# Cases

## Guide to the Use of These Cases

Cases can be used in many ways. And the same case can be analyzed several times for different purposes.

The main criterion for the order of these cases is the amount of technical vocabulary—or text principles—that are needed to read the case meaningfully. The first cases are "easiest" in this regard. This is why an early case can easily be used two or three times—with different emphasis. Some early cases might require some consideration of Product and Price, for example, and might be used twice, perhaps regarding product planning and later pricing. In contrast, later cases, which focus more on Price, might be treated more effectively *after* the Price chapters are covered.

In some of the cases, we have disguised certain information—such as names or proprietary financial data—at the request of the people or firms involved in the case. However, such changes do not alter the basic substantive problems you will be analyzing in a case.

## 1. McDonald's "Seniors" Restaurant

Suzanne Drolet is manager of a McDonald's restaurant in a city with many "seniors." She has noticed that some senior citizens have become not just regular patrons—but patrons who come for breakfast and stay on until about 3 PM. Many of these older customers were attracted initially by a monthly breakfast special for people aged 55 and older. The meal costs $1.99, and refills of coffee are free. Every fourth Monday, between 100 and 150 seniors jam Suzanne's McDonald's for the special offer. But now almost as many of them are coming every day—turning the fast-food restaurant into a meeting place. They sit for hours with a cup of coffee, chatting with friends. On most days, as many as 100 will stay from one to four hours.

Suzanne's employees have been very friendly to the seniors, calling them by their first names and visiting with them each day. In fact, Suzanne's McDonald's is a happy place—with her employees developing close relationships with the seniors. Some employees have even visited customers who have been hospitalized. "You know," Suzanne says, "I really get attached to the customers. They're like my family. I really care about these people." They are all "friends" and it is part of McDonald's corporate philosophy (as reflected in its Web site, www.mcdonalds.com) to be friendly with its customers and to give back to the communities it serves.

These older customers are an orderly group and very friendly to anyone who comes in. Further, they are neater than most customers and carefully clean up their tables before they leave. Nevertheless, Suzanne is beginning to wonder if anything should be done about her growing "non-fast-food" clientele. There's no crowding problem yet, during the time when the seniors like to come. But if the size of the senior citizen group continues to grow, crowding could become a problem. Further, Suzanne is concerned that her restaurant might come to be known as an "old people's" restaurant—which might discourage some younger customers. And if customers felt the restaurant was crowded, some might feel that they wouldn't get fast service. On the other hand, a place that seems busy might be seen as "a good place to go" and a "friendly place."

Suzanne also worries about the image she is projecting. McDonald's is a fast-food restaurant (there are over 30,000 of them in 119 countries), and normally customers are expected to eat and run. Will allowing people to stay and visit change the whole concept? In the extreme, Suzanne's McDonald's might become more like a European-style restaurant where the customers are never rushed and feel very comfortable about lingering over coffee for an hour or two! Suzanne knows that the amount her senior customers spend is similar to the average customer's purchase—but the seniors do use the facilities for a much longer time. However, most of the older customers leave McDonald's by 11:30, before the noon crowd comes in.

Suzanne is also concerned about another possibility. If catering to seniors is OK, then should she do even more with this age group? In particular, she is considering offering bingo games during the slow morning hours—9 AM to 11 AM. Bingo is popular with some seniors, and this could be a new revenue source—beyond the extra food and drink purchases that probably would result. She figures she could charge $5 per person for the two-hour period and run it with two underutilized employees. The prizes would be coupons for purchases at her store (to keep it legal) and would amount to about two-thirds of the bingo receipts (at retail prices). The party room area of her McDonald's would be perfect for this use and could hold up to 150 persons.

*Evaluate Suzanne Drolet's current strategy regarding senior citizens. Does this strategy improve this McDonald's image? What should she do about the senior citizen market—that is, should she encourage, ignore, or discourage her seniors? What should she do about the bingo idea? Explain.*

## 2. Pillsbury's Häagen-Dazs

Jan Phillips is the newly hired ice cream product-market manager for North America for Häagen-Dazs—the world's leading brand of super premium ice cream (now available in 55 countries) and the market leader in North America. Pillsbury says Häagen-Dazs (www.pillsbury.com/main/brands/haagen) is profitable globally, with total sales of more than $900 million. The company saw its sales grow rapidly during the 1990s, but now its markets are facing significant change and very aggressive competition. Phillips is responsible for Häagen-Dazs' ice cream strategy planning for North America.

Other product-market managers are responsible for Europe, Japan, and other global markets. Therefore, Phillips will be expected to focus only on North America while knowing that "everyone" will be watching her (and North America) for clues about what may happen elsewhere.

Overall, ice cream sales in North America have been off 1 to 2 percent in recent years. Still, some new entries have made a big splash. Starbucks, the coffee king, is one such brand. In its first year in grocery-store freezer sections, its Frappuccino bars—in several flavours—were a big hit. Coldstone Creamery is a fast-growing franchise, increasing from 1 store in 1988 to about 1,000 now. Häagen-Dazs, along with a few other super premium producers, are continuing to grow at rates of 2 to 3 percent. But most other North American super premium producers are reporting flat sales, and some are going out of business. The easy availability of super premium ice cream in supermarkets has hurt some of these producers who sell through ice cream stores, which specialize in take-out cones, sundaes, and small containers of ice cream. It is also thought that, at least in part, the decline in sales growth of super premium ice cream in the North America since the early 1990s is due to competition from other products such as lower-calorie yogourts and low-fat ice cream.

Despite a real concern about healthy diets, North Americans seem to swing back and forth in their yearnings for low fat and rich taste. There is some evidence that "dessert junkies" who want to indulge without too much guilt are turning to low-fat frozen yogourt and low-fat ice cream. This has encouraged a number of super premium ice cream competitors to offer these products too. Pillsbury's Häagen-Dazs, International Dairy Queen, and Baskin Robbins are selling frozen yogourt. And Kraft—which makes Frusen Glädjè, Edy's, and Dreyer's

Grand Ice Cream—is among many other ice cream makers that are promoting gourmet versions of low-fat ice cream.

Because of the competition from low-fat products, Häagen-Dazs introduced a line of low-fat super premium ice cream. The low-fat line contains no more than three grams of fat per serving. That compares with six times more grams of fat in a half-cup serving of its full-fat versions. Häagen-Dazs believes that its low-fat super premium ice cream is better tasting than other alternatives. Its belief is that "people like to make every calorie count." Having worked on the low-fat item for more than two years, it developed a process whereby a concentration of dairy proteins from lactose-reduced skim milk give a mouth-feel that approximates that of a higher-fat product. Häagen-Dazs sells its low-fat products in a variety of flavours.

Most ice cream products are considered economy and regular brands—priced at $3 to $6 for 2 litres. Super premium ice cream retails for $3.50 to $4.50 a half-litre, or $9 to $11 for 2 litres. The retail price for a half-litre of Häagen-Dazs is usually over $5.00. The low-fat version is comparably priced to the full-fat product.

Many other North American ice cream producers have turned to frozen yogourt for growth. Frozen yogourt sales were in a slump for a long time because many people didn't like the tart taste. But after the product was reformulated it started to win customers. The difference is that today's frozen yogourt tastes more like ice cream.

The yogourt market leader, TCBY (www.tcby.com), which had sales of only about $2 million in 1983, has risen to over $100 million in sales. It numbers over 2,500 shops worldwide and is franchised in over 67 countries. In North America, yogourt makers are using aggressive promotion against ice cream. TCBY ads have preached: "Say goodbye to high calories—say goodbye to ice cream" and "All the pleasure, none of the guilt." And the ads for its nonfat frozen yogourt emphasize: "Say goodbye to fat and high calories with the great taste of TCBY Nonfat Frozen Yogurt."

Baskin Robbins has introduced yogourt in many of its stores and has even changed its name to Baskin Robbins Ice Cream and Yogurt. Häagen-Dazs also offers yogourt in most of its stores.

Although the flurry of consumer interest in low-fat yogourt and low-fat ice cream certainly created some new market opportunities, it is not clear how consumers will react to these products over the longer term. One reason is that many consumers who were initially excited about being able to buy a good tasting, low-fat frozen dessert have realized that low fat does not necessarily mean low calorie. In fact, Jan Phillips has been trying to identify a product that Häagen-Dazs could produce that would offer consumers great taste, low fat, and low calories all at the same time. One possibility she is seriously considering is to introduce a line of sorbets based on exotic fruits like kiwi and mango and that use low-calorie sweeteners.

A sorbet is basically the same as sherbet, but European sorbets usually have an icy texture and include less milk. This is the sort of product that Jan Phillips has in mind. She thinks that it might have an upscale appeal and also be different from what is already in the premium ice cream case.

On the other hand, calling a product by a different name doesn't make it really new and different, and basic sherbet has been around for a long time and never been a big seller. Further, consumers don't think of sorbet in the same way that they think about a rich-tasting bowl of ice cream. You don't have to convince people that they might like premium ice cream. Sorbet, on the other hand, isn't something that consumers crave and make a special trip to buy.

Further, Phillips is very conscious that the Häagen-Dazs brand should stand for high quality and the best ingredients. Yet, it's not clear that consumers will think of sorbet as a premium product. Rather, they might just see it as ground-up ice with some flavouring thrown in. But if sorbet isn't the right way to go with new-product development, how should Hãagen-Dazs counter the competition from other low-fat ice cream brands like Ben & Jerry's and other new entries to the super premium category like Coldstone Creamery?

*Evaluate what is happening in the ice cream market, especially regarding the apparent levelling off of super premium ice cream sales and the possibilities for growth of the sorbet market. Is Jan Phillips' idea about rolling out a low-cal fruit sorbet a good idea? Would it be better to use the Häagen-Dazs brand name or a different brand name? What else, if anything, would need to be different about the strategy? Why?*

## 3. ResinTech

Sally Walden, a chemist in ResinTech's polymer resins laboratory, is trying to decide how hard to fight for the new product she has developed. Walden's job is to find new, more profitable applications for the company's present resin products—and her current efforts are running into unexpected problems.

During the last four years, Walden has been under heavy pressure from her managers to come up with an idea that will open up new markets for the company's foamed polystyrene.

Two years ago, Walden developed the "foamed-dome concept"—a method of using foamed polystyrene to make dome-shaped roofs and other structures. She described the procedure for making domes as follows: The construction of a foamed dome involves the use of a specially designed machine that bends, places, and bonds pieces of plastic foam together into a predetermined dome shape. In forming a dome, the machine head is mounted on a boom, which swings around a pivot like the hands of a clock, laying and bonding layer upon layer of foam board in a rising spherical form.

According to Walden, polystyrene foamed boards have several advantages:

1. Foam board is stiff—but can be formed or bonded to itself by heat alone.
2. Foam board is extremely lightweight and easy to handle. It has good structural rigidity.
3. Foam board has excellent and permanent insulating characteristics. (In fact, the major use for foam board is as an insulator.)
4. Foam board provides an excellent base on which to apply a variety of surface finishes, such as a readily available concrete-based stucco that is durable and inexpensive.

Using her good selling abilities, Walden easily convinced her managers that her idea has potential.

According to a preliminary study by the marketing research department, the following were areas of construction that could be served by the domes:

1. Bulk storage.
2. Cold storage.
3. Educational construction.
4. Covers for industrial tanks.
5. Light commercial construction.
6. Planetariums.
7. Recreational construction (such as a golf-course starter house).

The marketing research study focused on uses for existing dome structures. Most of the existing domes are made of cement-based materials. The study showed that large savings would result from using foam boards, due to the reduction of construction time.

Because of the new technology involved, the company decided to do its own contracting (at least for the first four to five years). Walden thought this was necessary to make sure that no mistakes were made by inexperienced contractor crews. (For example, if not applied properly, the plastic may burn.)

After building a few domes to demonstrate the concept, Walden contacted some leading North American architects. Reactions were as follows:

> "It's very interesting, but we're not sure the fire marshal of Chicago would ever give his OK."
>
> "Your tests show that foamed domes can be protected against fires, but there are no *good* tests for unconventional building materials as far as I am concerned."
>
> "I like the idea, but foam board does not have the impact resistance of cement."
>
> "We design a lot of recreational facilities, and kids will find a way to poke holes in the foam."
>
> "Building codes in our area are written for wood and cement structures. Maybe we'd be interested if the codes change."

After this unexpected reaction, management didn't know what to do. Walden still thinks they should go ahead with the project. She wants to build several more demonstration projects in North America and at least three each in Europe and Japan to expose the concept in the global market. She thinks architects outside North America may be more receptive to really new ideas. Further, she says, it takes time for potential users to "see" and accept new ideas. She is sure that more exposure to more people will speed acceptance. And she is convinced that a few reports of well-constructed domes in leading trade papers and magazines will go a long way toward selling the idea. She is working on getting such reports right now. But her managers aren't sure they want to OK spending more money on "her" project. Her immediate boss is supportive, but the rest of the review board is less sure about more demonstration projects or going ahead at all—just in North America or in global markets.

*Evaluate how ResinTech got into the present situation. What should Sally Walden do? What should Walden's managers do? Explain.*

## 4. Lilybank Lodge

Nestled in the high country of New Zealand's South Island is a getaway adventure playground aimed unashamedly at the world's very wealthy. Presidents, playboys, and other such globe-trotters are the prime targets of this fledgling tourism business developed by Lilybank Lodge. The lodge offers this exclusive niche the opportunity of a secluded holiday in a little-known paradise. Guests, commonly under public scrutiny in their everyday lives, can escape such pressures at a hunting retreat designed specifically with their needs in mind.

A chance meeting between a New Zealand Department of Conservation investigator and the son of the former Indonesian president marked the beginning of this specialty tourist operation. Recognizing that "filthy rich" public figures are constantly surrounded by security and seldom have the luxury of going anywhere incognito, the New Zealander, Gerard Olde-Olthof, suggested that he and his new friend purchase a high-country station and hunting-guide company that was for sale. Olde-Olthof believed that the facilities, and their secluded and peaceful environment, would make an ideal holiday haven for this elite group. His Indonesian partner concurred.

Olde-Olthof, who was by now the company's managing director, developed a carefully tailored package of goods and services for the property. Architecturally designed accommodations, including a game trophy room and eight guest rooms, were constructed using high-quality South Island furniture and fittings, to create the ambience necessary to attract and satisfy the demands of their special clientele.

Although New Zealand had an international reputation for being sparsely populated and green, Olde-Olthof knew that rich travellers frequently complained that local accommodations were below overseas standards. Since the price (NZ$700 a night) was not a significant variable for this target market, sumptuous guest facilities were built. These were designed to be twice the normal size of most hotel rooms, with double-glazed windows that revealed breathtaking views. Ten full-time staff and two seasonal guides were recruited to ensure that visitors received superior customized service, in fitting with the restrained opulence of the lodge.

The 28,000 hectares of original farmland that made up the retreat and backed onto the South Island's Mount Cook National Park were converted into a big-game reserve. All merino sheep on the land were sold, and deer, elk, chamois, and wapiti were brought in and released. This was a carefully considered plan. Olde-Olthof, the former conservationist, believed that financially and environmentally this was the correct decision. Not only do tourists, each staying for one week and taking part in safari shooting, inject as much cash into the business as the station's annual wool clip used to fetch, but the game does less harm to the environment than sheep. Cattle, however, once part of the original station, were left to graze on lower riverflat areas.

For those high-flying customers seeking less bloodthirsty leisure activities, Lilybank developed photographic "safaris" and other product-line extensions. Horse-trekking, golfing on a nearby rural course (with no need for hordes of security forces), helicopter trips around nearby Lake Tekapo, nature walks, and other such activities formed part of the exclusive package.

