Ford and Chrysler intend to address the Merck business.
- Develop an offer that addresses Merck's business requirements.
- Focus on total cost of ownership including costs for gasoline, services, oil; changes breakdowns in addition to the price of the automobile [changes breakdowns is correct?]
- Look for many ways to bring value to Merck in addition to transporting sales reps from A to B. The car functions as an office and a store (for samples); are there some design possibilities?

6. What happened?

- GM put together a very innovative bid and won the business.
- It prepared extensive documentation on cost of ownership and was able to show that its costs were lower than the Ford alternative.

16. Citibikes

This case deals with several related social problems — vehicular emissions, global warming, healthy lifestyle, traffic congestion, quality of life, and so forth. It enables students to learn how appropriate government decisions can make improvements on many dimensions that matter to their citizens. This case allows students to develop a plan for their own town, or one with which they are familiar, down to the level of how many bicycles to put in the program, where to place bicycle racks, and so forth. Because students have an in-depth knowledge of the town they choose, the level of granularity in the decisions can be quite high. Also, because the
case is about their town, the level of interest will lead to vigorous discussion.

Among issues the instructor might wish to discuss are:

- **Market Development.** The idea of bicycle sharing is not new but took a long time to reach the current stage of evolution. Starting with second-hand bicycles, third-generation programs now use new bicycles and significant management expertise.
- **Technology.** Third-generation programs are made possible by technology. The ability to gain access to bicycles with a personalized device, along with sophisticated payment systems, has made these programs viable.
- **Short-term Car Rental.** The instructor may want to compare bicycle renting with related programs for automobiles. One teaching approach is a similarities — technology, payment method, membership program/ differences — government versus private enterprise, program size, complementary services like bicycle lanes, discussion.
- **Insourcing versus Outsourcing.** Although bicycle sharing is a government program, one model is for private organizations to run the program in exchange for advertising space that it sells to generate revenues. Students may argue the pros and cons of this approach. The left will argue that private enterprise should not profit from a public program. The opposing view is that an outsourced model gets government out of something they know little or nothing about. Also, outsourced suppliers develop expertise by running programs in multiple cities, and any individual city gains from this experience.
- **Communications.** Such a public program may need little advertising since it will almost certainly receive significant local press coverage. However, potential riders will need to find information about bicycle-rack locations, membership options, and rules and regulations for bicycle use. This suggests a decent website and widespread availability of brochures, especially in the early stages.
- **Capacity.** A critical decision is how many bicycles to purchase and where to put them. YourTown can learn from other cities, but there will need to be some marketing research in YourTown to gauge potential demand.
- **Similar Sharing Programs.** The sharing of public goods is not a commonly addressed topic. The instructor may initiate a discussion of the requirements for such sharing — ability to maintain product quality and distribution issues like access to, and disposal of, bicycles. What other products/service might lend themselves to public sharing, and what can bicycle sharing teach us? One example is public parks; people will share this good only if it is well maintained.
- **Products versus Benefits.** The case shows that the important issue for customers is the benefit they receive: how to get from A to B. Customers don't want the product — they just want the benefit that the product delivers.
- **Go/No Go.** Notwithstanding the attraction of bicycle sharing and its apparent success in several European cities, there are several potential arguments against bicycle-sharing programs. Some of these are conditioned on geography; hence the instructor may conduct a pro/ con debate for a bicycle program in YourTown.

One teaching option is to discuss issues like these, concluding with the pro/con analysis for Your Town. Then, regardless of the results of that discussion, student groups should develop strategies and implementation programs for bicycle sharing in YourTown.

17. Sotheby's Auction House

Sotheby's and Christie's are effectively a duopoly in the auction business for fine art. Both are global firms. They compete fiercely around the world and are more or less equal in size. Since the case is quite short, we can give only general directions for Sotheby's or indeed for Christie's. One teaching option is to use the case for a war game. This proceeds as follows:

Sotheby's and Christie's War Game

Preliminary

- Form two groups (or multiple sets of groups) — Sotheby's and Christie's.
- Give the teams a reasonable period of time to research Sotheby's, Christie's, and the fine-art auction market in general. Each team leans about its firm, its competitor, and the market.
- Consider allowing multiple Sotheby's groups and multiple Christie's groups to share the fruits of their research so each starts the war-game simulation on a similar footing.

