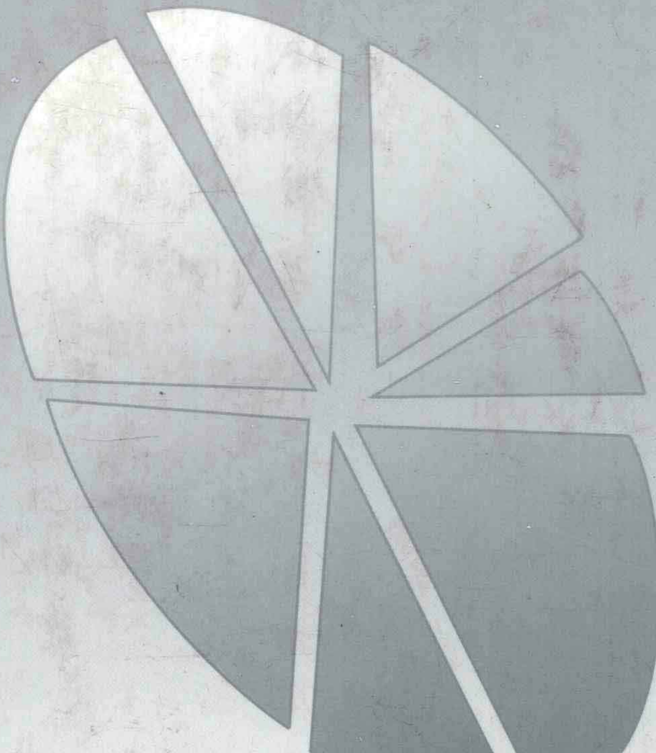
Marketing CHALLENGES

Cases And Exercises

Christopher H. Lovelock

Charles B. Weinberg



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SERIES IN MARKETING

MARKETING CHALLENGES

CASES AND EXERCISES

SECOND EDITION

Christopher H. Lovelock
Formerly with Harvard University

Charles B. Weinberg
University of British Columbia

OPTIONAL PERSONAL COMPUTER SOFTWARE

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University of British Columbia

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Cases and Exercises

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ABOUT THE AUTHORS

Christopher Lovelock and Charles Weinberg, who wrote the text and prepared more than half the cases in *Marketing Challenges,* have been working together since they first met on the faculty of the Stanford Graduate School of Business in 1972. Although now living on opposite coasts of North America (in Massachusetts and British Columbia, respectively) they have continued their collaboration through numerous articles and a total of seven books including *Marketing for Public and Nonprofit Managers,* second edition, The Scientific Press, Redwood City, California, 1989, and its companion volume, *Public and Nonprofit Marketing: Cases and Readings.*

Christopher H. Lovelock is principal of Christopher Lovelock & Associates, a consulting and educational firm specializing in management issues in large service businesses. He was a professor at the Harvard Business School from 1973 to 1984 and has also taught at Stanford and the University of California at Berkeley. He is author or coauthor of more than fifty articles and eleven books, including *Managing Services: Marketing, Operations and Human Resources* (Prentice-Hall, 1988). A native of Great Britain, Dr. Lovelock obtained a B.Com. and an M.A. in economics from the University of Edinburgh. After working in advertising in London and in corporate planning in Montreal, he went on to obtain an M.B.A. from Harvard and a Ph.D. from Stanford. In 1984, he received the *Journal of Marketing*'s Alpha Kappa Psi Award for his contribution to advancing marketing practice.

Charles B. Weinberg is Alumni Professor of Marketing at the Faculty of Commerce and Business Administration, University of British Columbia. Previously, he taught at Stanford University, the London Business School, and New York University. He won the U.B.C. Commerce Alumni Teaching Award in 1987 for innovations in teaching and the Killam Research prize in 1986. A widely published researcher, he also serves on the editorial boards of the *Journal of Consumer Research* and *Marketing Science.* He has been actively involved in managing and advising nonprofit organizations and has served as vice president of marketing for the Vancouver Symphony Orchestra. He grew up in New Jersey and earned an Sc.B. from Brown University, an M.B.A. from Harvard, and a Ph.D. from Columbia.

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PREFACE

As the title *Marketing Challenges* suggests, marketing is both a demanding and exciting field. In preparing the second edition of this book, we sought to capture the breadth and depth of marketing management in the modern world. "New and improved" is a rather overworked phrase in the marketing lexicon and often signifies little more than packaging and styling changes. But we've made substantive changes in this new edition, using advice and suggestions from professors at many different business schools in an effort to make a good product even better.