While still in the early stages of operation, this retreat has already attracted a steady stream of visitors. To date, the manager has relied solely on positive word of mouth, publicity, and public relations to draw in new customers. Given the social and business circles in which his potential target market moves, Olde-Olthof considers these to be the most appropriate forms of marketing communication. The only real concern for Lilybank Lodge has been the criticism of at least one New Zealand lobby group that the company is yet another example of local land passing into "foreign" hands, and that New Zealanders are prevented from using the retreat and excluded from its financial returns. However, this unwelcome attention has been fairly short-lived.

*Identify the likely characteristics of the market segment being targeted by the company. Why are most target customers likely to be foreigners rather than New Zealanders? Suggest what expectations target customers are likely to have regarding the quality, reliability, and range of services. What are the implications for Lilybank Lodge? How difficult is it for Lilybank Lodge to undertake market research? Elaborate.*

## 5. Marie's Ristorante

Marie Trevia, the owner and manager of Marie's Ristorante, is reviewing the slow growth of her restaurant. She's also thinking about the future and wondering if she should change her strategy. In particular, she is wondering if she should join a fast-food or family restaurant franchise chain. Several are located near her, but there are many franchisors without local restaurants. After doing some research on the Internet, she has learned that with help from the franchisors, some of these places gross $500,000 to $1 million a year. Of course, she would have to follow someone else's strategy and thereby lose her independence, which she doesn't like to think about. But those sales figures do sound good, and she has also heard that the return to the owner-manager (including salary) can be over $150,000 per year. She has also considered putting a Web page for Marie's Ristorante on the Internet but is not sure how that will help.

Marie's Ristorante is a fairly large restaurant—about 836 square metres—located in the centre of a small shopping centre completed early in 2002. Marie's sells mainly full-course "home-cooked" Italian-style dinners (no bar) at moderate prices. In addition to Marie's restaurant, other businesses in the shopping centre include a supermarket, a hair salon, a liquor store, a video rental store, and a vacant space that used to be a hardware store. The hardware store failed when a Home Depot located nearby. Marie has learned that a pizzeria is considering locating there soon. She wonders how that competition will affect her. Ample parking space is available at the shopping centre, which is located in a residential section of a growing suburb in the East, along a heavily travelled major traffic route.

Marie graduated from a local high school and a nearby university and has lived in this town with her husband and two children for many years. She has been self-employed in the restaurant business since her graduation from college in 1985. Her most recent venture before opening Marie's was a large restaurant that she operated successfully with her brother from 1993 to 1999. In 1999, Marie sold out her share because of illness. Following her recovery, she was anxious for something to do and opened the present restaurant in April 2002. Marie feels her plans for the business and her opening were well thought out. When she was ready to start her new restaurant, she looked at several possible locations before finally deciding on the present one. Marie explained: "I looked everywhere, but here I particularly noticed the heavy traffic when I first looked at it. This is the crossroads for three major highways. So obviously the potential is here."

Having decided on the location, Marie signed a 10-year lease with option to renew for 10 more years, and then eagerly attacked the problem of outfitting the almost empty store space in the newly constructed building. She tiled the floor, put in walls of surfwood, installed plumbing and electrical fixtures and an extra washroom, and purchased the necessary restaurant equipment. All this cost $120,000—which came from her own cash savings. She then spent an additional $1,500 for glassware, $2,000 for an initial food stock, and $2,125 to advertise Marie's Ristorante's opening in the local newspaper. The paper serves the whole metro area, so the $2,125 bought only three quarter-page ads. These expenditures also came from her own personal savings. Next she hired five waitresses at $275 a week and one chef at $550 a week. Then, with $24,000 cash reserve for the business, she was ready to open. Reflecting her sound business sense, Marie knew she would need a substantial cash reserve to fall back on until the business got on its feet. She expected this to take about one year. She had no expectations of getting rich overnight. (Her husband, a high school teacher, was willing to support the family until the restaurant caught on.)

The restaurant opened in April and by August had a weekly gross revenue of only $2,400. Marie was a little discouraged with this, but she was still able to meet all her operating expenses without investing any new money in the business. By September business was still slow, and Marie had to invest an additional $3,000 in the business just to survive.

Business had not improved in November, and Marie stepped up her advertising—hoping this would help. In December, she spent $1,200 of her cash reserve for radio advertising—10 late-evening spots on a news program at a station that aims at middle-income earners. Marie also spent $1,600 more during the next several weeks for some metro newspaper ads.

By April 2003, the situation had begun to improve, and by June her weekly gross was up to between $3,100 and $3,300.

By March 2004, the weekly gross had risen to about $4,200. Marie increased the working hours of her staff six to seven hours a week and added another cook to handle the increasing number of customers. Marie was more optimistic for the future because she was finally doing a little better than breaking even. Her full-time involvement seemed to be paying off. She had not put any new money into the business since summer 2003 and expected business to continue to rise. She had not yet taken any salary for herself, even though she had built up a small surplus of about $9,000. Instead, she planned to put in a bigger air-conditioning system at a cost of $5,000 and was also planning to use what salary she might have taken for herself to hire two new waitresses to handle the growing volume of business. And she saw that if business increased much more she would have to add another cook.

*Evaluate Marie's past and present marketing strategy. What should she do now? Should she seriously consider joining some franchise chain?*

## 6. SleepEasy Motel

Eng Huang is trying to decide whether he should make some minor changes in the way he operates his SleepEasy Motel or if he should join either the Days Inn or Holiday Inn motel chains. Some decision must be made soon because his present operation is losing money. But joining either of the chains will require fairly substantial changes, including new capital investment if he goes with Holiday Inn.

Huang bought the recently completed 60-room motel two years ago after leaving a successful career as a production manager for a large producer of industrial machinery. He was looking for an interesting opportunity that would be less demanding than the production manager job. The SleepEasy is located at the edge of a very small town near a rapidly expanding resort area and about one-half mile off a provincial highway. It is 22 kilometres from the tourist area, with several nationally franchised full-service resort motels suitable for "destination" vacations. There is a Best Western, a Ramada Inn, and a Hilton Inn, as well as many mom and pop and limited-service, lower-priced motels—and some quaint bed and breakfast facilities—in the tourist area. The highway near the SleepEasy carries a great deal of traffic, since the resort area is between several major metropolitan areas. No development has taken place around the turnoff from the highway. The only promotion for the tourist area along the highway is two large signs near the turnoffs. They show the popular name for the area and that the area is only 22 kilometres to the west. These signs are maintained by the tourist area's Tourist Bureau. In addition, the provincial transportation department maintains several small signs showing (by symbols) that near this turnoff one can find gas, food, and lodging. Huang does not have any signs advertising SleepEasy except the two on his property. He has been relying on people finding his motel as they go toward the resort area.

Initially, Huang was very pleased with his purchase. He had travelled a lot himself and stayed in many different hotels and motels—so he had some definite ideas about what travellers wanted. He felt that a relatively plain but modern room with a comfortable bed, standard bath facilities, and free cable TV would appeal to most customers. Further, Huang thought a swimming pool or any other nonrevenue-producing additions were not necessary. And he felt a restaurant would be a greater management problem than the benefits it would offer. However, after many customers commented about the lack of convenient breakfast facilities, Huang served a free continental breakfast of coffee, juice, and rolls in a room next to the registration desk.

Day-to-day operations went fairly smoothly in the first two years, in part because Huang and his wife handled registration and office duties as well as general management. During the first year of operation, occupancy began to stabilize around 55 percent of capacity. But according to industry figures, this was far below the average of 68 percent for his classification—motels without restaurants.

After two years of operation, Huang was concerned because his occupancy rates continued to be below average. He decided to look for ways to increase both occupancy rate and profitability and still maintain his independence.

Huang wanted to avoid direct competition with the full-service resort motels. He stressed a price appeal in his signs and brochures and was quite proud of the fact that he had been able to avoid all the "unnecessary expenses" of the full-service resort motels. As a result, Huang was able to offer lodging at a very modest price—about 40 percent below the full-service hotels and comparable to the lowest-priced resort area motels. The customers who stayed at SleepEasy said they found it quite acceptable. But he was troubled by what seemed to be a large number of people driving into his parking lot, looking around, and not coming in to register.

Huang was particularly interested in the results of a recent study by the regional tourist bureau. This study revealed the following information about area vacationers:

1. 68 percent of the visitors to the area are young couples and older couples without children.
2. 40 percent of the visitors plan their vacations and reserve rooms more than 60 days in advance.
3. 66 percent of the visitors stay more than three days in the area and at the same location.
4. 78 percent of the visitors indicated that recreational facilities were important in their choice of accommodations.
5. 13 percent of the visitors had family incomes of less than $27,000 per year.
6. 38 percent of the visitors indicated that it was their first visit to the area.

After much thought, Huang began to seriously consider affiliating with a national motel chain in hopes of attracting more customers and maybe protecting his motel from the increasing competition. There were constant rumors that more motels were being planned for the area. After some investigating, he focused on two national chain possibilities: Days Inn and Holiday Inn. Neither had affiliates in the area even though they each have about 2,000 units nationwide.

Days Inn has been growing rapidly and is willing to take on new franchisees. A major advantage of Days Inn is that it would not require a major capital investment by Huang. The firm is targeting people interested in lower-priced motels, in particular, senior citizens, the military, school sports teams, educators, and business travellers. In contrast, Holiday Inn would probably require Huang to upgrade some of his facilities, including adding a swimming pool. The total new capital investment would be between $300,000 and $500,000, depending on how fancy he got. But then Huang would be able to charge higher prices, perhaps $75 per day on the average rather than the $45 per day per room he's charging now.

The major advantages of going with either of these national chains would be their central reservation systems and their national names. Both companies offer nationwide, toll-free reservation lines, which produce about 40 percent of all bookings in affiliated motels. Both companies also offer Web sites (www.daysinn.com and www.holiday-inn.com) that help find a specific hotel by destination, rate, amenities, quality rating, and availability.

A major difference between the two national chains is their method of promotion. Days Inn uses little TV advertising and less print advertising than Holiday Inn. Instead, Days Inn emphasizes sales promotions. In one campaign, for example, Blue Bonnet margarine users could exchange proof-of-purchase seals for a free night at a Days Inn. This tie-in led to the Days Inn system *selling* an additional 10,000 rooms. Further, Days Inn operates a September Days Club for travellers 50 and over who receive such benefits as discount rates and a quarterly travel magazine.

Days Inn also has other membership programs, including its InnCentives loyalty club for frequent business and leisure travellers. Other programs targeted to business travellers include two Corporate Rate programs and its new Days Business Place hotels. Not to be outdone, Holiday Inn has a membership program called Priority Club Worldwide.

Both firms charge 8 percent of gross room revenues for belonging to their chain—to cover the costs of the reservation service and national promotion. This amount is payable monthly. In addition, franchise members must agree to maintain their facilities and make repairs and improvements as required. Failure to maintain facilities can result in losing the franchise. Periodic inspections are conducted as part of supervising the whole chain and helping the members operate more effectively.

*Evaluate Eng Huang's present strategy. What should he do? Explain.*

## 7. Murphy's Ice Land

Eduardo Black, the manager of Murphy's Ice Land, is trying to decide what strategies to use to increase profits.

Murphy's Ice Land is an ice-skating rink with a conventional hockey rink surface (26 metres × 61 metres). It is the only indoor ice rink in a northern city of about 350,000. The city's recreation department operates some outdoor rinks in the winter, but they don't offer regular ice skating programs because of weather variability.

Eduardo runs a successful hockey program that is more than breaking even—but this is about all he can expect if he only offers hockey. To try to increase his profits, Eduardo is trying to expand and improve his public skating program. With such a program, he could have as many as 700 people in a public session at one time, instead of limiting the use of the ice to 12 to 24 hockey players per hour. While the receipts from hockey can be as high as $200 an hour (plus concession sales), the receipts from a two-hour public skating session—charging $5 per person—could yield up to $3,500 for a two-hour period (plus much higher concession sales). The potential revenue from such large public skating sessions could make Murphy's Ice Land a really profitable operation. But, unfortunately, just scheduling public sessions doesn't mean that a large number will come. In fact, only a few prime times seem likely: Friday and Saturday evenings and Saturday and Sunday afternoons.

Eduardo has included 14 public skating sessions in his ice schedule, but so far they haven't attracted as many people as he hoped. In total, they only generate a little more revenue than if the times were sold for hockey use. Offsetting this extra revenue are extra costs. More staff people are needed to handle a public skating session—guards, a ticket seller, skate rental, and more concession help. So the net revenue from either use is about the same. He could cancel some of the less attractive public sessions—like the noon-time daily sessions, which have very low attendance—and make the average attendance figures look a lot better. But he feels that if he is going to offer public skating he must have a reasonable selection of times. He does recognize, however, that the different public skating sessions do seem to attract different people and, really different kinds of people.

The Saturday and Sunday afternoon public skating sessions have been the most successful, with an average of 200 people attending during the winter season. Typically, this is a "kid-sitting" session. More than half of the patrons are young children who have been dropped off by their parents for several hours, but there are also some family groups.

In general, the kids and the families have a good time—and a fairly loyal group comes every Saturday and/or Sunday during the winter season. In the spring and fall, however, attendance drops about in half, depending on how nice the weather is. (Eduardo schedules no public sessions in the summer, focusing instead on hockey clinics and figure skating.)

The Friday and Saturday evening public sessions are a big disappointment. The sessions run from 8 until 10, a time when he had hoped to attract teenagers and young adult couples. At $5 per person, plus $1.50 for skate rental, this would be an economical date. In fact, Eduardo has seen quite a few young couples—and some keep coming back. But he also sees a surprising number of 8- to 14-year-olds who have been dropped off by their parents. The younger kids tend to race around the rink playing tag. This affects the whole atmosphere, making it less appealing for dating couples and older patrons.

Eduardo has been hoping to develop a teenage and young-adult market for a "social activity," adapting the format used by roller-skating rinks. Their public skating sessions feature a variety of couples-only and group games as well as individual skating to dance music. Turning ice skating sessions into such social activities is not common, however, although industry newletters suggest that a few ice-rink operators have had success with the roller-skating format. Seemingly, the ice skating sessions are viewed as active recreation, offering exercise or a sports experience.

Eduardo installed some soft lights to try to change the evening atmosphere. The music was selected to encourage people to skate to the beat and couples to skate together. Some people complained about the "old" music; but it was "danceable," and some skaters really liked it. For a few sessions, Eduardo even tried to have some couples-only skates. The couples liked it, but this format was strongly resisted by the young boys who felt that they had paid their money and there was no reason why they should be kicked off the ice. Eduardo also tried to attract more young people and especially couples by bringing in a local rock radio station disk jockey to broadcast from Murphy's Ice Land—playing music and advertising the Friday and Saturday evening public sessions. But this had no effect on attendance, which varies from 50 to 100 per two-hour session during the winter.

Eduardo seriously considered the possibility of limiting the Friday and Saturday evening sessions to people age 14 and over—to try to change the environment. He knew it would take time to change people's attitudes. But when he counted the customers, he realized this would be risky. More than a quarter of his customers on an average weekend night appear to be 13 or under. This means that he would have to make a serious commitment to building the teen and young-adult market. And, so far, his efforts haven't been successful. He has already invested over $3,000 in lighting changes and over $9,000 promoting the sessions over the rock music radio station, with very disappointing results. Although the station's sales rep said they reached teenagers all over town, an on-air offer for a free skating session did not get a single response!

Some days, Eduardo feels it's hopeless. Maybe he should accept that most public ice skating sessions are a mixed bag. Or maybe he should just sell the time to hockey groups. Still he keeps hoping that something can be done to improve weekend evening public skating attendance, because the upside potential is so good. And the Saturday and Sunday afternoon sessions are pretty good money-makers.