War Game (based on 2 teams)

- The Sotheby's and Christie's teams each develop a three-year market strategy for the fine-art auction market.
- The Sotheby's team presents its market strategy to the Christie's team; the Christie's team presents its market strategy to the Sotheby's team.
- Each team revises its strategy based on what it heard from its competitor.

- The Sotheby's team presents its market strategy to the Christie's team; the Christie's team presents its market strategy to the Sotheby's team.

Schedule

- Preliminaries — 2 weeks as homework
- Develop market strategy — 1.5 hours
- Market strategy presentations — 1 hour (including Q&A)
- Revise market strategy — 0.75 hours
- Revised market strategy presentation — 0.75 hour (including Q&A)
- Instructor debrief — 0.5 hours

This schedule is very flexible and should be tailored to the instructor's class objectives.

Questions to Consider in Class Discussion

Why is there so much price competition? What led to price fixing?

Price competition occurs when no competitor has a differential advantage. In such cases, the way to secure advantage is to reduce price. Price competition is especially fierce when variable costs are low; even with quite low prices the firm makes some contribution margin to apply to fixed costs. That appears to be the case here. Competition was so bad that the firms were tempted to fix prices and were caught doing so. Note that auction houses historically earned revenues from both sellers and buyers; it appears that seller revenue has more or less disappeared. Indeed, both houses give guarantees to sellers — this can be a big problem when economic times are bad and the auction house gets stuck with product that doesn't sell above the guarantee price.

What is the key to securing differential advantage?

The underlying approach is to segment the art market to target specific segments, and then to develop strategies for those segments the firm decided to target. There is no evidence in the case that either auction house does any segmentation whatsoever. In fact, they seem to pride themselves on being full-line competitors.

How might Sotheby's approach market segmentation?

Sotheby's has to decide how to segment — sellers, buyers, art type required. It cannot attempt a decent segmentation without knowing more about its buyers and sellers.

If Sotheby's decides on a segment target, how should it proceed?

Suppose that Sotheby's decides that contemporary art is a good place to focus. It should communicate that fact to potential sellers and buyers. Maybe it should develop a sub-brand — Sotheby's Contemporaries — to support this effort. Perhaps it could get some network effect going for it — more sellers makes Sotheby's more valuable for buyers; more buyers make Sotheby's more valuable for sellers. If Sotheby's could show sellers that its auction prices are higher, that may ease the pressure they bring to bear.

18. ABC Symphony Orchestra

The purpose of this case is to provide students with some idea of what it's like to hold a key marketing position in an organization with very little resources like ABC; the Marketing Director may be the only person in the marketing organization. Some students may take this sort of position with a not-for-profit; others may serve as trustees. In either case, having an idea of the challenges is very important. Relatedly, students may work for a small business, possibly a family-run organization – the problem of lack of resources is very similar.

The case identifies four areas of endeavor: *data collection*, *market strategy*, *implementation*, and *define and measure success*, with several questions under each. The first question for the instructor to ask students is scope: Are Sonia's four categories the appropriate ones? The first two broad categories seem reasonable: data gathering and market strategy, and also the fourth, define and measure success. But the third category, relationship marketing, seems a bit of a mishmash — a mixture of implementation and internal relationships. Perhaps the third category should be implementation and some of the items should be redistributed.

Data Collection. Sonia has to figure out ABC's current position and secure insight about customers (donors, attendees) and competitors — she says nothing about competitors — see Chapters 4 and 5 of *Capon's Marketing Essentials*. The first item under market strategy should probably go in the data collection category, also the second item under relationship marketing. Sonia really needs to lay out just what she needs to know and where and how to secure insight. In particular, she should distinguish between internal and external data and between primary and secondary data.

Market Strategy. Sonia doesn't really talk about segmentation, targeting, and market strategy — see Chapters 7 and 8 in *Capon's Marketing Essentials*. Indeed, only by having an idea about these decisions can Sonia do a decent job of figuring out what she needs to secure from data collection. As she begins to grapple with the strategic questions, she will inform her marketing research task; those answers will in turn inform her strategy and raise new questions. Note also that items 2 and 4 are implementation questions. Also, she has to formulate two separate but related strategies — one for the programs and one for the donors.