Of the 44 cases in this edition, 19 are new to *Marketing Challenges,* 7 that appeared earlier have been given improved classroom value through pruning or other revisions, and 18 have been retained without major changes. All textual materials have been rewritten to provide more depth of coverage. We've added a sample case with student analysis and instructor comments; the optional computer software is now even more user friendly.

As before, we've tried to select a mix of cases that would embrace a broad cross-section of industries, products, and settings. The cases are set in both service and manufacturing organizations, ranging in size from small entrepreneurial start-ups to giant multinational corporations, and selling to both individual consumers as well as to industrial or institutional purchasers. The environment is usually that of for-profit companies but does include some public and nonprofit situations. Most cases are set in the United States, but there are some Canadian and overseas settings too. All the cases have been classroom tested.

The book is divided into nine parts, each focusing on a different aspect of marketing management—although there is, of course, some overlap between these parts. Each part begins with a textual introduction, followed by a number of cases or other exercises. Complementing the textual notes is a glossary of selected marketing and management terms in Appendix 1. To help students understand some of the basic financial analyses required in marketing, we've included in Appendix 2 a short note on financial and economic analysis in marketing, as well as exercises and a brief case.

The first edition of this casebook broke new ground by presenting an optional package that enabled students to undertake computer-assisted analysis of many of the materials. The diskette developed by John D. Claxton and Charles B. Weinberg for the second edition is again pathbreaking. The computer aids, formatted to be compatible with *VP Planner* and *Lotus 1-2-3,* are designed to reflect a marketing management viewpoint. Details of how to use the optional software are provided in Appendixes 3 and 4. However, we do want to emphasize that data in all the cases and exercises in this book can be analyzed simply with the aid of a pocket calculator.

More than half of the cases in this book are drawn from the collections of the Business Schools at Harvard, Stanford, and the University of British Columbia. The balance was prepared by authors at a wide variety of institutions. Our thanks are due to the individual authors, who are acknowledged in About the Contributors, as well as on the title page of each case. We wish to thank Professor Gordon H. G. McDougall of Wilfrid Laurier University not only for allowing us to include his cases, but also for his valued assistance in other aspects of the book. We thank the copyright holders for permission to reproduce their materials. In addition, we are grateful to the managements of the many organizations—sometimes disguised—whose willingness to share experience and data made case development possible in the first place.

John D. Claxton played the major role in the development of the optional computer diskettes that accompany this book. We wish to recognize his commitment to innovation in teaching and express our deep gratitude to him for his participation in the development of this work.

A great many people have assisted in the preparation and publication of *Marketing Challenges*. We're particularly grateful to Rosalea Dennie who has capably and cheerfully typed and managed the word processing of innumerable drafts of this book and its accompanying instructor's manual. We're also very appreciative of the important role played by the editorial and production staffs at the McGraw-Hill Book Company, especially for the assistance given by Michael Asher, Eve Collen, and Sheila Gillams.

We owe the following reviewers a great deal of thanks for the many useful comments and suggestions they provided in reading the manuscript for this second edition: Daniel Bosse, Southern Illinois University; Jane T. Landwehr, New York University; Warren S. Martin, University of Alabama at Birmingham; and Eric H. Shaw, Florida Atlantic University.

We would also like to thank the following instructors for providing valuable answers to a questionnaire regarding *Marketing Challenges*: Nick Anderson, University of Southern California; Julian Andorka, DePaul University; William E. Bell, California State University, Fullerton; Jeff Blodgett, Indiana University; William M. Brown, University of Nebraska at Omaha; Forrest S. Carter, Michigan State University; Robert J. Corey, West Virginia University; Michael F. d'Amico, University of Akron; Jeffrey C. Dilts, University of Akron; Michael Hu, Kent State University; Richard H. Kolbe, Washington State University; Max Lupul, California State University, Northridge; James M. Maskulka, Lehigh University; Peter McClure, University of Massachusetts; Kahandas Nandola, Ohio University; Robert E. Prosise, Southern

Oregon State College; Dan Sarel, University of Miami; JoAnn Schwinghammer, Mankato State University; Yoshi Sugita, Purdue University; Rawlie R. Sullivan, Bradley University; and Steven D. Thrasher, Pacific Lutheran University.

Finally, we want to thank our many former students in both university and corporate settings. Over the years, their critical and enthusiastic classroom discussions have helped us to sharpen and refine many of the cases, serving to remind both of us that much of the challenge and satisfaction of case teaching comes from the interaction between students and instructors.