*Evaluate Murphy's Ice Land's situation. What should Eduardo Black do? Why?*

## 8. Joggers Universe

Sue Koenig, owner of Joggers Universe, is trying to decide what she should do with her retail business and how committed she should be to her current target market.

Sue is 42 years old, and she started her Joggers Universe retail store in 1987 when she was only 24 years old. She was a nationally ranked runner herself and felt that the growing interest in jogging offered real potential for a store that provided serious runners with the shoes and advice they needed. The jogging boom quickly turned Joggers Universe into a profitable business selling high-end running shoes—and Sue made a very good return on her investment for the first 10 years. From 1987 until 1997, Sue emphasized Nike shoes, which were well accepted and seen as top quality. Nike's aggressive promotion and quality shoes resulted in a positive image that made it possible to get a $5 to $7 per pair premium for Nike shoes. Good volume and good margins resulted in attractive profits for Sue Koenig.

Committing so heavily to Nike seemed like a good idea when its marketing and engineering was the best available. In addition to running shoes, Nike had other athletic shoes Sue could sell. So even though they were not her primary focus, Sue did stock other Nike shoes including walking shoes, shoes for aerobic exercise, basketball shoes, tennis shoes, and cross-trainers. She also added more sportswear to her store and put more emphasis on fashion rather than just function.

Even with this broadened product line, Sue's sales flattened out—and she wasn't sure what to do to get her business back in growth mode. She realized that she was growing older and so were many of her longer-term customers. Many of them were finding that jogging isn't just hard work—it's hard on the body, especially the knees. So many of her previously loyal runner-customers were switching to other, less demanding exercise programs. However, when she tried to orient her store and product line more toward these people she wasn't as effective in serving the needs of serious runners—still an important source of sales for the store.

She was also facing more competition on all fronts. Many consumers who don't really do any serious exercise buy running shoes as their day-to-day casual shoes. As a result, many department stores, discount stores, and regular shoe stores have put more and more emphasis on athletic shoes in their product assortment. When Sue added other brands and put more emphasis on fashion she found that she was in direct competition with a number of other stores, which put more pressure on her to lower prices and cut her profit margins. For example, in Sue's area there are a number of local and online retail chains offering lower-cost and lower-quality versions of similar shoes as well as related fashion apparel. Wal-Mart also expanded its assortment of athletic shoes—and it offers rock-bottom prices. Other chains, like Foot Locker, have focused their promotion and product lines on specific target markets. Still, all of them (including Sue's Joggers Universe, the local chains, Wal-Mart, and Foot Locker) are scrambling to catch up with rival category killers whose selections are immense.

In the spring of 2003 Sue tried an experiment. She took on a line of high-performance athletic shoes that were made to order. The distinctive feature of these shoes was that the sole was molded to precisely fit the customer's foot. A pair of these custom-made shoes cost about $170, so the market was not large. Further, Sue didn't put much promotional emphasis on this line. However, when a customer came in the store with a serious interest in high-performance shoes, Sue's sales clerks would tell them about the custom shoe alternative and show a sample. When a customer was interested, a mold of the customer's bare foot was made at the store, using an innovative material that hardened in just a few minutes without leaving a sticky mess. Sue sent the mold off to the manufacturer by UPS, and about two weeks later the finished shoes arrived. Customers who tried these shoes were delighted with the result.

However, the company that offered them ran into financial trouble and went out of business.

Sue recently learned about another company that is offering a very similar custom shoe program. However, that company requires more promotion investment by retailers and in return provides exclusive sales territories. Another requirement is that the store establish a Web site promoting the shoes and providing more detail on how the order process works. All of a retailer's salesclerks are also required to go through a special two-day training program so that they know how to present the benefits of the shoe and do the best job creating the molds. The training program is free, but Sue would have to pay travel, hotel, and food expenses for her salespeople. So before even getting started, the new program would cost her several thousand dollars.

Sue is uncertain about what to do. Although sales have dropped, she is still making a reasonable profit and has a relatively good base of repeat customers, with the serious runners still more than half of her sales and profits. She thinks that the custom shoe alternative is a way to differentiate her store from the mass-merchandisers and to sharpen her focus on the target market of serious runners. On the other hand, that doesn't really solve the problem that the "runners" market seems to be shrinking. It also doesn't address the question of how best to keep a lot of the aging customers she already serves who seem to be shifting away from an emphasis on running. She also worries that she'll lose the loyalty of her repeat customers if she shifts the store further away from her running niche and more toward fashionable athletic shoes or fashionable casual wear. Yet athletic wear—women's, in particular—has come a long way in recent years. Designers like Donna Karan, Calvin Klein, Georgio Armani, and Ralph Lauren are part of the fast-growing women's wear business.

So Sue is trying to decide if there is anything else she can do to better promote her current store and product line, or if she should think about changing her strategy in a more dramatic way. Any change from her current focus would involve retraining her current salespeople and perhaps hiring new salespeople. Adding and maintaining a Web site isn't an insurmountable challenge, but it is not an area where she has either previous experience or skill.

Clearly, a real shift in emphasis would require that Sue make some hard decisions about her target market and her whole marketing mix. She's got some flexibility—it's not like she's a manufacturer of shoes with a big investment in a factory that can't be changed. On the other hand, she's not certain she's ready for a big change, especially a change that would mean starting over again from scratch. She started Joggers Universe because she was interested in running and felt she had something special to offer. Now she worries that she's just clutching at straws without a real focus or any obvious competitive advantage. She also knows that she is already much more successful than she ever dreamed when she started her business—and in her heart she wonders if she wasn't just spoiled by growth that came fast and easy at the start.

*Evaluate Sue Koenig's present strategy. Evaluate the alternative strategies she is considering. Is her primary problem her emphasis on running shoes, her emphasis on trying to hang on to her current customers, or is it something else? What should she do? Why?*

## 9. Applied Chemistry Corporation

Jeannie Trenton, a new product manager for Applied Chemistry Corporation (ACC), must decide what to do with a new engine cooling system product that is not doing well compared to the company's other cooling system products. ACC is one of the large chemical companies in the United States, making a wide line of organic and inorganic chemicals and plastics. Technical research has played a vital role in the company's growth.

Recently, one of ACC's researchers developed a new engine cooling system product—EC-301. Much time and money was spent on the technical phase, involving various experiments concerned with the quality of the new product. Then Jeannie Trenton took over and has been trying to develop a strategy for the product.

The engine coolant commonly used now is ethylene glycol. If it leaks into the crankcase oil, it forms a thick, pasty sludge that can cause bearing damage, cylinder scoring, or a dozen other costly and time-consuming troubles for both the operator and the owner of heavy-duty engines.

ACC researchers believed that the new product—EC-301—would be very valuable to the owners of heavy-duty diesel and gasoline trucks, as well as other heavy-equipment owners. Chemically, EC-301 uses a propanol base instead of the conventional glycol and alcohol bases. It cannot prevent leakage, but if it does get into the crankcase, it won't cause serious problems.

The suggested list price of EC-301 is $5 per litre, more than twice the price of regular coolants. The higher price was set because of higher production costs and to obtain a "premium" for making a better engine coolant.

At first, Trenton thought she had two attractive markets for EC-301: (1) the manufacturers of heavy-duty trucks and (2) the users of heavy-duty trucks. ACC sales reps have made numerous calls. So far neither type of customer has shown much interest, and the sales manager is discouraging any more calls for EC-301. He feels there are more profitable uses for the sales reps' time. The truck manufacturer prospects are reluctant to show interest in the product until it has been proven in actual use. The maintenance managers for truck fleets, construction companies, and other users of heavy-duty trucks have also been hesitant. Some say the suggested price is far too high for the advantages offered. Others don't understand what is wrong with the present coolants and refuse to talk any more about paying extra for just another me-too product.

*Explain what has happened so far. What should Jeannie Trenton do? Why?*

## 10. Paper Products Inc.*

Diane Chin, marketing manager for Paper Products Inc. (PPI) must decide whether she should permit her largest customer to buy some of PPI's commonly used file folders under

*Adapted from a case written by Professor Hardy, University of Western Ontario, Canada.

the customer's brand rather than PPI's own FILEX brand. She is afraid that if she refuses, this customer—Office Centre Inc.—will go to another file folder producer and PPI will lose this business.

Office Centre Inc., is a major distributor of office supplies and has already managed to put its own brand on more than 45 high-sales-volume office supply products. It distributes these products—as well as the branded products of many manufacturers—through its nationwide distribution network, which includes 150 retail stores. Now Ken Sawyer, vice president of marketing for Office Centre, is seeking a line of file folders similar in quality to PPI's FILEX brand, which now has over 60 percent of the market.

This is not the first time that Office Centre has asked PPI to produce a file folder line for Office Centre. On both previous occasions, Diane Chin turned down the requests and Office Centre continued to buy. In fact, Office Centre not only continued to buy the file folders but also the rest of PPI's lines. And total sales continued to grow as Office Centre built new stores. Office Centre accounts for about 30 percent of Diane Chin's business. And FILEX brand file folders account for about 35 percent of this volume.

In the past PPI consistently refused such dealer-branding requests as a matter of corporate policy. This policy was set some years ago because of a desire (1) to avoid excessive dependence on any one customer and (2) to sell its own brands so that its success is dependent on the quality of its products rather than just a low price. The policy developed from a concern that if it started making products under other customers' brands, those customers could shop around for a low price and the business would be very fickle. At the time the policy was set, Diane Chin realized that it might cost PPI some business. But it was felt wise nevertheless, to be better able to control the firm's future.

PPI has been in business 28 years and now has a sales volume of $40 million. Its primary products are file folders, file markers and labels, and a variety of indexing systems. PPI offers such a wide range of size, colour, and type that no competition can match it in its part of the market. About 40 percent of PPI's file folder business is in specialized lines such as files for oversized blueprint and engineer drawings; see-through files for medical markets; and greaseproof and waterproof files for marine, oil field, and other hazardous environmental markets. PPI's competitors are mostly small paper converters. But excess capacity in the industry is substantial, and these converters are always hungry for orders and willing to cut price. Further, the raw materials for the FILEX line of file folders are readily available.

PPI's distribution system consists of 10 regional stationery suppliers (40 percent of total sales), Office Centre Inc. (30 percent), and more than 40 local stationers who have wholesale and retail operations (30 percent). The 10 regional stationers each have about six branches, while the local stationers each have one wholesale and three or four retail locations. The regional suppliers sell directly to large corporations and to some retailers. In contrast, Office Centre's main volume comes from sales to local businesses and walk-in customers at its 150 retail stores.

Diane Chin has a real concern about the future of the local stationers' business. Some are seriously discussing the formation of buying groups to obtain volume discounts from vendors and thus compete more effectively with Office Centre's 150 retail stores, the large regionals, and the superstore chains, which are spreading rapidly. These chains—for example, Staples Business Depot, Office World, and Office Max—operate stores of 4,500 to 5,500 square metres (i.e., large stores compared to the usual office supply stores) and let customers wheel through high-stacked shelves to supermarket-like checkout counters. These chains stress convenience, wide selection, and much lower prices than the typical office supply retailers. They buy directly from manufacturers, such as PPI, bypassing wholesalers like Office Centre. It is likely that the growing pressure from these chains is causing Office Centre to renew its proposal to buy a file line with its own name. For example, Staples Business Depot offers its own dealer brand of files and many other types of products.

None of Diane's other accounts is nearly as effective in retailing as Office Centre, which has developed a good reputation in every major city in the country. Office Centre's profits have been the highest in the industry. Further, its brands are almost as well known as those of some key producers—and its expansion plans are aggressive. And now, these plans are being pressured by the fast-growing superstores, which are already knocking out many local stationers.

Diane is sure that PPI's brands are well entrenched in the market, despite the fact that most available money has been devoted to new-product development rather than promotion of existing brands. But Diane is concerned that if Office Centre brands its own file folders it will sell them at a discount and may even bring the whole market price level down. Across all the lines of file folders, Diane is averaging a 35 percent gross margin, but the commonly used file folders sought by Office Centre are averaging only a 20 percent gross margin. And cutting this margin further does not look very attractive to Diane.

Diane is not sure whether Office Centre will continue to sell PPI's FILEX brand of folders along with Office Centre's own file folders if Office Centre is able to find a source of supply. Office Centre's history has been to sell its own brand and a major brand side by side, especially if the major brand offers high quality and has strong brand recognition.

Diane is having a really hard time deciding what to do about the existing branding policy. PPI has excess capacity and could easily handle the Office Centre business. And she fears that if she turns down this business, Office Centre will just go elsewhere and its own brand will cut into PPI's existing sales at Office Centre stores. Further, what makes Office Centre's offer especially attractive is that PPI's variable manufacturing costs would be quite low in relation to any price charged to Office Centre—that is, there are substantial economies of scale, so the extra business could be very profitable—if Diane doesn't consider the possible impact on the FILEX line. This Office Centre business will be easy to get, but it will require a major change in policy, which Diane will have to sell to Paul Jennings, PPI's president. This may not be easy. Paul is primarily interested in developing new and better products so the company can avoid the "commodity end of the business."

*Evaluate PPI's current strategy. What should Diane Chin do about Office Centre's offer? Explain.*

## 11. Multimedia Corral

Josh Sullivan, manager of Multimedia Corral, is looking for ways to increase profits. But he's turning cautious after the poor results of his last effort, during the previous Christmas season. Multimedia Corral (MC), is located along a busy crosstown street about 4 kilometres from the downtown of a metropolitan area of 1 million and near a large university. It sells a wide variety of products used for its different types of multimedia presentations. Its lines include high-quality video and digital cameras, colour scanners for use with computers, teleprompters and projection equipment, including videobeam overhead projectors and electronic projectors that produce large-screen versions of computer output. Most of the sales of this specialized equipment are made to area school boards for classroom use, to industry for use in research and sales, and to the university for use in research and instruction.

Multimedia Corral also offers a good selection of production-quality video media (including hard-to-get multilayer recordable DVDs), specialized supplies (such as the large-format acetates used with backlit signs), video and audio editing equipment, and a specialized video editing service. Instead of just duplicating videos on a mass production basis, Multimedia Corral gives each video editing job individual attention—to add an audio track or incorporate computer graphics as requested by a customer. This service is really appreciated by local firms that need help producing high-quality DVDs—for example, for training or sales applications.

To encourage the school and industrial trade, Multimedia Corral offers a graphics consultation service. If a customer wants to create a video or computerized presentation, professional advice is readily available. In support of this free service, Multimedia Corral carries a full line of computer software for multimedia presentations and graphics work.

Multimedia Corral has four full-time store clerks and two outside sales reps. The sales reps call on business firms, attend trade shows, make presentations for schools, and help both present and potential customers in their use and choice of multimedia materials. Most purchases are delivered by the sales reps or the store's delivery truck. Many repeat orders come in by phone or mail, but e-mail and electronic file exchange has become common.

The people who make most of the over-the-counter purchases are (1) serious amateurs and (2) some professionals who prepare videos or computerized presentation materials on a fee basis. Multimedia Corral gives price discounts of up to 25 percent of the suggested retail price to customers who buy more than $2,000 worth of goods per year. Most regular customers qualify for the discount.

In recent years, many amateur photo buffs have purchased digital cameras to capture family pictures. Frequently, the buyer is a computer user who wants to use the computer as a digital darkroom—and the cameras now available make this easy. Multimedia Corral has not previously offered the lower-priced and lower-quality digital models such buyers commonly want. But Josh Sullivan knew that lots of such digital cameras were bought and felt that there ought to be a good opportunity to expand sales during the Christmas gift-giving season. Therefore, he planned a special pre-Christmas sale of two of the most popular brands of digital cameras and discounted the prices to competitive discount store levels—about $169 for one and $229 for the other. To promote the sale, he posted large signs in the store windows and ran ads in a Christmas gift-suggestion edition of the local newspaper. This edition appeared each Wednesday during the four weeks before Christmas. At these prices and with this promotion, Josh hoped to sell at least 100 cameras. However, when the Christmas returns were in, total sales were five cameras. Josh was extremely disappointed with these results—especially because trade experts suggested that sales of digital cameras in these price and quality ranges were up 200 percent over last year—during the Christmas selling season.

