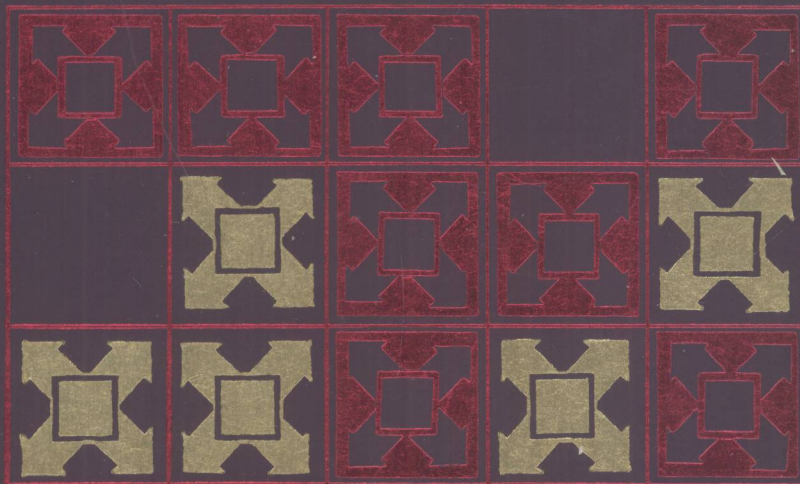


C A S E S I N

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# Marketing Management

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Douglas J. Dalrymple ■ Leonard J. Parsons  
Jean-Pierre Jeannet

# CASES IN --- MARKETING MANAGEMENT

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# PREFACE

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Marketing courses often provide students with a set of essential concepts using lectures and assigned readings. Many of these courses then ask students to apply the principles they have learned to solve business problems in a case or simulation environment. This book supplies an outstanding set of case materials and a simulation for use in a variety of marketing courses. The text can be used as a supplement in basic marketing courses or as a stand-alone book in more advanced marketing management classes. The 50 cases in our book cover a wide assortment of marketing situations in consumer, industrial, domestic, and international settings. Jean-Pierre Jeannet has joined Doug Dalrymple and Len Parsons in the preparation of this exciting new book. Professor Jeannet's cases provide a wealth of background and trends in the increasingly important international arena. We believe you will find this new collection of cases to be a great help in planning your marketing courses.

## ORGANIZATION OF THE TEXT

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Our book is organized into 10 parts. In Part 1, we provide an introduction to the case method to show students how to work with case materials. Then a comprehensive marketing mix case is presented along with a sample writeup. The idea is to provide students with a well-written example to help them prepare their own case reports.

Part 2 is the first of the nine groups of cases devoted to specific subjects. Each part begins

with an introductory discussion to acquaint students with the basic concepts relevant to each area. Part 2 is devoted to decision making and the development of marketing strategies. In Part 3, we present five cases that focus on customer behavior and market segmentation. Part 4 covers the problems of estimating market potential and forecasting sales.

Product development and product line management are covered in Part 5 with a set of seven cases. In Part 6, we have selected six cases that deal with the issues of advertising and sales promotion. Part 7 is concerned with pricing and Part 8 presents a variety of distribution problems. The ethical conflicts that sometimes occur between marketing activities and social welfare are handled in five cases in Part 9. Our book concludes in Part 10 with a set of cases that focus on marketing planning.

## SUPPLEMENTS

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Successful marketing casebooks require an effective set of supplementary teaching materials. We have assembled an outstanding package of these aids to support *Cases in Marketing Management*.

***Instructor's Manual.*** Includes suggested course syllabi and extensive notes for each of the 50 cases in the book.

***Lotus Templates for Case Analysis.*** Fifteen of the cases in the book are available on Lotus 1-2-3 templates to encourage students to work with personal computers.

**Sales Management Simulation.** Encourages students to practice their sales management skills in a computerized game environment by making decisions on hiring, deployment, retraining, termination, compensation, forecasting, and the design of sales contests for a field sales force. The new third edition updates game parameters, allows decisions to be input on work disks, and features the sales of plain paper fax machines.

**Forecasting Diskette.** The *FORECAST* program allows students to make projections to solve problems and case studies. Includes naive, moving average, exponential smoothing, projective, simple regression, and multiple regression techniques. Allows optimization of smoothing constants and the length of moving averages.

## ACKNOWLEDGMENTS

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This book was made possible by the generous contributions of a host of colleagues and reviewers. Casebooks are the collected efforts of faculty who take the time to document real world marketing problems. We want to thank all of our case writers for the materials they have prepared and allowed us to reproduce. Special thanks go to Dominique Turpin of IMD in Lausanne, Switzerland, and Seymour H. Fine of Rutgers University, who each contributed three cases to the book. We would also like to express our appreciation to George H. Haines, Jr., of Carlton University in Ottawa, Canada, and Mark Parry of the University of Virginia, who each furnished two cases.