Christopher H. Lovelock

Charles B. Weinberg

ANALYZING AND LEARNING FROM CASES

Unlike methods of instruction that use lectures and textbooks, the case method of instruction does not present students with a body of tried and true knowledge about how to be a successful manager. Instead, it provides an opportunity for students to learn by doing.

As a student, you may find that dealing with cases is very much like working with the actual problems that people encounter in their jobs as managers. In most instances, you'll be identifying and clarifying problems facing the management of a company or nonbusiness organization, analyzing qualitative information and quantitative data, evaluating alternative courses of action, and then making decisions about what strategy to pursue for the future. You may enjoy the process more—and will probably learn more—if you accept the role of an involved participant rather than that of a disinterested observer who has no stake, or interest, in resolving the problems in question.

The goal of case analysis is not to develop a set of "correct" facts but to learn to reason well with available data. Cases mirror the uncertainty of the real-world managerial environment in that the information they present is often imprecise and ambiguous. You may perhaps be frustrated that there is no one right answer or correct solution to any given case. Instead, there may be a number of feasible strategies management might adopt, each with somewhat different implications for the future of the organization, and each involving different trade-offs.

If you're using this book in a course or seminar, you'll be exposed to a wide range of different management situations within a relatively short time. As a result, the cases presented in this book will collectively provide a much broader exposure to service management problems than most managers experience in many years on the job. Recognizing that managerial problems are not unique to a particular institution (or even to a specific service industry) forms the basis for developing a professional approach to management.

CASES AND THE REAL WORLD

It's important to recognize that even though case writers try to build realism into their cases, these cases differ from real-world management situations in several important respects. First, the information is prepackaged in written form. By contrast, managers accumulate their information through memoranda, meetings, chance conversations, research studies, observations, news reports, and other externally published materials—and, of course, by rumor.

Second, cases tend to be selective in their reporting because most of them are designed with specific teaching objectives in mind. Each must fit a relatively short class period and focus attention on a defined category of management problem within a given subject area. To provide such a focus—and to keep the length and complexity of the case within reasonable bounds—the writers may need to omit information on problems, data, or personnel that are peripheral to the central issues in the case.

In the real world, management problems are usually dynamic in nature. They call for some immediate action, with further analysis and major decisions being delayed until some later time. Managers are rarely able to wrap up their problems, put them away, and go on to the next "case." In contrast, discussing a case in class or writing an analysis of a case is more like examining a snapshot taken at a particular point in time—although sometimes a sequel case provides a sense of continuity and poses the need for future decisions within the same organization.

A third, and final, contrast between case analyses and real-world management is that participants in case discussions and authors of written case reports aren't responsible for implementing their decisions, nor do they have to live with the consequences. However, this doesn't mean that you can be frivolous when making recommendations. Instructors and classmates are likely to be critical of contributions that aren't based on careful analysis and interpretation of the facts.

PREPARING A CASE

Just as there is no one right solution to a case, there is also no single correct way of preparing a case. However, the broad guidelines outlined in "Preparing a Case" may help familiarize you with the job of case preparation. With practice, you should be able to establish a working style with which you feel comfortable. The guidelines on initial analysis and on developing recommendations should also serve you well for preparing written case reports or case-based exams.

Initial Analysis

First, it's important to gain a feel for the overall situation by skimming quickly through the case. Ask yourself:

PREPARING A CASE: A BRIEF OUTLINE

I. Initial fast reading
- No notes
- Get a feel for what's going on
- Think about major problems and forces present

II. A second careful reading
- Make notes identifying:
  Organizational objectives
  Nature of problem(s)
  Key facts
  Key decisions
- Evaluate and analyze case data

III. Development of recommendations
- Identify alternative courses of action to meet objectives
- Consider implications of each action
- Provide recommendations, supported by analysis

- What sort of organization does the case concern?
- What is the nature of the industry (broadly defined)?
- What is going on in the external environment?
- What problems does management appear to be facing?

An initial fast reading, without making notes or underlining, should provide a sense for what is going on and what information is being presented for analysis. Then you'll be ready to make a very careful second reading of the case. This time, seek to identify key facts so that you can develop a situation analysis and clarify the nature of the problems facing management. As you go along, try to make notes in response to such questions as:

- What decisions need to be made, and who will be responsible for making them?
- What are the objectives of the organization itself and of each of the key players in the case? Are these objectives compatible? If not, can the problems be reconciled or will it be necessary to redefine the objectives?
- What resources and constraints are present which may help or hinder attempts by the organization to meet its objectives?