*Evaluate what Multimedia Corral is doing and what happened with the special promotion. What should Josh Sullivan do to increase sales and profits?*

## 12. Growth Enterprises

Melita Sanchez, owner of Growth Enterprises, is deciding whether to take on a new line. She is very concerned, however, because although she wants more lines she feels that something is wrong with her latest possibility.

Melita Sanchez graduated from a large midwestern university in 2001 with a B.S. in business. She worked selling cell phones for a year. Then Melita decided to go into business for herself and formed Growth Enterprises. Looking for opportunities, Melita placed several ads in her local newspaper in Columbus, Ohio, announcing that she was interested in becoming a sales representative in the area. She was quite pleased to receive a number of responses. Eventually, she became the sales representative in the Columbus area for three local computer software producers: Accto Company, which produces accounting-related software; Saleco Inc., a producer of sales management software; and Invo Inc., a producer of inventory control software. All of these companies were relatively small and were represented in other areas by other sales representatives like Melita Sanchez.

Melita's main job was to call on possible customers. Once she made a sale, she would fax the signed license agreement to the respective producer, who would then UPS the programs directly to the customer or provide a key code for a Web site download. The producer would bill the customer, and Sanchez would receive a commission varying from 5 to 10 percent of the dollar value of the sale. Sanchez was expected to pay her own expenses. And the producers would handle any user questions, either by using 800 numbers for out-of-town calls or by e-mail queries to a technical support group.

Sanchez called on anyone in the Columbus area who might use the products she sold. At first, her job was relatively easy, and sales came quickly because she had little competition. Many national companies offer similar products, but at that time they were not well represented in the Columbus area. Most small businesses needed someone to demonstrate what the software could do.

In 2003, Sanchez sold $250,000 worth of Accto software, earning a 10 percent commission; $100,000 worth of Saleco software, also earning a 10 percent commission; and $200,000 worth of Invo software, earning a 5 percent commission. She was encouraged with her progress and looked forward to expanding sales in the future. She was especially optimistic because she had achieved these sales volumes without overtaxing herself. In fact, she felt she was operating at about 60 percent of her capacity and could easily take on new lines. So she began looking for other products she could sell in the Columbus area. A local software company has recently approached Melita about selling its newly developed software, which is basically a network security product. It is designed to secretly track all of the keystrokes and mouse clicks of each employee as he or she uses the computer—so that an employer can identify inappropriate uses of its computers or confidential data. Melita isn't too enthusiastic about this offer because the commission is only 2 percent on potential annual sales of about $150,000—and she also doesn't like the idea of selling a product that might undermine the privacy of employees who are not doing anything wrong.

Now Melita Sanchez is faced with another decision. The owner of the Metclean Company, also in Columbus, has made what looks like an attractive offer. She called on Metclean to see if the firm might be interested in buying her accounting software. The owner didn't want the software, but he was very impressed with Melita. After two long discussions, he asked if she would like to help Metclean solve its current problem. Metclean is having trouble with marketing and the owner would like Melita Sanchez to take over the whole marketing effort.

Metclean produces solvents used to make coatings for metal products. It sells mainly to industrial customers in the mid-Ohio area and faces many competitors selling essentially the same products and charging the same low prices. Metclean is a small manufacturer. Last year's sales were $500,000. It could handle at least four times this sales volume with ease, and is willing to expand to increase sales—its main objective in the short run. Metclean's owner is offering Melita a 12 percent commission on all sales if she will take charge of their pricing, advertising, and sales efforts. Melita is flattered by the offer, but she is a little worried because it is a different type of product and she would have to learn a lot about it. The job also might require a great deal more travelling than she is doing now. For one thing, she would have to call on new potential customers in mid-Ohio, and she might have to travel up to 200 miles around Columbus to expand the solvent business. Further, she realizes that she is being asked to do more than just sell. But she did have marketing courses in college, and thinks the new opportunity might be challenging.

*Evaluate Melita Sanchez's current strategy and how the proposed solvent line fits in with what she is doing now. What should she do? Why?*

## 13. Matisse Company

Timothy Matisse, owner of Matisse Company, feels his business is threatened by a tough new competitor. And now Timothy must decide quickly about an offer that may save his business.

Timothy Matisse has been a sales rep for lumber mills for about 20 years. He started selling in a clothing store but gave it up after two years to work in a lumberyard because the future looked much better in the building materials industry. After drifting from one job to another, Timothy finally settled down and worked his way up to manager of a large wholesale building materials distribution warehouse in Buffalo, New York. In 1985, he formed Matisse Company and went into business for himself, selling carload lots of lumber to lumberyards in western New York and Pennsylvania.

Timothy works with five large lumber mills on the West Coast. They notify him when a carload of lumber is available to be shipped, specifying the grade, condition, and number of each size board in the shipment. Timothy isn't the only person selling for these mills—but he is the only one in his area. He isn't required to take any particular number of carloads per month—but once he tells a mill he wants a particular shipment, title passes to him and he has to sell it to someone. Timothy's main function is to find a buyer, buy the lumber from the mill as it's being shipped, and have the railroad divert the car to the buyer.

Having been in this business for 20 years, Timothy knows all of the lumberyard buyers in his area very well and is on good working terms with them. He does most of his business over the telephone or by e-mail from his small office, but he tries to see each of the buyers about once a month. He has been marking up the lumber between 4 and 6 percent—the standard markup, depending on the grades and mix in each car—and has been able to make a good living for himself and his family. The going prices are widely publicized in trade publications and are listed on the Internet, so the buyers can easily check to be sure Timothy's prices are competitive.

In the last few years, a number of Timothy's lumberyard customers have gone out of business—and others have lost sales. The main problem is competition from several national home-improvement chains that have moved into Timothy's market area. These chains buy lumber in large quantities direct from a mill, and their low prices, available inventory, and one-stop shopping are taking some customers away from the traditional lumberyards. Some customers think the quality of the lumber is not quite as good at the big chains, and some contractors stick with the lumberyards out of loyalty or because they get better service, including rush deliveries when they're needed. However, if it weren't for low interest rates and a boom in the construction market—helping to make up for lost market share—Timothy's profits would have taken an even bigger hit.

Six months ago, things got worse. An aggressive young salesman set up in the same business, covering about the same area but representing different lumber mills. This new salesman charges about the same prices as Timothy but undersells him once or twice a week in order to get the sale. On several occasions he even set up what was basically an e-mail-based auction to quickly sell excess wood that was not moving fast enough. Many lumber buyers—feeling the price competition from the big chains and realizing that they are dealing with a homogeneous product—seem to be willing to buy from the lowest-cost source. This has hurt Timothy financially and personally—because even some of his old friends are willing to buy from the new competitor if the price is lower. The near-term outlook seems dark, since Timothy doubts that there is enough business to support two firms like his, especially if the markup gets shaved any closer. Now they seem to be splitting the shrinking business about equally, as the newcomer keeps shaving his markup.

A week ago, Timothy was called on by Mr. DeBeer of Good Timber Mfg. Co., a large manufacturer of windows, raised-panel doors, and accessories. Good Timber doesn't sell to the big chains and instead distributes its quality line only through independent lumberyards. DeBeer knows that Timothy is well acquainted with the local lumberyards and wants him to become Good Timber's exclusive distributor (sales rep) of residential windows and accessories in his area. DeBeer gave Timothy several brochures on the Good Timber product lines. He also explained Good Timber's new support program, which will help train and support Timothy and interested lumberyards on how to sell the higher markup accessories. Later, in a lengthy e-mail, DeBeer explained how this program will help Timothy and interested lumberyards differentiate themselves in this very competitive market.

Most residential windows of specified grades are basically "commodities" that are sold on the basis of price and availability, although some premium and very low end windows are sold also. The national home-improvement chains usually stock and sell only the standard sizes. Most independent lumberyards do not stock windows because there are so many possible sizes. Instead, the lumberyards custom order from the stock sizes each factory offers. Stock sizes are not set by industry standards; they vary from factory to factory, and some offer more sizes. Most factories can deliver these custom orders in two to six weeks, which is usually adequate to satisfy contractors who buy and install them according to architectural plans. This part of the residential window business is well established, and most lumberyards buy from several different window manufacturers—to ensure sources of supply in case of strikes, plant fires, and so on. How the business is split depends on price and the personality and persuasiveness of the sales reps. And given that prices are usually similar, the sales rep–customer relationship can be quite important.

Good Timber Mfg. Co. gives more choice than just about any other supplier. It offers many variations in 1 mm increments—to cater to remodellers who must adjust to many situations. Good Timber has even set up a special system on an Internet Web site. The lumberyard can connect to the Web site, enter the specs for a window online, and within seconds get a price quote and estimated delivery time.

One reason DeBeer has approached Timothy Matisse is because of Timothy's many years in the business. But the other reason is that Good Timber is aggressively trying to expand—relying on its made-to-order windows, a full line of accessories, and a newly developed factory support system to help differentiate it from the many other window manufacturers.

To give Timothy a quick big picture of the opportunity he is offering, DeBeer explained the window market as follows:

1. For commercial construction, the usual building code ventilation requirements are satisfied with mechanical ventilation. So the windows do not have to operate to permit natural ventilation. They are usually made with heavy-grade aluminum framing. Typically, a distributor furnishes and installs the windows. As part of its service, the distributor provides considerable technical support, including engineered drawings and diagrams to the owners, architects, and/or contractors.
2. For residential construction, on the other hand, windows must be operable to provide ventilation. Residential windows are usually made of wood, frequently with light-gauge aluminum or vinyl on the exterior. The national chains get some volume with standard size windows, but lumberyards are the most common source of supply for contractors in Timothy's area. These lumberyards do not provide any technical support or engineered drawings. A few residential window manufacturers do have their own sales centres in selected geographic areas, which provide a full range of support and engineering services, but none are anywhere near Timothy's area.

Good Timber Mfg. Co. feels a big opportunity exists in the commercial building repair and rehabilitation market (sometimes called the retrofit market) for a crossover of residential windows to commercial applications—and it has designed some accessories and a factory support program to help lumberyards get this "commercial" business. For applications such as nursing homes and dormitories (which must meet commercial codes), the wood interior of a residential window is desired, but the owners and architects are accustomed to commercial grades and building systems. And in some older facilities, the windows may have to provide supplemental ventilation for a deficient mechanical system. So what is needed is a combination of the residential *operable* window with a heavy-gauge commercial exterior frame that is easy to specify and install. And this is what Good Timber Mfg. Co. is offering with a combination of its basic windows and easily adjustable accessory frames. Two other residential window manufacturers offer a similar solution, but neither has pushed its products aggressively and neither offers technical support to lumberyards or trains sales reps like Timothy to do the necessary job. DeBeer feels this could be a unique opportunity for Timothy.

The sales commission on residential windows would be about 5 percent of sales. Good Timber Mfg. Co. would do the billing and collecting. By getting just 20 to 30 percent of his lumberyards' residential window business, Timothy could earn about half of his current income. But the real upside would come from increasing his residential window share. To do this, Timothy would have to help the lumberyards get a lot more (and more profitable) business by invading the commercial market with residential windows and the bigger markup accessories needed for this market. Timothy would also earn a 20 percent commission on the accessories, adding to his profit potential.

Timothy is somewhat excited about the opportunity because the retrofit market is growing. And owners and architects are seeking ways of reducing costs (which Good Timber's approach does—over usual commercial approaches). But he is also concerned that a lot of sales effort will be needed to introduce this new idea. He is not afraid of work, but he is concerned about his financial survival.

Timothy thinks he has three choices:

1. Take DeBeer's offer and sell both window and lumber products.

2. Take the offer and drop lumber sales.
3. Stay strictly with lumber and forget the offer.

DeBeer is expecting an answer within one week, so Timothy has to decide soon.

*Evaluate Timothy Matisse's current strategy and how the present offer fits in. What should he do now? Why?*

## 14. Eco Water Inc.

Manish (Manny) Krishna established his company, Eco Water Inc. (Eco), to market a product designed to purify drinking water. The product, branded as the PURITY II Naturalizer Water Unit, is produced by Environmental Control Inc., a corporation that focuses primarily on water purification and filtering products for industrial markets.

Eco Water is a small but growing business. Manny started the business with initial capital of only $20,000, which came from his savings and loans from several relatives. Manny manages the company himself. He has a secretary and six full-time salespeople. In addition, he employs two college students part-time; they make telephone calls to prospect for customers and set up appointments for a salesperson to demonstrate the unit in the consumer's home. By holding spending to a minimum, Manny has kept the firm's monthly operating budget at only $4,500—and most of that goes for rent, his secretary's salary, and other necessities like computer supplies and telephone bills.

The PURITY II system uses a reverse osmosis purification process. Reverse osmosis is the most effective technology known for improving drinking water. The device is certified by the Environmental Protection Agency to reduce levels of most foreign substances, including mercury, rust, sediment, arsenic, lead, phosphate, bacteria, and most insecticides.

Each PURITY II unit consists of a high-quality 1-micron sediment removal cartridge, a carbon filter, a sediment filter, a housing, a faucet, and mounting hardware. The compact system fits under a kitchen sink or a wet bar sink. An Eco salesperson can typically install the PURITY II in about a half hour. Installation involves attaching the unit to the cold-water supply line, drilling a hole in the sink, and fastening the special faucet. It works equally well with water from a municipal system or well water and it can purify up to 68 litres daily. Eco sells the PURITY II to consumers for $395, which includes installation.

The system has no movable parts or electrical connections and it has no internal metal parts that will corrode or rust. However, the system does use a set of filters that must be replaced after about two years. Eco sells the replacement filters for $80. Taking into consideration the cost of the filters, the system provides water at a cost of approximately $.03 per litre for the average family.

There are two major benefits from using the PURITY II system. First, water treated by this system tastes better. Blind taste tests confirm that most consumers can tell the difference between water treated with the PURITY II and ordinary tapwater. Consequently, the unit improves the taste of coffee, tea, frozen juices, ice cubes, mixed drinks, soup, and vegetables cooked in water. Perhaps more important, the PURITY II's ability to remove potentially harmful foreign matter makes the product of special interest to people who are concerned about health and the safety of the water they consume.

The number of people with those concerns is growing. In spite of increased efforts to protect the environment and water supplies, there are many problems. Hundreds of new chemical compounds—ranging from insecticides to industrial chemicals to commercial cleaning agents—are put into use each year. Some of the residue from chemicals and toxic waste eventually enters water supply sources. Further, floods and hurricanes have damaged or completely shut down water treatment facilities in some cities. Problems like these have led to rumors of possible epidemics of such dread diseases as cholera and typhoid—and more than one city has recently experienced near-panic buying of bottled water.

Given these problems and the need for pure water, Manny believes that the market potential for the PURITY II system is very large. Residences, both single-family and apartment, are one obvious target. The unit is also suitable for use in boats and recreational vehicles; in fact, the PURITY II is standard equipment on several upscale RVs. And it can be used in taverns and restaurants, in institutions such as schools and hospitals, and in commercial and industrial buildings.

There are several competing ways for customers to solve the problem of getting pure water. Some purchase bottled water. Companies such as Ozarka deliver water monthly for an average price of $.30 per litre. The best type of bottled water is distilled water; it is absolutely pure because it is produced by the process of evaporation. However, it may be *too pure*. The distilling process removes needed elements such as calcium and phosphate—and there is some evidence that removing these trace elements contributes to heart disease. In fact, some health-action groups recommend that consumers not drink distilled water.