The publication of our book was encouraged by the gracious cooperation of the International Institute for Management Development (IMD) of Lausanne, Switzerland. We wish to thank IMD and the Manager of Case Services, Silvia Farmanfarma, for allowing us to include some of their excellent international cases.

Reviewers are a great help in the preparation of textbooks, and we would like to express our appreciation to the following professors who provided valuable tips for *Cases in Marketing Management*.

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Douglas J. Dalrymple  
 Leonard J. Parsons  
 Jean-Pierre Jeannet

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He has served as Marketing Departmental Editor of *Management Science* and Associate Editor of *Decision Sciences*, and on the Editorial Boards of the *Journal of Marketing Research*, *Journal of Marketing*, and the *Journal of Business Research*. He has co-authored or co-edited four books, including *Marketing Management: Strategy and Cases*, now in fifth edition, and *Market Response Models: Econometric and Time Series Analysis*, three chapters in books, and articles in journals such as *Journal of Marketing Research*, *Management Science*, *Operations Research*, and *Applied Economics*. He has received several awards from the American Marketing Association and a grant from the American Association of Advertising Agencies. He is listed in *Who's Who in America*. His main interest is in marketing productivity.

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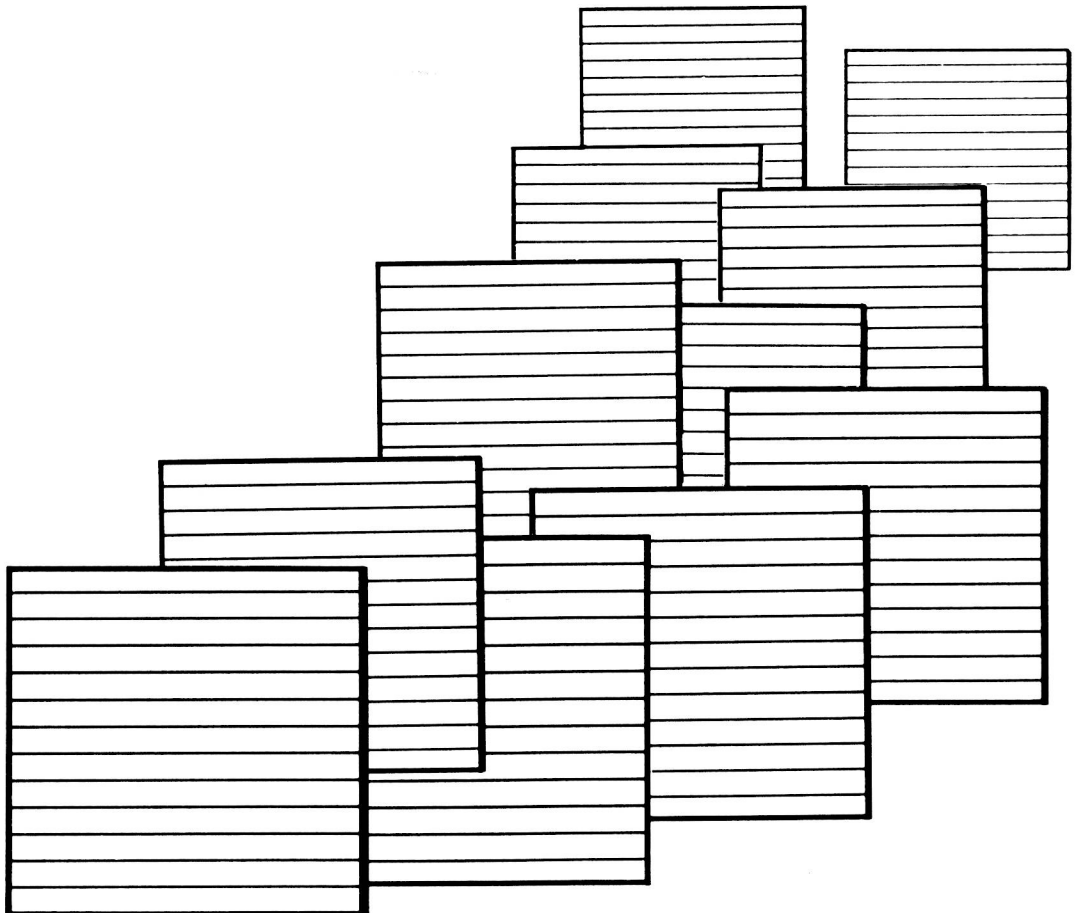
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# PART 1

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## **INTRODUCTION TO THE CASE METHOD**



## THE CASE METHOD

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The objective of the case method is to introduce a measure of realism to business education. A case approach forces you to deal with problems as they actually occur in a business or a not-for-profit organization. Each case is simply a written description of the facts surrounding a particular business situation. With the case approach, it is your responsibility to develop solutions to the problem. Instructors, for example, may set the stage for the case discussion by providing background material or by helping you gain insight into the problem. They may also act as devil's advocates and as critics to test arguments and proposals that you put forth. Finally, they will evaluate your performance, assign grades, and make suggestions for improvement.