Implementation. Certainly the items about direct marketing and programming (product) are critical to implementation, but she must also consider other items, like communication other than direct mail, and pricing.

Define and Measure Success. Sonia is right on the money here. She must put in place a monitor-and-control function so she can assess the success/failure of the actions she decides to take (*Capon's Marketing Essentials:* Chapter 20.)

The foregoing is meant as a rough guide to teaching the case rather than a detailed instructors' note. This is a nice case for students to work on in groups and gives them a chance to exercise creativity.

19. William Chung

The purpose of this case is to allow students to get deep into one growing area of customer communication. In addition, many students like to dabble in entrepreneurial activity, so they may find the setting exciting and familiar. The broad problem is getting a business going by its bootstraps and finding customers when resources are very scarce.

In the big scheme of things, setting up a website and running e-mail campaigns is not that expensive, but a lot of time and effort can be wasted if it is poorly done. The website must be clear and easily navigable and tell the visitor what he or she needs to know. The e-mails should drive traffic to the website. A key question is securing the appropriate e-mail lists. For its textbooks, Wessex developed e-mail lists by identifying institutions that offered marketing courses and outsourcing the job of finding e-mail addresses. Bill should figure out what sort of lists to use, then develop an e-mail strategy that involves frequency of e-mails, developing sub-lists of prospects, and different types of messages based on audience.

This case makes for a good student project where they can get deep into a marketing implementation challenge.

20. Centaur Consulting

Centaur Consulting (CC) is a real company. Students can go to *www.centaurconsultinginc.com* to learn about the organization. The website contains information on CC's products and services and its client base. Students can use these data to address the questions in the case.

Essentially the problem for CC is to differentiate itself from competitors in an industry with many organizations offering somewhat similar services. Right now, CC seems to have a broad range of services and a broad range of clients; is it too broad? Among its challenges, CC must segment and target its market, formulate a strategy, and develop a brand. Issues with which CC must wrestle include standardization versus customized programs, traditional leader-led instruction or web-based learning, broad range of offerings, or specific topic areas.

This case provides students with the opportunity to dig into a real organization and use the limited data available to attempt to answer some formidable questions.

21. John Andrews

The series of events described in this case pretty much occurred as described; some details have been changed. This is a good case for students as it is very relevant for them as they look for jobs in general and summer jobs in particular. The instructor can use the case for a broader discussion of ethical issues in marketing research.

Two issues stand out specifically as worthy of discussion:

- What should John Andrews do now?
- What should John have done earlier to ensure that he did not have this problem?

What should John Andrews do now?

This is the problem that John must face right now. He is caught between the proverbial rock and a hard place. If he does what is requested of him, then he is clearly misrepresenting himself. If he refuses he will be on the street with significant financial problems, family vacation ruined, etc. Few students are comfortable with either of these options. The instructor should make sure that students understand the problems with each option. After a thorough discussion of these options, students may suggest creative alternatives. This can be an interesting discussion as each student tries to work out an option that he or she finds satisfactory.

For students who want to know what happened, John did the following: He was financially strapped but refused to do anything unethical that could negatively affect Galactic's competitors. He went along with the cover story and fixed up interviews based on his student status. Before each interview, he spent at least one day in a library and on the Internet searching the company. He prepared a report for Galactic based on this research. He then interviewed Galactic's competitors, using the cover story, but did not use any of the data he learned in his report. Slavic was very happy with John's efforts. John believed he had given value to Slavic and earned his pay, but was confident that despite his misrepresentation as a student, nothing he learned went to Slavic. John believed he had done a good job in the difficult position that Slavic had placed him. He didn't like the fact that he had misrepresented himself to Galactic's competitors but was confident this had not benefitted Slavic.

The instructor might present this option and secure student reactions; the discussion will be vigorous.

What should John have done earlier to ensure that he did not have this problem?