A second way to obtain pure water is to use some system to treat tapwater. PURITY II is one such system. Another system uses an ion exchange process that replaces ions of harmful substances like iron and mercury with ions that are not harmful. Ion exchange is somewhat less expensive than the PURITY II process, but it is not well suited for residential use because bacteria can build up before the water is used. In addition, there are a number of other filtering and softening systems. In general, these are less expensive and less reliable than the PURITY II. For example, water softeners remove minerals but do not remove bacteria or germs.

Manny's first year with his young company has gone quite well. Customers who have purchased the system like it, and there appear to be several ways to expand the business and increase profits. For example, so far he has had little time to make sales calls on potential commercial and institutional users or residential builders. He also sees other possibilities such as expanding his promotion effort or targeting consumers in a broader geographic area.

At present, Eco distributes the PURITY II in the 13-county gulf coast region of Texas. Because of the Robinson-Patman Act, the manufacturer cannot grant an exclusive distributorship. However, Eco is currently the only PURITY II distributor in this region. In addition, Eco has the right of first refusal to set up distributorships in other local areas. The manufacturer has indicated that it might even give Eco distribution rights in a large section of northern Mexico.

The agreement with the manufacturer allows Eco to distribute the product to retailers, including hardware stores, plumbing supply dealers, and the like. Manny has not yet pursued this channel, but a PURITY II distributor in Florida reported some limited success selling the system to retailers at a wholesale price of $275. Retailers for this type of product typically expect a markup of about 33 percent of their selling price.

Environmental Control Inc., ships the PURITY II units directly from its warehouse to the Eco office via UPS. The manufacturer's $200 per unit selling price includes the cost of shipping. Eco only needs to keep a few units on hand because the manufacturer accepts faxed orders and then ships immediately—so delivery never takes more than a few days. Further, the units are small enough to inventory in the back room of the Eco sales office. Several of the easy-to-handle units will fit in the trunk of a salesperson's car.

Manny is thinking about recruiting additional salespeople. Finding capable people has not been a problem so far. However, there has already been some turnover, and one of the current salespeople is complaining that the compensation is not high enough. Manny pays salespeople on a straight commission basis. A salesperson who develops his or her own prospects gets $100 per sale; the commission is $80 per unit on sales leads generated by the company's telemarketing people. For most salespeople, the mix of sales is about half and half. Eco pays the students who make the telephone contacts $4 per appointment set up and $10 per unit sold from an appointment.

An average Eco salesperson easily sells 20 units per month. However, Manny believes that a really effective and well-prepared salesperson can sell much more, perhaps 40 units per month.

Eco and its salespeople get good promotion support from Environmental Control Inc. For example, Environmental Control supplies sales training manuals and sales presentation flip charts. The materials are also well done, in part because Environment Control's promotion manager previously worked for Electrolux vacuum cleaners, which are sold in a similar way. The company also supplies print copy for magazine and newspaper advertising and tapes of commercials for radio and television. Thus, all Eco has to do is buy media space or time. In addition, Environmental Control furnishes each salesperson with a portable demonstration unit, and the company recently gave Eco three units to be placed in models of condominium apartments.

Manny has worked long hours to get his company going, but he realizes that he has to find time to think about how his strategy is working and to plan for the future.

*Evaluate Manish Krishna's current marketing strategy for Eco Water. How do you think he's doing so far, and what should he do next? Why?*

## 15. Leisure World Inc.

Jamie McCullough, owner of Leisure World Inc., is worried about his business' future. He has tried various strategies for two years now, and he's still barely breaking even.

Two years ago, Jamie McCullough bought the inventory, supplies, equipment, and business of Leisure World, located on the edge of London, Ontario The business is in an older building along a major highway leading out of town, several miles from any body of water. The previous owner had sales of about $500,000 a year but was just breaking even. For this reason—plus the desire to retire to Victoria—the owner sold to Jamie for roughly the value of the inventory.

Leisure World had been selling two well-known brands of small pleasure boats, a leading outboard motor, two brands of snowmobiles and jet-skis, and a line of trailer and pickup-truck campers. The total inventory was valued at $250,000—and Jamie used all of his own savings and borrowed some from two friends to buy the inventory and the business. At the same time, he took over the lease on the building—so he was able to begin operations immediately.

Jamie had never operated a business of his own before, but he was sure that he would be able to do well. He had worked in a variety of jobs—as a used-car salesman, an auto repairman, and a jack-of-all-trades in the maintenance departments of several local businesses.

Soon after starting his business, Jamie hired his friend, Omar, who had a similar background. Together, they handle all selling and setup work on new sales and do maintenance work as needed. Sometimes the two are extremely busy—at the peaks of each sport season. Then both sales and maintenance keep them going up to 16 hours a day. At these times it's difficult to have both new and repaired equipment available as soon as customers want it. At other times, however, Jamie and Omar have almost nothing to do.

Jamie usually charges the prices suggested by the various manufacturers, except at the end of a weather season when he is willing to make deals to clear the inventory. He is annoyed that some of his competitors sell mainly on a price basis—offering 10 to 30 percent off a manufacturer's suggested list prices—even at the beginning of a season! Jamie doesn't want to get into that kind of business, however. He hopes to build a loyal following based on friendship and personal service. Further, he doesn't think he really has to cut price because all of his lines are exclusive for his store. No stores within a 10-km radius carry any of his brands, although nearby retailers offer many brands of similar products.

To try to build a favourable image for his company, Jamie occasionally places ads in local papers and buys some radio spots. The basic theme of this advertising is that Leisure World is a friendly, service-oriented place to buy the equipment needed for the current season. Sometimes he mentions the brand names he carries, but generally Jamie tries to build an image for concerned, friendly service—both in new sales and repairs—stressing "We do it right the first time." He chose this approach because, although he has exclusives on the brands he carries, there generally are 10 to 15 different manufacturers' products being sold in the area in each product category—and most of the products are quite similar. Jamie feels that this similarity among competing products almost forces him to try to differentiate himself on the basis of his own store's services.

The first year's operation wasn't profitable. In fact, after paying minimal salaries to Omar and himself, the business just about broke even. Jamie made no return on his $250,000 investment.

In hopes of improving profitability, Jamie jumped at a chance to add a line of lawn mowers, tractors, and trimmers as he was starting into his second year of business. This line was offered by a well-known equipment manufacturer who wanted to expand in the area. The equipment is similar to that offered by other lawn equipment manufacturers. The manufacturer's willingness to do some local advertising and to provide some point-of-purchase displays appealed to Jamie. And he also liked the idea that customers probably would want this equipment sometime earlier than boats and other summer items. So he thought he could handle this business without interfering with his other peak selling seasons.

It's two years since Jamie bought Leisure World—and he's still only breaking even. Sales have increased a little, but costs have gone up too because he had to hire some part-time help. The lawn equipment helped to expand sales—as he had expected—but unfortunately, it did not increase profits as he had hoped. Jamie needed part-time helpers to handle this business—in part because the manufacturer's advertising had generated a lot of sales inquiries. Relatively few inquiries resulted in sales, however, because many people seemed to be shopping for deals. So Jamie may have even lost money handling the new line. But he hesitates to give it up because he doesn't want to lose that sales volume, and the manufacturer's sales rep has been most encouraging, assuring Jamie that things will get better and that his company will be glad to continue its promotion support during the coming year.

Jamie is now considering the offer of a mountain bike producer that has not been represented in the area. The bikes have become very popular with students and serious bikers in the last several years. The manufacturer's sales rep says industry sales are still growing (but not as fast as in the past) and probably will grow for many more years. The sales rep has praised Jamie's service orientation and says this could help him sell lots of bikes because many mountain bikers are serious about buying a quality bike and then keeping it serviced. He says Jamie's business approach would be a natural fit with bike customers' needs and attitudes. As a special inducement to get Jamie to take on the line, the sales rep says Jamie will not have to pay for the initial inventory of bikes, accessories, and repair parts for 90 days. And, of course, the company will supply the usual promotion aids and a special advertising allowance of $10,000 to help introduce the line to London. Jamie kind of likes the idea of carrying mountain bikes because he has one himself and knows that they do require some service year-round. But he also knows that the proposed bikes are very similar in price and quality to the ones now being offered by the bike shops in town. These bike shops are service- rather than price-oriented, and Jamie feels that they are doing a good job on service—so he is concerned with how he could be "different."

*Evaluate Jamie McCullough's overall strategy(ies) and the mountain bike proposal. What should he do now?*

## 16. Structural Wire Corporation

Steve Russell, vice president of marketing for Structural Wire Corporation, is deciding how to organize and train his sales force—and what to do about Ron Pittman.

At its plant in Pittsburgh, Pennsylvania, Structural Wire Corporation, produces wire cable, ranging from 1.25 centimetres to 10 centimetres in diameter. Structural Wire sells across the United States and Canada. Customers include firms that use cranes and various other overhead lifts in their own operations—ski resorts and amusement parks, for example. The company's main customers, however, are cement plants, railroad and boat yards, heavy-equipment manufacturers, mining operations, construction companies, and steel manufacturers.

Structural Wire employs its own sales specialists to call on and try to sell the buyers of potential users. All of Structural Wire's sales reps are engineers who go through an extensive training program covering the different applications, product strengths, and other technical details concerning wire rope and cable. Then they are assigned their own district, the size depending on the number of potential customers. They are paid a good salary plus generous travel expenses, with small bonuses and prizes to reward special efforts.

Ron Pittman went to work for Structural Wire in 1985, immediately after receiving an engineering degree from the University of Wisconsin. After going through the training program, he took over as the only company rep in the Illinois district. His job was to call on and give technical help to present customers of wire cable. He was also expected to call on new customers, especially when inquiries came in. But his main activities were to (1) service present customers and supply the technical assistance needed to use cable in the most efficient and safe manner, (2) handle complaints, and (3) provide evaluation reports to customers' management regarding their use of cabling.

Ron Pittman soon became Structural Wire's outstanding representative. His exceptional ability to handle customer complaints and provide technical assistance was noted by many of the firm's customers. This helped Ron bring in more sales dollars per customer and more in total from present customers than any other rep. He also brought in many new customers, mostly heavy equipment manufacturers and commercial construction companies in northern Illinois. Over the years, his sales have been about twice the sales rep average, and always at least 20 percent higher than the next best rep—even though each district is supposed to have about the same sales potential.

Ron's success established Illinois as Structural Wire's largest-volume district. Although the company's sales in Illinois have not continued to grow as fast in the last few years because Ron seems to have found most of the possible applications and won a good share for Structural Wire, the replacement market has been steady and profitable. This fact is mainly due to Ron Pittman. As one of the supply managers for a large machinery manufacturer mentioned,

> When Ron makes a recommendation regarding use of our equipment and cabling, even if it is a competitor's cable we are using, we are sure it's for the best of our company. Last week, for

> example, a cable of one of his competitors broke, and we were going to give him a contract. He told us it was not a defective cable that caused the break, but rather the way we were using it. He told us how it should be used and what we needed to do to correct our operation. We took his advice and gave him the contract as well!

Four years ago, Structural Wire introduced a unique and newly patented wire sling device for holding cable groupings together. The sling makes operations around the cable much safer—and its use could reduce both injuries and lost-time costs due to accidents. The slings are expensive—and the profit margin is high. Structural Wire urged all its representatives to push the sling, but the only sales rep to sell the sling with any success was Ron Pittman. Eighty percent of his customers are currently using the wire sling. In other areas, sling sales are disappointing.

As a result of Ron's success, Steve Russell is now considering forming a separate department for sling sales and putting Ron Pittman in charge. His duties would include travelling to the various sales districts and training other representatives to sell the sling. The Illinois district would be handled by a new rep.

*Evaluate Steve Russell's strategy(ies). What should he do about Ron Pittman and his sales force? Explain.*

## 17. Heritage Furniture

Susan Kurczak, owner of Heritage Furniture, is discouraged with her salespeople and is even thinking about hiring some new blood. Kurczak has been running Heritage Furniture for 10 years and has slowly built the sales to $3.5 million a year. Her store is located on the outskirts of a growing city with a population of 275,000. This is basically a factory city, and she has deliberately selected blue-collar workers as her target market. She carries some higher-priced furniture lines but emphasizes budget combinations and easy credit terms.

Kurczak is concerned that she may have reached the limit of her sales growth—her sales have not been increasing during the last two years even though total furniture sales have been increasing in the city as new people move in. Her local cable-TV spots and newspaper advertising seem to attract her target customers, but many of these people come in, shop around, and leave. Some of them come back—but most do not. She thinks her product selections are very suitable for her target market and is concerned that her salespeople don't close more sales with potential customers. Several times, she has discussed this matter with her 10 salespeople. Her staff feels they should treat customers the way they personally want to be treated. They argue that their role is to answer questions and be helpful when asked—not to make suggestions or help customers make decisions. They think this would be too "hard sell."

Kurczak says their behaviour is interpreted as indifference by the customers attracted to the store by her advertising. She has tried to convince her salespeople that customers must be treated on an individual basis and that some customers need more help in looking and deciding than others. Moreover, Kurczak is convinced that some customers would appreciate more help and suggestions than the salespeople themselves might want. To support her views, she showed her staff the data from a study of furniture store customers (see Tables 1 and 2 on next page) that she found on the Internet Web site for a furniture trade association. She tried to explain the differences in demographic groups and pointed out that her store was definitely trying to aim at specific people. She argued that they (the salespeople) should cater to the needs and attitudes of their customers and think less about how they would like to be treated themselves. Further, Kurczak announced that she is considering changing the sales compensation plan or hiring new blood if the present employees can't do a better job. Currently, the sales reps are paid $26,000 per year plus a 5 percent commission on sales.

*Contrast Kurczak's strategy and thoughts about her salespeople with their apparent view of her strategy and especially their role in it. What should she do now? Explain.*

## 18. Metal Solutions Inc.

Myra Martinez, marketing manager of consumer products for Metal Solutions Inc., is trying to set a price for her most promising new product—a space-saving shoe rack suitable for small homes or apartments.

Metal Solutions Inc. is a custom producer of industrial wire products. The company has a lot of experience bending wire into many shapes and also can chrome- or gold-plate finished products. The company was started 16 years ago and has slowly built its sales volume to $3.6 million a year. Just one year ago, Myra Martinez was appointed marketing manager of the consumer products division. It is her responsibility to develop this division as a producer and marketer of the company's own branded products—as distinguished from custom orders, which the industrial division produces for others.

Martinez has been working on a number of different product ideas for almost a year now and has developed several designs for DVD holders, racks for soft-drink cans, plate holders, doll stands, collapsible book ends, and other such products. Her most promising product is a shoe rack for crowded homes and apartments. The wire rack attaches to the inside of a closet door and holds eight pairs of shoes.

The rack is very similar to one the industrial division produced for a number of years for another company. That company sold the shoe rack and hundreds of other related items out of its "products for organizing and storing" mail-order catalogue. Managers at Metal Solutions were surprised by the high sales volume the catalogue company achieved with the rack. In fact, that is what interested Metal Solutions in the consumer market and led to the development of the separate consumer products division.