## BENEFITS AND LIMITATIONS

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The case method becomes an effective teaching device when students are encouraged to analyze the data presented and to formulate their own sets of recommendations. Because each case is different, the solution that is developed for one case cannot be randomly applied to another. This raises the question of what you actually learn by working with business cases. One obvious benefit is that preparation and discussion of case studies helps you improve your skills at oral and written expression. In addition, the case method provides an easy way to learn about current business practices. Perhaps the most important advantage of the case method is the experience it provides in thinking logically about different sets of data. The development of your analytical ability and judgment is the most valuable and lasting benefit derived from working with business cases.

Most cases, including those in this book, are drawn from the experience of real firms. The names and locations may be disguised to protect the interests of the companies involved. In

addition, final decisions are usually omitted to enhance the problem-solving orientation of the cases, thus permitting you to reach your own conclusions without being forced to criticize the actions taken by others. The case method departs from the typical business situation in that the business executive usually does not have the facts presented as clearly and as neatly as they are in casebooks. Problem solving in business usually involves extensive data collection, something that has been essentially completed for you.

## A FRAMEWORK FOR ANALYSIS

---

You can approach the analysis of business cases in many different ways. Each instructor has his or her own ideas on the number and nature of the steps that are involved. We believe the following six-step procedure is a logical and practical way to begin.

1. Define the problem.
2. Formulate the alternatives.
3. Analyze the alternatives.
4. Recommend a solution.
5. Specify a plan of action.
6. Prepare contingency plans.

### Defining the Problem

Once you are familiar with the facts of the case, you should isolate the central problem. Until this is done, it is usually impossible to proceed with an effective analysis. Sometimes instructors provide questions to help you start your analysis. You should look at questions as guides for action rather than as specific issues to be resolved. All cases should be considered as problems in the management of the marketing mix, not as specific issues concerned only with some narrow phase of management.

We use the term *problem* loosely and employ it to indicate a state of nature that may involve

either a negative situation possibly requiring corrective action or simply a situation needing opportunity assessment. You must distinguish between problems and symptoms of problems. Declining sales, market share, or profits are symptoms of more fundamental underlying problems that are their cause. Any business situation may pose multiple problems. The key to solving unstructured problems is to identify the one that must be solved first, the one whose solution will either eliminate other problems or permit their solution. We are usually interested in solving the most immediate critical problem. For example, we may have problems with the introduction of a new product, problems that have been created by a poor new product development process. Our immediate concern, however, is with addressing the difficulties of the newly launched product. We may well recommend an evaluation of the firm's new product development process, but we will leave that for future study. Note that the central problem is a state of nature. A statement of it should not contain any action verbs (i.e., "to do" is part of the plan of action). Nor should it contain the words "or" and "and," which are, respectively, part of the statement of alternatives, and an indication of compound problems and lack of identification of *the* central problem.

### Selecting the Alternatives

The second step is to define possible alternatives available to resolve the problem. Some of these alternatives may be obvious from the material supplied in the case and from the statement of the main issue. Others may have to be supplied from your own review of the situation. You should be careful to limit your analysis to a reasonable number of alternatives. Three or four alternatives are usually sufficient for a typical case. One alternative that should always be considered is the maintenance of the status quo. Sometimes doing what you have been doing is the best course of action.

### Analyzing the Alternatives

The heart of the case method is the analysis of alternatives. To analyze is to separate into parts so as to find out the nature, proportion, function, and underlying relationships among a set of variables. Thus, to analyze is to dig into, and work with, the facts to uncover associations that may be used to evaluate possible courses of action. Your analysis should begin with a careful evaluation of the facts presented in the case. You should be sensitive to the problem of sorting relevant material from that which is peripheral or irrelevant. In reviewing a case, you must be careful to distinguish between fact and opinion. You must also make sure the "facts" are consistent and reliable. Some cases may contain errors, and the instructor may prefer to remain silent.