The underlying issue is that John should not have got into this problem in the first place. The key point for students to understand as regards interviewing is that not only is the firm interviewing them, they are interviewing the firm. In this case especially, where the position was thousands of miles away from home, John should have been pretty clear what the job involved before he accepted. Obviously, it's impossible to be fully satisfied, but John should have known he was going to interview competitors and been smart enough to have realized that they would not just have given data to their competitor, Galactic.

22. Top City Movie Theaters

This case is mainly about pricing but also addresses product line issues. A useful way to approach this case is to put students into two groups: One group assembles arguments in favor of differentiated pricing; the other group marshals the arguments for the status quo. This approach often sharpens the arguments. However, the group arguing for differentiated pricing should also outline how it would put a differentiated pricing scheme into effect.

Differentiated Pricing. The core arguments for differentiated pricing relate to market segmentation and product differentiation. The instructor has doubtless already addressed these issues in class. The challenge is to make these operational in the context of a movie theater. Charles is already thinking of movie popularity; today we know popularity ex post but this is much more difficult to assess *ex ante*. We could each identify high-profile movies that bombed (*Ishtar*) and low-profile movies that were highly successful (*My Big Fat Greek Wedding*). This could lead to a discussion of consumer testing and test marketing with different prices.

A related product issue concerns location in the theater. Currently, movie prices are invariant with location, largely because ticket sales do not specify seat location. In principle there is no reason why movie theaters should not sell specific seats rather than general admission, as is usual for theatrical productions. Some places, like Hong Kong, already do this.

Undifferentiated Pricing. We consider three types of issue — customer, product line, and cost/capacity:

- **Customer issues**
  - *Negative transaction value.* Customers arrive at the theater expecting a certain reference price. They find a higher price for popular films and have a negative response. Theaters want repeat traffic/loyal customers rather than just one-off visits; they do not want to annoy customers.
  - *Price-quality perception.* Customers may believe that lower-priced movies are inferior to higher-priced movies and depress demand.
  - *Word of mouth.* Word of mouth is a key driver of movie viewership. Movies are a *use* or *experience* product; customers have little prior knowledge and cannot assess value until after consumption. Hence they rely on multiple information sources, especially word of mouth from friends, family, and acquaintances. By charging higher prices for more-popular films, theaters would decrease immediate demand — fewer people will buy more expensive tickets, but also future demand — fewer people will create word of mouth.
  - *Watching experience.* Popular movies lead to more crowded theaters, less comfort (inferior seating choices, less arm room, popcorn-eater noise, heavy breathers, talkers, cell phone addicts), and a poorer overall experience. People watching these movies are implicitly paying more already.
  - *Value assessment.* Because movies are a *use* or *experience* product, customers may be less willing to pay more for a purportedly popular movie. If they do pay more, they may be particularly unhappy if they end up not liking the movie.
- **Product line issues**
  - Movie theaters earn a large portion of revenues from complementary products — concessions sales like soft drinks and popcorn. Hence they have a strong incentive to maximize total theater traffic, even sacrificing some upfront box-office revenues. Recall that theaters retain approximately 40 percent of box-office revenues but retain all concession revenues. Note also that typical product sales — coke and popcorn — have very low variable costs. If consumers have limited movie budgets, higher ticket prices may lead to less concessionary spending.
  - Studios also earn significant revenues from other products – licensing to cable networks, retail sales and rental, and foreign sales. These revenues relate directly to success in U.S. movie theaters. Hence, studios have an incentive to maximize theater viewership.
  - When consumers encounter a sold-out movie situation, they often watch another, less-popular movie, hence boosting sales. This spillover demand is valuable for a theater.
- **Cost/capacity issues**
  In general, movie theaters have high fixed costs but low variable costs (effectively zero) for serving incremental viewers. (We consider payments to studios as revenue sharing rather than variable costs.) Fixed costs are real estate and personnel. (Note that labor is a fixed cost; a certain number of employees must be present regardless of the number of customers.) The optimum profit maximizing approach is to focus on capacity utilization, not price maximization. Most theater complexes have virtually unlimited capacity — they can show a popular movie on multiple screens and at multiple times during the day/night. Maximizing capacity utilization means they should get as many people as possible to watch the film, rather than extracting maximum revenues from each viewer.