Martinez has sold hundreds of the shoe racks to various local hardware, grocery, and general merchandise stores, and wholesalers on a trial basis, but each time she has negotiated a price—and no firm policy has been set. Now she must determine what price to set on the shoe rack, which she plans to

**Table 1**

| In Shopping for Furniture I Found (Find) That | Demographic Groups | | | |
|---|---|---|---|---|
| | Group A | Group B | Group C | Group D |
| I looked at furniture in many stores before I made a purchase. | 78% | 72% | 52% | 50% |
| I went (am going) to only one store and bought (buy) what I found (find) there. | 2 | 5 | 10 | 11 |
| To make my purchase I went (am going) back to one of the stores I shopped in previously. | 63 | 59 | 27 | 20 |
| I looked (am looking) at furniture in no more than three stores and made (will make) my purchase in one of these. | 20 | 25 | 40 | 45 |
| I like a lot of help in selecting the right furniture. | 27 | 33 | 62 | 69 |
| I like a very friendly salesperson. | 23 | 28 | 69 | 67 |

**Table 2** The Sample Design

| Demographic Status |
|---|
| Upper class (Group A); 13% of sample<br>This group consists of managers, proprietors, or executives of large businesses; professionals, including doctors, lawyers, engineers, college professors, and school administrators; and research personnel and sales personnel, including managers, executives, and upper-income salespeople above level of clerks.<br>*Family income over $60,000.* |
| Middle class (Group B); 37% of sample<br>Group B consists of white-collar workers, including clerical, secretarial, salesclerks, bookkeepers, etc. It also includes school teachers, social workers, semiprofessionals, proprietors or managers of small businesses, industrial foremen, and other supervisory personnel.<br>*Family income between $35,000 and $70,000.* |
| Lower middle class (Group C); 36% of sample<br>Skilled workers and semiskilled technicians are in this category, along with custodians, elevator operators, telephone linemen, factory operatives, construction workers, and some domestic and personal service employees.<br>*Family income between $20,000 and $45,000.*<br>*No one in this group has above a high school education.* |
| Lower class (Group D); 14% of sample<br>Nonskilled employees, day labourers. It also includes some factory operatives and domestic and service people.<br>*Family income under $28,000.*<br>*None has completed high school; some have only grade school education.* |

push aggressively wherever she can. Actually, she hasn't decided on exactly which channels of distribution to use. But trials in the local area have been encouraging, and as noted above, the experience in the industrial division suggests that there is a large market for this type of product. Further, she noticed that a Wal-Mart store in her local area was selling a similar rack made of plastic. When she talked casually about her product with the store manager, he suggested that she contact the chain's houseware buyers in the home office. The manufacturing cost on this product—when made in reasonable quantities—is approximately $2.80 if it is painted black and $3.60 if it is chromed. Similar products have been selling at retail in the $9.95 to $19.95 range. The sales and administrative overhead to be charged to the division will amount to $95,000 a year. This will include Martinez's salary and some travel and office expenses. She expects that a number of other products will be developed in the near future. But for the coming year, she hopes the shoe rack will account for about half the consumer products division's sales volume.

*Evaluate Myra Martinez's strategy planning so far. What should she do now? What price should she set for the shoe rack? Explain.*

## 19. PlastiForm Mfg. Inc.

David Houston, the marketing manager of PlastiForm Mfg. Inc., wants to increase sales by adding sales reps rather than "playing with price." That's how David describes what Will Houston, his father and PlastiForm's president, is suggesting. Will is not sure what to do either. But he does want to increase sales, so something new is needed.

PlastiForm Mfg. Inc.—of Long Beach, California—is a leading producer in the plastic forming machinery industry. It has patents covering over 200 variations, but PlastiForm's customers seldom buy more than 30 different types in a year. The machines are sold to plastic forming manufacturers to increase production capacity or replace old equipment.

Established in 1970, the company has enjoyed a steady growth to its present position with annual sales of $50 million.

Twelve U.S. firms compete in the U.S. plastic forming machinery market. Several Japanese, German, and Swedish firms compete in the global market, but the Houstons have not seen much of them on the West Coast. Apparently the foreign firms rely on manufacturers' agents who have not provided an ongoing presence. They are not good about following up on inquiries, and their record for service on the few sales they have made on the East Coast is not satisfactory. So the Houstons are not worried about them right now.

Each of the 12 U.S. competitors is about the same size and manufactures basically similar machinery. Each has tended to specialize in its own geographic region. Six of the competitors are located in the East, four in the Midwest, and two—including PlastiForm—on the West Coast. The other West Coast firm is in Tacoma, Washington. All of the competitors offer similar prices and sell F.O.B. their factories. Demand has been fairly strong in recent years. As a result, all of the competitors have been satisfied to sell in their geographic areas and avoid price-cutting. In fact, price-cutting is not a popular idea in this industry. About 15 years ago, one firm tried to win more business and found that others immediately met the price cut—but industry sales (in units) did not increase at all. Within a few years, prices returned to their earlier level, and since then competition has tended to focus on promotion and avoid price.

PlastiForm's promotion depends mainly on six company sales reps, who cover the West Coast. In total, these reps cost about $880,000 per year including salary, bonuses, supervision, travel, and entertaining. When the sales reps are close to making a sale, they are supported by two sales engineers—at a cost of about $130,000 per year per engineer. PlastiForm does some advertising in trade journals—less than $100,000—and occasionally uses direct mailings and trade show exhibits. It also has a simple Web site on the Internet. But the main promotion emphasis is on personal selling. Any personal contact outside the West Coast market is handled by manufacturers' agents who are paid 4 percent on sales—but sales are very infrequent.

Will Houston is not satisfied with the present situation. Industry sales have levelled off and so have PlastiForm's sales—although the firm continues to hold its share of the market. Will would like to find a way to compete more effectively in the other regions because he sees great potential outside the West Coast.

Competitors and buyers agree that PlastiForm is the top-quality producer in the industry. Its machines have generally been somewhat superior to others in terms of reliability, durability, and productive capacity. The difference, however, usually has not been great enough to justify a higher price—because the others are able to do the necessary job—unless a PlastiForm sales rep convinces the customer that the extra quality will improve the customer's product and lead to fewer production line breakdowns. The sales rep also tries to sell the advantages of PlastiForm's better sales engineers and technical service people—and sometimes is successful. But if a buyer is mainly interested in comparing delivered prices for basic machines—the usual case—PlastiForm's price must be competitive to get the business. In short, if such a buyer has a choice between PlastiForm's and another machine *at the same price*, PlastiForm will usually win the business in its part of the West Coast market. But it's clear that PlastiForm's price has to be at least competitive in such cases.

The average plastic forming machine sells for about $220,000, F.O.B. shipping point. Shipping costs within any of the three major regions average about $4,000—but another $3,000 must be added on shipments between the West Coast and the Midwest (either way) and another $3,000 between the Midwest and the East.

Will Houston is thinking about expanding sales by absorbing the extra $3,000 to $6,000 in freight cost that occurs if a midwestern or eastern customer buys from his West Coast location. By doing this, he would not actually be cutting price in those markets but rather reducing his net return. He thinks that his competitors would not see this as price competition and therefore would not resort to cutting prices themselves.

David Houston, the marketing manager, disagrees. David thinks that the proposed freight absorption plan would stimulate price competition in the Midwest and East and perhaps on the West Coast. He proposes instead that PlastiForm hire some sales reps to work the Midwest and Eastern regions—selling quality—rather than relying on the manufacturers' agents. He argues that two additional sales reps in each of these regions would not increase costs too much and might greatly increase the sales from these markets over that brought in by the agents. With this plan, there would be no need to absorb the freight and risk disrupting the status quo. Adding more of PlastiForm's own sales reps is especially important, he argues, because competition in the Midwest and East is somewhat hotter than on the West Coast—due to the number of competitors (including foreign competitors) in those regions. A lot of expensive entertaining, for example, seems to be required just to be considered as a potential supplier. In contrast, the situation has been rather quiet in the West—because only two firms are sharing this market and each is working harder near its home base. The eastern and midwestern competitors don't send any sales reps to the West Coast—and if they have any manufacturers' agents, they haven't gotten any business in recent years.

Will Houston agrees that his son has a point, but industry sales are levelling off and Will wants to increase sales. Further, he thinks the competitive situation may change drastically in the near future anyway, as global competitors get more aggressive and some possible new production methods and machines become more competitive with existing ones. He would rather be a leader in anything that is likely to happen rather than a follower. But he is impressed with David's comments about the greater competitiveness in the other markets and therefore is unsure about what to do.

*Evaluate PlastiForm's current strategies. Given Will Houston's sales objective, what should PlastiForm Mfg. do? Explain.*

## 20. Injection Molding Inc.

Nora Hall is trying to decide whether to leave her present job to buy into another business and be part of top management.

Hall is now a sales rep for a plastics components manufacturer. She calls mostly on large industrial accounts—such as refrigerator manufacturers—who might need large quantities of custom-made products like door liners. She is on a straight salary of $45,000 per year, plus expenses and a company car. She expects some salary increases but doesn't see much long-run opportunity with this company.

As a result, she is seriously considering changing jobs and investing $60,000 in Injection Molding Inc., a thermoplastic molder (manufacturer). Mr. Hanson, the present owner, is nearing retirement and has not trained anyone to take over the business. He has agreed to sell the business to Steve Burton, a lawyer, who has invited Nora Hall to invest and become the sales manager. Steve Burton has agreed to match Hall's current salary plus expenses, plus a bonus of 2 percent of profits. However, she must invest to become part of the new company. She will get a 5 percent interest in the business for the necessary $60,000 investment—all of her savings.

Injection Molding Inc., is well established and last year had sales of $3.2 million but zero profits (after paying Hanson a salary of $80,000). In terms of sales, cost of materials was 46 percent; direct labour, 13 percent; indirect factory labour, 15 percent; factory overhead, 13 percent; and sales overhead and general expenses, 13 percent. The company has not been making any profit for several years—but it has been continually adding new computer-controlled machines to replace those made obsolete by technological developments. The machinery is well maintained and modern, but most of it is similar to that used by its many competitors. Most of the machines in the industry are standard. Special products are made by using specially made dies with these machines.

Sales have been split about two-thirds custom-molded products (that is, made to the specification of other producers or merchandising concerns) and the balance proprietary items (such as housewares and game items, like poker chips). The housewares are copies of articles developed by others and indicate neither originality nor style. Hanson is in charge of selling the proprietary items, which are distributed through any available wholesale channels. The custom-molded products are sold through two full-time sales reps—who receive a 10 percent commission on individual orders up to $30,000 and then 3 percent above that level—and also by three manufacturers' reps who get the same commissions.

The company seems to be in fairly good financial condition, at least as far as book value is concerned. The $60,000 investment will buy almost $88,000 in assets—and ongoing operations should pay off the seven-year note (see Table 1). Steve Burton thinks that with new management the company has a good chance to make big profits. He expects to make some economies in the production process—because he feels most production operations can be improved. He plans to keep custom-molding sales at approximately the present $2 million level. His new strategy will try to increase the proprietary sales volume from $1.2 million to $3 million a year. Nora Hall is expected to be a big help here because of her sales experience. This will bring the firm up to about capacity level—but it will mean adding additional employees and costs. The major advantage of expanding sales will be spreading overhead.

Some of the products proposed by Steve Burton for expanding proprietary sales are listed below.

*New products for consideration*:
Safety helmets for cyclists.
Water bottles for cyclists and in-line skaters.
Waterproof cases for digital cameras.
Toolboxes.
Closet organizer/storage boxes for toys.
Short legs for furniture.
Step-on garbage cans without liners.
Outside house shutters and siding.
Importing and distributing foreign housewares.

Injection Molding faces heavy competition from many other similar companies including firms that have outsourced production to China and Eastern Europe where labour costs are much lower. Further, most retailers expect a wide margin, sometimes 50 to 60 percent of the retail selling price. Even so, manufacturing costs are low enough so Injection Molding can spend some money for promotion while still keeping the price competitive. Apparently, many customers are willing to pay for novel new products—if they see them in stores. And Hall isn't worried too much by tough competition. She sees plenty of that in her present job. And she does like the idea of being an "owner and sales manager."

*Evaluate Injection Molding's situation and Steve Burton's strategy. What should Nora Hall do? Why?*

**Table 1** Injection Molding Inc., Statement of Financial Conditions, December 31, 200x

| Assets | | | Liabilities and Net Worth | |
|---|---|---|---|---|
| Cash | | $ 19,500 | Liabilities: | |
| Accounts receivable | | 82,500 | Accounts payable | $ 105,000 |
| Building | $337,500 | | Notes payable—7 years (machinery) | 291,000 |
| Less: depreciation | 112,500 | | | |
| | | 225,000 | | |
| Machinery | 2,100,000 | | Net worth: | |
| Less: depreciation | 675,000 | | Capital stock | 1,350,000 |
| | | 1,425,000 | Retained earnings | 6,000 |
| Total assets | | $1,752,000 | Total liabilities and net worth | $1,752,000 |

## 21. Deluxe Foods Ltd.*

Jessica Walters, marketing manager of Deluxe Foods Ltd.—a Canadian company—is being urged to approve the creation of a separate marketing plan for Quebec. This would be a major policy change because Deluxe Foods' international parent is trying to move toward a global strategy for the whole firm and Jessica has been supporting Canada-wide planning.

Jessica Walters has been the marketing manager of Deluxe Foods Ltd., for the last four years—since she arrived from international headquarters in Minneapolis. Deluxe Foods Ltd., headquartered in Toronto, is a subsidiary of a large U.S.-based consumer packaged-food company with worldwide sales of more than $2.8 billion in 2003. Its Canadian sales are just over $450 million, with the Quebec and Ontario markets accounting for 69 percent of the company's Canadian sales.

The company's product line includes such items as cake mixes, puddings, pie fillings, pancakes, prepared foods, and frozen dinners. The company has successfully introduced at least six new products every year for the last five years. Products from Deluxe Foods are known for their high quality and enjoy much brand preference throughout Canada, including the Province of Quebec.

The company's sales have risen every year since Jessica Walters took over as marketing manager. In fact, the company's market share has increased steadily in each of the product categories in which it competes. The Quebec market has closely followed the national trend except that, in the past two years, total sales growth in that market began to lag.

According to Walters, a big advantage of Deluxe Foods over its competitors is the ability to coordinate all phases of the food business from Toronto. For this reason, Walters meets at least once a month with her product managers—to discuss developments in local markets that might affect marketing plans. While each manager is free to make suggestions and even to suggest major changes, Jessica Walters has the responsiblity of giving final approval for all plans.

One of the product managers, Marie LeMans, expressed great concern at the last monthly meeting about the poor performance of some of the company's products in the Quebec market. While a broad range of possible reasons—ranging from inflation and the threat of job losses to politics—were reviewed to try to explain the situation, LeMans insisted that it was due to a basic lack of understanding of that market. She felt not enough managerial time and money had been spent on the Quebec market—in part because of the current emphasis on developing all-Canada plans on the way to having one global strategy.

Marie LeMans felt the current marketing approach to the Quebec market should be reevaluated because an inappropriate marketing plan may be responsible for the sales slowdown. After all, she said, "80 percent of the market is French-speaking. It's in the best interest of the company to treat that market as being separate and distinct from the rest of Canada."

Marie LeMans supported her position by showing that Quebec's per capita consumption of many product categories (in which the firm competes) is above the national average (see Table 1). Research projects conducted by Deluxe Foods also support the "separate and distinct" argument. Over the years, the firm has found many French–English differences in brand attitudes, lifestyles, usage rates, and so on.

LeMans argued that the company should develop a unique Quebec marketing plan for some or all of its brands. She specifically suggested that the French-language advertising plan for a particular brand be developed independently of the plan for English Canada. Currently, the Toronto agency assigned to the brand just translates its English-language ads for the French market. Jessica Walters pointed out that the present advertising approach assured Deluxe Foods of a uniform brand image across Canada. Marie LeMans said she knew what the agency is doing, and that straight translation into Canadian-French may not communicate the same brand image. The discussion that followed suggested that a different brand image might be needed in the French market if the company wanted to stop the brand's decline in sales.

The managers also discussed the food distribution system in Quebec. The major supermarket chains have their lowest market share in that province. Independents are strongest there—the "mom-and-pop" food stores fast disappearing outside Quebec remain alive and well in the province. Traditionally, these stores have stocked a higher proportion (than supermarkets) of their shelf space with national brands, an advantage for Deluxe Foods.