You should make a particular effort to establish the significance of any quantitative data presented in the text of the case, or, more often, in the exhibits. See if new insights may be gained by combining and manipulating data presented in different parts of the case. But don't accept the data blindly. In the cases, as in real life, not all information is equally reliable or equally relevant. On the other hand, case writers won't deliberately misrepresent data or facts to try to trick you.

Developing Recommendations

At this point in the analysis, you should be in a position to summarize your evaluation of the situation and to develop some recommendations for management. First, identify the alternative courses of action that the organization might have. Next, consider the implications of each alternative, including possible undesirable outcomes, such as provoking responses from stronger competitors. Ask yourself how short-term tactics fit with longer-term strategies. Relate each alternative to the objectives of the organization (as defined or implied in the case, or as redefined by you). Then, develop a set of recommendations for future action, making sure that these recommendations are supported by your analysis of the case data.

Your recommendations won't be complete unless you give some thought to how the proposed strategy should be implemented:

- What resources—human, financial, or other—will be required?
- Who should be responsible for implementation?
- What time frame should be established for the various actions proposed?
- How should subsequent performance be measured?

Small-Group Discussions

The best results in the early stages of case preparation are generally achieved by working alone. But a useful step, prior to class discussion, is to discuss the case with a small group of classmates. (In some instances, you may find yourself assigned to a small discussion group or you may be required to work with others to develop a written report for possible group presentation.)

These small groups facilitate initial testing of ideas and help to focus discussion on the main considerations. Within such a discussion group, present your arguments and listen to those of other participants. Except in the case of group projects, the aim of such a meeting is not to reach a consensus, but to broaden, clarify, and redefine your own thinking—and to help others do likewise.

Effective management of a business involves adjusting corporate resources to the changing character of the marketplace; this is different from just applying knowledge about what works and what doesn't work in management. Accordingly, the focus of small-group discussions should be on analysis and decision making: What are the facts? What do they mean? What alternatives are available? What specifically should management do? How and when?

CLASS DISCUSSIONS

Courses taught by the case method emphasize inductive learning, with conceptual frameworks and strategic guidelines developed from the analysis of a variety of real-world situations. This approach contrasts sharply with the deductive approach to learning used in lectures where the concepts are presented first and must then be applied to actual situations.

Role of the Instructor

In class, you may find that the role played by an instructor using the case method usually differs significantly from that of a lecturer. The instructor's role in case discussions is often similar to that of a moderator—calling on students, guiding the discussion, asking questions, and periodically synthesizing previous comments. Teaching styles vary, of course, from one case instructor to another.

Many professors like to begin the class by asking a student to ''lay out'' the case, which may involve your being asked to identify key problems and opportunities, to present some preliminary data analysis, and perhaps to outline a possible plan of action.

Some instructors assign study questions in advance to help students with their case preparation; but others feel it is more realistic (albeit more demanding) to let students define for themselves how they should approach each new case.

Responsibilities of Participants

Instead of being a passive note taker, as in lecture classes, you'll be expected to become an active participant in class discussions. Indeed, it's essential that you participate; for if nobody participates there can be no discussion! If you never join in the debate, you'll be denying other participants the insights that you may have to offer. Moreover, there's significant learning involved in presenting your own analysis and recommendations and debating them with your classmates—who may hold differing views or else seek to build on your presentation. But don't be so eager to participate that you ignore what others have to say. Learning to be a good listener is also an important element in developing managerial skills.

Occasionally, it may happen that you are personally familiar with the organization depicted in a case. Perhaps you are privy to additional information not contained in the case, or perhaps you know what has happened since the time of the case decision point. If so, keep this information to yourself unless, and until, the instructor requests it. (This advice also holds true for written reports and case exams.) There are no prizes for 20/20 hindsight; injecting extra information that nobody else has is more likely to spoil a class discussion than to enhance it.

Learning comes through discussion and controversy. In the case method of instruction, participants must assume responsibility not only for their own learning but also for that of others in the class. Thus, it's important for students to be well prepared, willing to commit themselves to a well-reasoned set of analyses and recommendations, and receptive to constructive criticism. Students unwilling to accept this challenge are likely to find the case method aimless and confusing. On the other hand, if you do accept it, we're confident that you'll experience in the classroom that sense of excitement, challenge, and even exasperation that comes with being a manager in a real-world situation.

EXAMPLE OF A CASE ANALYSIS

There is no universal formula for analyzing cases, but there *are* ways to learn how to do better case analyses. The introductory note ''Analyzing and Learning from Cases'' provides suggestions on how to approach case analysis.