23. Gorgeous Gardens

This problem isolated in this case is very general: A producer wants to expand distribution outside a traditional channel. The issue is heightened for GG inasmuch as the new channel comprises retailers that can be sure to cut prices. The instructor can broaden the discussion by substituting for discounters GG's proposed website introduction to sell products directly to consumers.

The specialty dealer network is likely to resist GG's move; the discount channel will introduce downward pricing pressure it cannot match. The specialty network provides many services that discount stores will likely not provide. The combination of lower cost structures and greater purchasing power at GG gives discounters great ability to price low. Further, consumers will be able to free ride by using specialty stores for the services they offer, then buying products from discounters.

GG has several options to mitigate the conflict:

- There may be two consumer segments: those who shop for these products at specialty stores and those who shop at discount stores. GG could conduct market research to explore this hypothesis. Confirmation may mitigate negative trade reaction but is unlikely to defuse it completely. Specialty stores will likely have a negative visceral reaction to distribution through discounters, regardless of study results. In fact, customer overlap between the two channels is quite likely.

- GG could differentiate its products across the channels by providing lower-end models to discount chains and higher-end products, offering higher retail margins, to the specialty channel. The two product types could also carry different brand names.
  - Specifically, to help the specialty channel, GG could:
  - increase margins (to subsidize additional services)
  - provide merchandising assistance
  - pay for repair services that retailers perform
  - help drive traffic to the stores via advertising and promotion

Note that as one element in his decision-making, Heinz should perform a complete analysis of the specialty retail channel. Among the questions he should answer are:

- What is the industry structure? Many small retailers or several chains?
- Are the retailers exclusive to GG or do they also sell competing products?
- What options for retaliation do the specialty retailers have if they are upset at GG's actions?
- What actions are they likely to take?
- What would be the impact of their actions on GG?

24. Buckstar

What is the optimal sandwich price, ignoring the impact of other product sales?
Profits at the different prices:

$3 price → 20 units sold: margin per sandwich = $1.50 × 20 → total profits = $30

$4 price → 15 units sold: margin per sandwich = $2.50 × 15 → total profits = $37.50

$5 price → 10 units sold: margin per sandwich = $3.50 × 10 → total profits = $35

Optimal price is **$4**.

What is the optimal sandwich price, including the impact of other product sales?
Every 10 sandwich sales lead to:

- Juice: Increased sales — 4 units × $2 profit per unit = $8 additional profits
- Coffee: Fewer sales — 4 units × $1 profit per unit = $4 less profits
- Bagels and other food items: Fewer sales — 4 units × $2 profit per unit = $12 less profits
- Total effect from other products = $8 – 4 – 12 = $8 less profits = 80 cents per sandwich

New margin per sandwich:

$3 price → $1.50 – $0.80 = $0.70

$4 price → $2.50 – $0.80 = $1.70

$5 price → $3.50 – $0.80 = $2.70

Profits at the different prices

$3 price → 20 units sold: margin per sandwich = $0.7 × 20 → total profits = $14

$4 price → 15 units sold: margin per sandwich = $1.70 × 15 → total profits = $25.50

$5 price → 10 units sold: margin per sandwich = $2.70 × 10 → total profits = $27

Optimal price is **$5**.

The optimal price has increases. For every sandwich sale, Buckstar loses profits on other products. Hence it is better off selling fewer sandwiches but making more profits from each sandwich sale.

What is the marginal breakeven for $6 price versus $5 price?

When price is $6, adjusted margin = $3.70 ($6 – $1.50 [sandwich cost] – $0.80 [other product impact])

When price is $6, total profits = $27

Marginal breakeven sales when price is $6 = 7.3 ($27/$3.70)

If Buckstar's sandwich sales were greater than 7.3, a $6 price would be more profitable.

What are the problems with Janet's market research study?
The positive factor is that Janet conducted the price-testing study with real customers under market conditions. One major problem is that customers in the study may not be representative of those who would frequent Buckstar at lunchtime if it started offering sandwiches. Currently, lunch-focused customers probably go elsewhere, given Buckstar's lack of lunch options. Janet should repeat the price testing against a customer sample that more accurately represents the target customer segment.