Finally, various issues related to discount policies, pricing structure, sales promotion, and cooperative advertising were discussed. All of this suggested that things were different in Quebec and that future marketing plans should reflect these differences to a greater extent than they do now.

After the meeting, Jessica Walters stayed in her office to think about the situation. Although she agreed with the basic idea that the Quebec market was in many ways different, she wasn't sure how far the company should go in recognizing this fact. She knew that regional differences in food tastes and brand purchases existed not only in Quebec but in other parts of Canada as well. But people are people, after all, with far more similarities than differences, so a Canadian and eventually a global strategy makes some sense too.

Jessica Walters was afraid that giving special status to one region might conflict with top management's objective of achieving standardization whenever possible—one global

**Table 1** Per Capita Consumption Index, Province of Quebec (Canada = 100)

| | | | |
|---|---|---|---|
| Cake mixes | 107 | Soft drinks | 126 |
| Pancakes | 87 | Pie fillings | 118 |
| Puddings | 114 | Frozen dinners | 79 |
| Salad dressings | 85 | Prepared packaged foods | 83 |
| Molasses | 132 | Cookies | 123 |

*This case was adapted from one written by Professor Roberta Tamilia, University of Windsor, Canada.

strategy for Canada, on the way to one worldwide global strategy. She was also worried about the long-term effect of such a policy change on costs, organizational structure, and brand image. Still, enough product managers had expressed their concern over the years about the Quebec market to make her wonder if she shouldn't modify the current approach. Perhaps they could experiment with a few brands—and just in Quebec. She could cite the language difference as the reason for trying Quebec rather than any of the other provinces. But Walters realizes that any change of policy could be seen as the beginning of more change, and what would Minneapolis think? Could she explain it successfully there?

*Evaluate Deluxe Foods Ltd.'s present strategy. What should Jessica Walters do now? Explain.*

## 22. Home Nursing Services Inc.

Carol Crane, executive director of Home Nursing Services Inc., is trying to clarify her strategies. She's sure some changes are needed, but she's less sure about how *much* change is needed and/or whether it can be handled by her people.

Home Nursing Services Inc. (HNS), is a nonprofit organization that has been operating—with varying degrees of success—for 25 years, offering nursing services in clients' homes. Some of its funding comes from the local United Way—to provide emergency nursing services for those who can't afford to pay. The balance of the revenues—about 90 percent of the $2.2 million annual budget—comes from charges made directly to the client or to third-party payers, including insurance companies, health maintenance organizations (HMOs), and the federal government, for Medicare or Medicaid services.

Carol Crane has been executive director of HNS for two years. She has developed a well-functioning organization able to meet most requests for service that come from some local doctors and from the discharge officers at local hospitals. Some business also comes by self-referral—the client finds the HNS name in the Yellow Pages of the local phone directory.

The last two years have been a rebuilding time—because the previous director had personnel problems. This led to a weakening of the agency's image with the local referring agencies. Now the image is more positive. But Carol is not completely satisfied with the situation. By definition, Home Nursing Services is a nonprofit organization. But it still must cover all its costs: payroll, rent payments, phone expenses, and so on, including Carol's own salary. She can see that while HNS is growing slightly and is now breaking even, it doesn't have much of a cash cushion to fall back on if (1) the demand for HNS nursing services declines, (2) the government changes its rules about paying for HNS' kind of nursing services, either cutting back what it will pay for or reducing the amount it will pay for specific services, or (3) new competitors enter the market. In fact, the last possibility concerns Carol greatly. Some hospitals, squeezed for revenue, are expanding into home health care—especially nursing services as patients are being released earlier from hospitals because of payment limits set by government guidelines. For-profit organizations (e.g., Kelly Home Care Services) are expanding around the country to provide a complete line of home health care services, including nursing services of the kind offered by HNS. These for-profit organizations appear to be efficiently run, offering good service at competitive and sometimes even lower prices than some nonprofit organizations. And they seem to be doing this at a profit, which suggests that it would be possible for these for-profit companies to lower their prices if nonprofit organizations try to compete on price.

Carol is considering whether she should ask her board of directors to let her offer a complete line of home health care services—that is, move beyond just nursing services into what she calls "care and comfort" services.

Currently, HNS is primarily concerned with providing professional nursing care in the home. But HNS nurses are much too expensive for routine home health care activities—helping fix meals, bathing and dressing patients, and other care and comfort activities. The full cost of a nurse to HNS, including benefits and overhead, is about $65 per hour. But a registered nurse is not needed for care and comfort services. All that is required is someone who is honest, can get along with all kinds of people, and is willing to do this kind of work. Generally, any mature person can be trained fairly quickly to do the job—following the instructions and under the general supervision of a physician, a nurse, or family members. The full cost of aides is $9 to $16 per hour for short visits and as low as $75 per 24 hours for a live-in aide who has room and board supplied by the client.

The demand for all kinds of home health care services seems to be growing. With more dual-career families and more single-parent households, there isn't anyone in the family to take over home health care when the need arises—due to emergencies or long-term disabilities. Further, hospitals send patients home earlier than in the past. And with people living longer, there are more single-survivor family situations where there is no one nearby to take care of the needs of these older people. But often some family members—or third-party payers such as the government or insurers—are willing to pay for some home health care services. Carol now occasionally recommends other agencies or suggests one or another of three women who have been doing care and comfort work on their own, part-time. But with growing demand, Carol wonders if HNS should get into this business, hiring aides as needed.

Carol is concerned that a new, full-service home health care organization may come into her market and be a single source for both nursing services *and* less-skilled home care and comfort services. This has happened already in two nearby but somewhat larger cities. Carol fears that this might be more appealing than HNS to the local hospitals and other referrers. In other words, she can see the possibility of losing nursing service business if HNS does not begin to offer a complete home health care service. This would cause real problems for HNS—because overhead costs are more or less fixed. A loss in revenue of as little as 10 percent would require some cutbacks—perhaps laying off some nurses or secretaries, giving up part of the office, and so on.

Another reason for expanding beyond nursing services—using paraprofessionals and relatively unskilled personnel—is to offer a better service to present customers *and* make more effective use of the computer systems and organization structure that she has developed over the last two years. Carol estimates that the administrative and office capabilities could handle twice as many clients without straining the system. It would be necessary to add some clerical help—if the expansion were quite large. But this increase in overhead would be minor compared to the present proportion of total revenue that goes to covering overhead. In other words, additional clients or more work for some clients could increase revenue and ensure the survival of HNS, provide a cushion to cover the normal fluctuations in demand, and ensure more job security for the administrative personnel.

Further, Carol thinks that if HNS were successful in expanding its services—and therefore could generate some surplus—it could extend services to those who aren't now able to pay. Carol says one of the worst parts of her job is refusing service to clients whose third-party benefits have run out or for whatever reason can no longer afford to pay. She is uncomfortable about having to cut off service, but she must schedule her nurses to provide revenue-producing services if she's going to meet the payroll every two weeks. By expanding to provide more services, she might be able to keep serving more of these nonpaying clients. This possibility excites Carol because her nurse's training has instilled a deep desire to serve people in need, whether they can pay or not. This continual pressure to cut off service because people can't pay has been at the root of many disagreements and even arguments between the nurses serving the clients and Carol, as executive director and representative of the board of directors.

Carol knows that expanding into care and comfort services won't be easy. Some decisions would be needed about relative pay levels for nurses, paraprofessionals, and aides. HNS would also have to set prices for these different services and tell the present customers and referral agencies about the expanded services.

These problems aren't bothering Carol too much, however—she thinks she can handle them. She is sure that care and comfort services are in demand and could be supplied at competitive prices.

Her primary concern is whether this is the right thing for Home Nursing Services—basically a nursing organization—to do. HNS' whole history has been oriented to supplying *nurses' services*. Nurses are dedicated professionals who bring high standards to any job they undertake. The question is whether HNS should offer less-professional services. Inevitably, some of the aides will not be as dedicated as the nurses might like them to be. And this could reflect unfavourably on the nurse image. At a minimum, she would need to set up some sort of training program for the aides. As Carol worries about the future of HNS, and her own future, it seems that there are no easy answers.

*Evaluate HNS' present strategy. What should Carol Crane do? Explain.*

## 23. Lever Ltd.*

Alan Cooke is product manager for Guard Deodorant Soap. He was just transferred to Lever Ltd., a Canadian subsidiary of Lever Group Inc., from world headquarters in New York. Alan is anxious to make a good impression because he is hoping to transfer to Lever's London office. He is working on developing and securing management approval of next year's marketing plan for Guard. His first job is submitting a draft marketing plan to Wendy Lee, his recently appointed group product manager, who is responsible for several such plans from product managers like Alan.

Alan's marketing plan is the single most important document he will produce on this assignment. This annual marketing plan does three main things:

1. It reviews the brand's performance in the past year, assesses the competitive situation, and highlights problems and opportunities for the brand.
2. It spells out marketing strategies and the plan for the coming year.
3. Finally, and most importantly, the marketing plan sets out the brand's sales objectives and advertising/promotion budget requirements.

In preparing this marketing plan, Alan gathered the information in Table 1.

Alan was somewhat surprised at the significant regional differences in the bar soap market:

1. The underdevelopment of the deodorant bar segment in Quebec, with a corresponding overdevelopment of the beauty bar segment. But some past research suggested that this is due to cultural factors—English-speaking people have been more interested than others in cleaning, deodorizing, and disinfecting. A similar pattern is seen in most European countries, where the adoption of deodorant soaps has been slower than in North America. For similar reasons, the perfumed soap share is highest in French-speaking Quebec.
2. The overdevelopment of synthetic bars in the Prairies. These bars, primarily in the deodorant segment, lather better in the hard water of the Prairies. Nonsynthetic bars lather very poorly in hard-water areas and leave a soap film.
3. The overdevelopment of the "all-other" segment in Quebec. This segment, consisting of smaller brands, fares better in Quebec, where 43 percent of the grocery trade is done by independent stores. Conversely, large chain grocery stores dominate in Ontario and the Prairies.

Alan's brand, Guard, is a highly perfumed deodorant bar. His business is relatively weak in the key Ontario market. To confirm this share data, Alan calculated consumption of Guard per thousand people in each region (see Table 2).

*Adapted from a case prepared by Daniel Aronchick, who at the time of its preparation was marketing manager at Thomas J. Lipton, Limited.

**Table 1** Past 12-Month Share of Bar Soap Market (percent)

| | Maritimes | Quebec | Ontario | Manitoba/Saskatchewan | Alberta | British Columbia |
|---|---|---|---|---|---|---|
| Deodorant segment | | | | | | |
| Zest | 21.3% | 14.2% | 24.5% | 31.2% | 30.4% | 25.5% |
| Dial | 10.4 | 5.1 | 12.8 | 16.1 | 17.2 | 14.3 |
| Lifebuoy | 4.2 | 3.1 | 1.2 | 6.4 | 5.8 | 4.2 |
| Guard | 2.1 | 5.6 | 1.0 | 4.2 | 4.2 | 2.1 |
| Beauty bar segment | | | | | | |
| Camay | 6.2 | 12.3 | 7.0 | 4.1 | 4.0 | 5.1 |
| Lux | 6.1 | 11.2 | 7.7 | 5.0 | 6.9 | 5.0 |
| Dove | 5.5 | 8.0 | 6.6 | 6.3 | 6.2 | 4.2 |
| Lower-priced bars | | | | | | |
| Ivory | 11.2 | 6.5 | 12.4 | 5.3 | 5.2 | 9.0 |
| Sunlight | 6.1 | 3.2 | 8.2 | 4.2 | 4.1 | 8.0 |
| All others (including stores' own brands) | 26.9 | 30.8 | 18.6 | 17.2 | 16.0 | 22.6 |
| Total bar soap market | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

These differences are especially interesting since per capita sales of all bar soap products are roughly equal in all provinces.

A consumer attitude and usage research study was conducted approximately a year ago. This study revealed that consumer "top-of-mind" awareness of the Guard brand differed greatly across Canada. This was true despite the even—by population—expenditure of advertising funds in past years. Also, trial of Guard was low in the Maritimes, Ontario, and British Columbia (see Table 3 on the next page).

The attitude portion of the research revealed that consumers who had heard of Guard were aware that its deodorant protection came mainly from a high fragrance level. This was the main selling point in the copy, and it was well communicated by Guard's advertising. The other important finding was that consumers who had tried Guard were satisfied with the product. About 70 percent of those trying Guard had repurchased the product at least twice.

Alan has also discovered that bar soap competition is especially intense in Ontario. It is Canada's largest market, and many competitors want a share of it. The chain stores are also quite aggressive in promotion and pricing—offering specials, in-store coupons, and so on. They want to move goods. And because of this, two key Ontario chains have put Guard on their pending delisting sheets. These chains, which control about half the grocery volume in Ontario, are dissatisfied with how slowly Guard is moving off the shelves.

Now Alan feels he is ready to set a key part of the brand's marketing plan for next year: how to allocate the advertising/sales promotion budget by region.

Guard's present advertising/sales promotion budget is 20 percent of sales. With forecast sales of $4 million, this would amount to an $800,000 expenditure. Traditionally such funds have been allocated in proportion to population (see Table 4).

Alan feels he should spend more heavily in Ontario where the grocery chain delisting problem exists. Last year, 36 percent of Guard's budget was allocated to Ontario, which accounted for only 12 percent of Guard's sales. Alan wants to increase Ontario spending to 48 percent of the total budget by taking funds evenly from all other areas. Alan expects this will increase business in the key Ontario market, which has over a third of Canada's population, because it is a big increase and will help Guard "outshout" the many other competitors who are promoting heavily.

Alan presented this idea to Wendy, his newly appointed group product manager. Wendy strongly disagrees. She has also been reviewing Guard's business and feels that promotion funds have historically been misallocated. It is her strong belief that, to use her words, "A brand should spend where its business is." Wendy believes that the first priority in allocating funds regionally is to support the areas of strength. She suggested to Alan that there may be more business to be had in the brand's strong areas, Quebec and the Prairies, than in chasing sales in Ontario. The needs and attitudes toward Guard, as well as competitive pressures, may vary a lot among the provinces. Therefore, Wendy suggested that spending for Guard in the coming year be proportional to the brand's sales by region rather than to regional population.

**Table 2** Standard Cases of 3-Ounce Bars Consumed per 1,000 People in 12 Months

| | Maritimes | Quebec | Ontario | Manitoba/ Saskatchewan | Alberta | British Columbia |
|---|---|---|---|---|---|---|
| Guard | 4.1 | 10.9 | 1.9 | 8.1 | 4.1 | 6.2 |
| Sales index | 66 | 175 | 31 | 131 | 131 | 100 |

**Table 3** Usage Results (in percent)

| | Maritimes | Quebec | Ontario | Manitoba/ Saskatchewan | Alberta | British Columbia |
|---|---|---|---|---|---|---|
| Respondents aware of Guard | 20% | 58% | 28% | 30% | 32% | 16% |
| Respondents ever trying Guard | 3 | 18 | 2 | 8 | 6 | 4 |

**Table 4** Allocation of Advertising/Sales Promotion Budget, by Population

| | Maritimes | Quebec | Ontario | Manitoba/ Saskatchewan | Alberta | British Columbia | Canada |
|---|---|---|---|---|---|---|---|
| Percent of population | 10% | 27% | 36% | 8% | 8% | 11% | 100% |
| Possible allocation of budget based on population (in 000s) | $80 | $216 | $288 | $64 | $64 | $88 | $800 |
| Percent of Guard business at present | 7% | 51% | 12% | 11% | 11% | 8% | 100% |





Alan is convinced this is wrong, particularly in light of the Ontario situation. He asked Wendy how the Ontario market should be handled. Wendy said that the conservative way to build business in Ontario is to invest incremental promotion funds. However, before these incremental funds are invested, a test of this Ontario investment proposition should be conducted. Wendy recommended that some of the Ontario money should be used to conduct an investment-spending market test in a small area or town in Ontario for 12 months. This will enable Alan to see if the incremental spending results in higher sales and profits—profits large enough to justify higher spending. In other words, an investment payout should be assured before spending any extra money in Ontario. Similarly, Wendy would do the same kind of test in Quebec—to see if more money should go there.