The textual notes at the start of each section provide a review of the major issues in each section's cases and exercises. However, you should always remember that management problems don't come in neatly classified fashion. Therefore, cases almost always raise multiple issues and students must recognize that identifying problems and establishing priorities are important parts of case analysis.

To help you become accustomed to the nature of case analysis, we have provided on the following pages a short case (Western Products, Inc.), a student's written analysis of that case, and an instructor's critique of the student's report.

Western Products, Inc.

Charles B. Weinberg

George Norrin, the major owner of Western Products, Inc., of Portland, Oregon, faced an important decision. Should the company, for the first time in its 35-year history, begin a large advertising campaign?

The advertising campaign, if begun, would focus on the company's chain saw products. Western Products marketed a variety of power tools—pneumatic drills, generators, concrete vibrators—to the industrial and construction markets in the three Pacific states—Washington, Oregon, and California—and in the western provinces of Canada.

Western had entered the chain saw business 15 years ago when one of Mr. Norrin's closest friends, Jim Dagan, decided to retire. Mr. Dagan had owned a small company which manufactured and marketed chain saws. Mr. Dagan asked his friend if he was interested in buying the company, Dagan Power Saws. The two men quickly worked out a reasonable price. Mr. Dagan was still a passive partner in the company and received 10 percent of the profits from the chain saw division of Western Products. Now chain saws accounted for 42 percent of Western's sales and 48 percent of the company's profits (see *Exhibit 1*).

MARKET BACKGROUND

While no precise data were available, Western estimated it held about a 15 percent market share in its market area for gasoline-powered chain saws. It was the fourth largest manufacturer of gasoline-powered chain saws in its region.

Gasoline-powered chain saws were sold to loggers, farmers, large land owners (companies and institutions), and home owners—primarily casual users with many trees on their land. The last market appeared to be something of a growth market. The logger market was quite cyclical, rising and falling with the boom and bust cycle which seemed to characterize the forestry industry.

At the time that Dagan Power Saws was purchased, three-fifths of its sales were made through a distributor, Excelsior Sales, which owned a number of retail outlets and acted as a wholesaler to many other retail outlets throughout the west. It was Excelsior's wholesaling system that allowed Western to achieve distribution in both the United States and Canada. All sales to Excelsior carried Excelsior's own brand

EXHIBIT 1
WESTERN PRODUCTS INC. INCOME STATEMENT

(All figures in thousands.)		
Sales		$ 4,233 (100%)
Cost of goods sold		
Materials	$ 1,901 (45%)	
Shipping	278 (6.6%)	
Labor	962 (23%)	3,141
Contribution		$ 1,092 (26%)
Manufacturing overhead	$ 630	
Administrative expenses	151	
Sales and marketing	138	919 (22%)
Net profit (before tax)		$ 173

names. The Excelsior name was used for sales through its own stores and the Harter brand name for sales through other companies. (The Harter brand name was solely owned and controlled by Excelsior.) Overall, Excelsior accounted for 59 percent of Western's chain saw sales; this percentage had been virtually constant over the past 15 years. Mr. Norrin thought that his relationship with Excelsior was excellent.

Mr. Norrin and his chief assistant, Ms. Kara Smith, regularly called on all major forestry companies, other companies and institutions that were likely to be buyers of gasoline-powered chain saws or involved in land clearing operations, operators of lumber yards and building supply distributors, and occasionally large retailers themselves. However, Mr. Norrin and Ms. Smith were not able to visit many of the dealers who sold chain saws. For example, of the 53 dealers in the state of Washington who sold Dagan brand chain saws, they had only called on 19 in the most recent year. Most dealers sold several brands of chain saws, but many limited themselves to two or three brands. All sales in these markets (41 percent of the chain saw business) were made under the Dagan brand name. The majority of these sales were made through wholesalers and retailers.

The company also participated each year in a number of agricultural fairs, such as the Pacific National Exhibition in Vancouver, and sponsored log rolling and other contests. However, the company had never advertised either in trade journals to reach dealers or in magazines that might directly reach the people who were the buyers and users of chain saws.

Western manufactured a variety of chain saw models, but they differed primarily in the length of the chain saw blade and horsepower. Trade association surveys showed that a number of other features were important to users. Weight of the chain saw, ease of controls, whether it had a gas protector, and the warranty were important to consumers, with safety being a critical—although unspoken—concern to many. The Dagan chain saws were at least as good as the major competitors on all these dimensions and had a slight weight advantage when compared to other chain saws. That is, for any given horsepower and blade length, the Western saw would weigh slightly less