After several e-mails back and forth, Alan feels this approach would be a waste of time and unduly cautious, given the importance of the Ontario market and the likely delistings in two key chains.

*Evaluate the present strategy for Guard and Alan's and Wendy's proposed strategies How should the promotion money be allocated? Should investment-spending market tests be run first? Why? Explain.*

## 24. Alumco International*

Mark Parcells, newly hired VP of marketing for Alumco International, is reviewing the firm's international distribution arrangements because they don't seem to be very well thought out. He is not sure if anything is wrong, but he feels that the company should follow a global strategy rather than continuing its current policies.

Alumco based in Atlanta, Georgia, produces finished aluminum products, such as aluminum ladders, umbrella-type clothes racks, scaffolding, and patio tables and chairs that fold flat. Sales in 2004 reached $25 million, primarily to U.S. customers.

In 2000, Alumco decided to try foreign markets. The sales manager, Bonnie Pope, believed the growing affluence of European workers would help the company's products gain market acceptance quickly.

Bonnie's first step in investigating foreign markets was to join a trade mission to Europe, a tour organized by the U.S. Department of Commerce. This trade mission visited Italy, Germany, Denmark, Holland, France, and England. During this trip, Bonnie was officially introduced to leading buyers for department store chains, import houses, wholesalers, and buying groups. The two-week trip convinced Bonnie that there was ample buying power to make exporting a profitable opportunity.

On her return to Atlanta, Bonnie's next step was to obtain credit references for the firms she considered potential distributors. To those who were judged creditworthy, she sent letters expressing interest and samples, brochures, prices, and other relevant information.

The first orders were from a French wholesaler. Sales in this market totaled $70,000 in 2001. Similar success was achieved in Germany and England. Italy, on the other hand, did not produce any sales. Bonnie felt the semiluxury nature of the company's products and the lower incomes in Italy encouraged a "making do" attitude rather than purchase of goods and services that would make life easier.

In the United States, Alumco distributes through fairly aggressive and well-organized merchant hardware distributors and buying groups, such as cooperative and voluntary hardware chains, which have taken over much of the strategy planning for cooperating producers and retailers. In its foreign markets, however, there is no recognizable pattern. Channel systems vary from country to country. To avoid mixing channels of distribution, Alumco has only one account in each country. The chosen distributor is the exclusive distributor.

*Adapted from a case written by Professor Peter Banting, McMaster University, Canada.

In France, Alumco distributes through a wholesaler based in Paris. This wholesaler has five salespeople covering the country. The firm specializes in small housewares and has contacts with leading buying groups, wholesalers, and department stores. Bonnie is impressed with the firm's aggressiveness and knowledge of merchandising techniques.

In Germany, Alumco sells to a Hamburg-based buying group for hardware wholesalers throughout the country. Bonnie felt this group would provide excellent coverage of the market because of its extensive distribution network.

In Denmark, Alumco's line is sold to a buying group representing a chain of hardware retailers. This group recently expanded to include retailers in Sweden, Finland, and Norway. Together this group purchases goods for about 500 hardware retailers. The buying power of Scandinavians is quite high, and it is expected that Alumco's products will prove very successful there.

In the United Kingdom, Alumco uses an importer-distributor, who both buys on his own account and acts as a sales agent. This firm sells to department stores and hardware wholesalers. This firm has not done very well overall, but it has done very well with Alumco's line of patio tables and chairs.

Australia is handled by an importer who operates a chain of discount houses. It heard about Alumco from a United Kingdom contact. After extensive e-mailing, this firm discovered it could land aluminum patio furniture in Melbourne at prices competitive with Chinese imports. So it started ordering because it wanted to cut prices in a high-priced garden furniture market.

The Argentina market is handled by an American who came to the United States from Buenos Aires in search of new lines. Alumco attributes success in Argentina to the efforts of this aggressive and capable agent. He has built a sizable trade in aluminum ladders.

In Trinidad and Jamaica, Alumco's products are handled by traders who carry such diversified lines as insurance, apples, plums, and fish. They have been successful in selling aluminum ladders. This business grew out of inquiries sent to the U.S. Department of Commerce and in researching its Web site (www.commerce.gov), which Bonnie Pope followed up by phone.

Bonnie Pope's export policies for Alumco are as follows:

1. Product: No product modifications will be made in selling to foreign customers. This may be considered later after a substantial sales volume develops.
2. Price: The company does not publish suggested list prices. Distributors add their own markup to their landed costs. Supply prices will be kept as low as possible. This is accomplished by *(a)* removing advertising expenses and other strictly domestic overhead charges from price calculations, *(b)* finding the most economical packages for shipping (smallest volume per unit), and *(c)* bargaining with carriers to obtain the lowest shipping rates possible.
3. Promotion: The firm does no advertising in foreign markets. Brochures and sales literature already being used in the United States are supplied to foreign distributors, who are encouraged to adapt them or create new materials as required. Alumco will continue to promote its products by participating in overseas trade shows. These are handled by the sales manager. All inquiries are forwarded to the firm's distributor in that country.
4. Distribution: New distributors will be contacted through foreign trade shows. Bonnie Pope considers large distributors desirable. She feels, however, that they are not as receptive as smaller distributors to a new, unestablished product line. Therefore, she prefers to appoint small distributors. Larger distributors may be appointed after the company has gained a strong consumer franchise in a country.
5. Financing: Alumco sees no need to provide financial help to distributors. The company views its major contribution as providing good products at the lowest possible prices.
6. Marketing and planning assistance: Bonnie Pope feels that foreign distributors know their own markets best. Therefore, they are best equipped to plan for themselves.
7. Selection of foreign markets: The evaluation of foreign market opportunities for the company's products is based primarily on disposable income and lifestyle patterns. For example, Bonnie fails to see any market in North Africa for Alumco's products, which she thinks are of a semiluxury nature. She thinks that cheaper products such as wood ladders (often homemade) are preferred to prefabricated aluminum ladders in regions such as North Africa and Southern Europe. Argentina, on the other hand, she thinks is a more highly industrialized market with luxury tastes. Thus, Bonnie sees Alumco's products as better suited for more highly industrialized and affluent societies.

*Evaluate Alumco's present foreign markets strategies Should it develop a global strategy? What strategy or strategies should Mark Parcells (the new VP of marketing) develop? Explain.*

## 25. Sal's

Angelina Cello, manager of the Sal's store in Flint, Michigan, is trying to develop a plan for the "sick" store she just took over.

Sal's is an owner-managed pizza take-out and delivery business with three stores located in Ann Arbor, Southfield, and Flint, Michigan. Sal's business comes from telephone, fax, or walk-in orders. Each Sal's store prepares its own pizzas. In addition to pizzas, Sal's also sells and delivers a limited selection of soft drinks.

Sal's Ann Arbor store has been very successful. Much of the store's success may be due to being close to the University of Michigan campus. Most of these students live within five miles of Sal's Ann Arbor store.

The Southfield store has been moderately successful. It serves mostly residential customers in the Southfield area, a largely residential suburb of Detroit. Recently, the store advertised—using direct-mail flyers—to several office buildings within three miles of the store. The flyers described Sal's willingness and ability to cater large orders for office parties, business luncheons, and so on. The promotion was quite successful.

With this new program and Sal's solid residential base of customers in Southfield, improved profitability at the Southfield location seems assured.

Sal's Flint location has had mixed results during the last three years. The Flint store has been obtaining only about half of its orders from residential delivery requests. The Flint store's new manager, Angelina Cello, believes the problem with residential pizza delivery in Flint is due to the location of residential neighbourhoods in the area. Flint has several large industrial plants (mostly auto industry related) located throughout the city. Small, mostly factory-worker neighbourhoods are distributed in between the various plant sites. As a result, Sal's store location can serve only two or three of these neighbourhoods on one delivery run. Competition is also relevant. Sal's has several aggressive competitors who advertise heavily, distribute cents-off coupons, and offer 2-for-1 deals. This aggressive competition is probably why Sal's residential sales levelled off in the last year or so. And this competitive pressure seems likely to continue as some of this competition comes from aggressive national chains that are fighting for market share and squeezing little firms like Sal's. For now, anyway, Angelina feels she knows how to meet this competition and hold on to the present sales level.

Most of the Flint store's upside potential seems to be in serving the large industrial plants. Many of these plants work two or three shifts, five days a week. During each work shift, workers are allowed one half-hour lunch break—which usually occurs at 11 AM, 8 PM, or 2:30 AM, depending on the shift.

Generally, a customer will phone or fax from a plant about 30 minutes before a scheduled lunch break and order several (5 to 10) pizzas for a work group. Sal's may receive many orders of this size from the same plant (i.e., from different groups of workers). The plant business is very profitable for several reasons. First, a large number of pizzas can be delivered at the same time to the same location, saving transportation costs. Second, plant orders usually involve many different toppings (double cheese, pepperoni, mushrooms, hamburger) on each pizza. This results in $11 to $14 revenue per pizza. The delivery drivers also like delivering plant orders because the tips are usually $1 to $2 per pizza.

Despite the profitability of the plant orders, several factors make it difficult to serve the plant market. Sal's store is located 5 to 8 minutes from most of the plant sites, so Sal's staff must prepare the orders within 20 to 25 minutes after it receives the telephone order. Often, inadequate staff and/or oven capacity means it is impossible to get all the orders heated at the same time.

Generally, plant workers will wait as long as 10 minutes past the start of their lunch break before ordering from various vending trucks that arrive at the plant sites during lunch breaks. (Currently, no other pizza delivery stores are in good positions to serve most plant locations and/or have chosen to compete.) But there have been a few instances when workers refused to pay for pizzas that were only five minutes late! Worse yet, if the same work group gets a couple of late orders, they are lost as future customers. Angelina Cello believes that the inconsistent profitability of the Flint store is partly the result of such lost customers.

In an effort to rebuild the plant delivery business, Angelina is considering various methods to ensure prompt customer delivery. She thinks that potential demand during lunch breaks is significantly above Sal's present capacity. Angelina also knows that if she tries to satisfy all phone or fax orders on some peak days, she won't be able to provide prompt service and may lose more plant customers.

Angelina has outlined three alternatives that may win back some of the plant business for the Flint store. She has developed these alternatives to discuss with Sal's owner. Each alternative is briefly described below:

**Alternative 1:** Determine practical capacities during peak volume periods using existing equipment and personnel. Accept orders only up to that capacity and politely decline orders beyond. This approach will ensure prompt customer service and high product quality. It will also minimize losses resulting from customers' rejection of late deliveries. Financial analysis of this alternative—shown in Table 1—indicates that a potential daily contribution to profit of $1,230 could result if this

**Table 1** Practical Capacities and Sales Potential of Current Equipment and Personnel

| | 11 AM Break | 8 PM Break | 2:30 AM Break | Daily Totals |
|---|---|---|---|---|
| Current capacity (pizzas) | 48 | 48 | 48 | 144 |
| Average selling price per unit | $ 12.50 | $ 12.50 | $ 12.50 | $ 12.50 |
| Sales potential | $600 | $600 | $600 | $1,800 |
| Variable cost (approximately 40 percent of selling price)* | 240 | 240 | 240 | 720 |
| Contribution margin of pizzas | 360 | 360 | 360 | 1,080 |
| Beverage sales (2 medium-sized beverages per pizza ordered at 75¢ a piece)† | 72 | 72 | 72 | 216 |
| Cost of beverages (30% per beverage) | 22 | 22 | 22 | 66 |
| Contribution margin of beverages | 50 | 50 | 50 | 150 |
| Total contribution of pizza and beverages | $410 | $410 | $410 | $1,230 |

*The variable cost estimate of 40% of sales includes variable costs of delivery to plant locations.

†Amounts shown are not physical capacities (there is almost unlimited physical capacity), but potential sales volume is constrained by number of pizzas that can be sold.

**Table 2** Capacity and Demand for Plant Customer Market

| | Estimated Daily Demand | Current Daily Capacity | Proposed Daily Capacity |
|---|---|---|---|
| Pizza units (1 pizza) | 320 | 144 | 300 |

alternative is implemented successfully. This would be profit before promotion costs, overhead, and net profit (or loss). Note: Any alternative will require several thousand dollars to reinform potential plant customers that Sal's has improved its service and "wants your business."

**Alternative 2:** Add additional equipment (one oven and one delivery car) and hire additional staff to handle peak loads. This approach would ensure timely customer delivery and high product quality as well as provide additional capacity to handle unmet demand. Table 2 is a conservative estimate of potential daily demand for plant orders compared to current capacity and proposed increased capacity. Table 3 gives the cost of acquiring the additional equipment and relevant information related to depreciation and fixed costs.

Using this alternative, the following additional pizza preparation and delivery personnel costs would be required:

| | Hours Required | Cost per Hour | Total Additional Daily Cost |
|---|---|---|---|
| Delivery personnel | 6 | 6 | $36.00 |
| Preparation personnel | 8 | 6 | 48.00 |
| | | | $84.00 |

The addition of even more equipment and personnel to handle all unmet demand was not considered in this alternative because the current store is not large enough.

**Alternative 3:** Add additional equipment and personnel as described in alternative 2, but move to a new location that would reduce delivery lead times to two to five minutes. This move would probably allow Sal's to handle all unmet demand—because the reduction in delivery time will provide for additional oven time. In fact, Sal's might have excess capacity using this approach.

A suitable store is available near about the same number of residential customers (including many of the store's current residential customers). The available store is slightly larger than needed. And the rent is higher. Relevant cost information on the proposed store appears next:

| | |
|---|---|
| Additional rental expense of proposed store over current store | $ 1,600 per year |
| Cost of moving to new store (one-time cost) | $16,000 |

Angelina Cello presented the three alternatives to Sal's owner, Sal Marino. Sal was pleased that Angelina had done her homework. He decided that Angelina should make the final decision on what to do (in part because she had a profit-sharing agreement with Sal) and offered the following comments and concerns:

1. Sal agreed that the plant market was extremely sensitive to delivery timing. Product quality and pricing, although important, were of less importance.
2. He agreed that plant demand estimates were conservative. "In fact, they may be 10 to 30 percent low."
3. Sal expressed concern that under alternative 2, and especially under alternative 3, much of the store's capacity would go unused over 80 percent of the time.
4. He was also concerned that Sal's store had a bad reputation with plant customers because the prior store manager was not sensitive to timely plant delivery. So Sal suggested that Angelina develop a promotion plan to improve Sal's reputation in the plants and be sure that everyone knows that Sal's has improved its delivery service.

*Evaluate Angelina's possible strategies for the Flint store's plant market. What should Angelina do? Why? Suggest possible promotion plans for your preferred strategy.*

**Table 3** Cost of Required Additional Assets

| | Cost | Estimated Useful Life | Salvage Value | Annual Depreciation* | Daily Depreciation† |
|---|---|---|---|---|---|
| Delivery car (equipped with pizza warmer) | $11,000 | 5 years | $1,000 | $2,000 | $5.71 |
| Pizza oven | $20,000 | 8 years | $2,000 | $2,250 | $6.43 |

*Annual depreciation is calculated on a straight-line basis.

†Daily depreciation assumes a 350-day (plant production) year. All variable expenses related to each piece of equipment (e.g., utilities, gas, oil) are included in the variable cost of a pizza.