You are expected to base your analysis on the evidence presented in the case, but this does not mean that other information cannot be used. You should utilize facts that are available to the trade and information that is general or public knowledge. You should incorporate relevant concepts from other disciplines, such as accounting, statistics, economics, psychology, and sociology. The criterion in using "outside" material is that it must be appropriate to the particular situation. For example, do not use census data for 1990 to make decisions in a case dated 1987. For this book we have attempted to select cases that provide you with enough information to complete the analysis. In some situations, however, you may wish to collect additional materials from the library.

Sometimes the most important facts in the case are buried in some chance remark or seemingly minor statistical exhibit. Be careful to sift through the data to uncover all the relationships that apply to the alternatives being considered. This means that the quantitative information must be examined using a variety of ratios, graphs, tables, or other forms of analysis. Rarely are the data supplied in the case in the form most appropriate to finding a solution, and

instructors expect students to work out the numbers.

Marketing analyses are usually based on incomplete information. Assumptions must be made.<sup>1</sup> However, they should be made only when necessary and must be clearly labeled as such. Moreover, a rationale should be given for any assumption made. For example, a retail chain stops carrying one of your product lines but continues carrying another. You are interested in what your sales of the dropped product line would have been. You might note that over the past few years the ratio of the sales of the two product lines had been relatively constant. You could assume that the ratio would have remained the same for the current year as well, and multiply this ratio times the current year's sales of the continuing product line to estimate sales of the discontinued line in that chain. Or perhaps you would calculate the lowest and highest ratio over recent history to calculate conservative and optimistic estimates of lost sales. In any case, at the end of any decision-making exercise, you always want to review your assumptions to see how dependent your conclusions are on the assumptions made. (At one extreme, you could assume away the problem!) You should make contingency plans in the event major assumptions do not hold.

You should realize that a complete analysis is not one-sided. A review of a business situation is not sound unless both sides of important issues are examined. This does not necessarily mean that every point must be mentioned, but major opposing arguments should be addressed where possible. You will find it helpful to explicitly list the pro's and con's or advantages and disadvantages of each alternative.

<sup>1</sup>In most large companies, a corporate planning group provides certain forecasts, assumptions, and planning premises so that everyone in the company is using the same numbers, for instance, on future inflation rates. These tend to be long documents and are not included in casebooks.

## **Making Recommendations**

After you have carefully analyzed the data and alternatives, you are in a position to make recommendations. Sometimes more than one course of action will look attractive. This is not an unusual situation, as most cases do not have a single "right" answer. Still you must come up with a concrete proposal. To arrive at a solution, you should judge the relative risks and opportunities offered by the various alternatives. The optimum choice is the one that provides the best balance between profit opportunities and the risks and costs of failure. Make a clear-cut decision and avoid qualifications and other obvious hedges. Instructors are much more concerned with how a particular decision was reached than with what particular alternative was selected.

Students sometimes review the facts and decide that they do not have enough information to reach a decision. They recommend that the decision be postponed pending the results of further research. Usually, "get more information" is not an acceptable solution to a business case. Decisions cannot wait the length of time necessary to conduct good research. In addition, it is unlikely you can ever expect to have all the information you think you need. Because of the cost of research and the penalties of delay, business decisions are almost always made under conditions of uncertainty.

## **Specifying a Plan of Action**

Having made your decision, how are you going to implement it? You should suggest, in as much detail as the case allows, what actions you would take, when they would be taken, and how much they would cost. You may want to provide Program Evaluation and Review Technique (PERT) charts, pro forma income statements, and other relevant supporting material. Once you have proposed your actions, you would do well to reflect on the potential market reactions to them, especially competitive reac-

tions. These possible reactions might lead you to modify your actions.

If you feel that collecting additional information is the only feasible means of solving a case, you must provide support for this decision. First, you should state exactly what the research will show and how this information will be used. In addition, you should indicate the research methodology to be followed and the anticipated cost of the study. After you have completed these tasks, you will be in a better position to decide whether additional research is needed. Remember, managers should have a predisposition to act and then adapt, rather than to procrastinate.

### **Preparing Contingency Plans**

When you make a decision, it is based on the facts at hand as well as on your expectations about the future that you hold at that point in time. Since the future does not always unfold as we expect or wish, we must be prepared for any significant alternative future scenario. You must ask yourself what you will do if the market does not respond to your marketing actions as you anticipate, if competitors take actions that deviate from their usual behavior, if the economy is different than economists have forecasted, and so on.

## **WRITING THE REPORT**

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We believe that students who prepare written reports do a better job of analyzing business problems. Writing a good report takes a certain skill, and we would like to suggest a few ideas that may be of help.

When instructors read reports, they check to see whether students fully understand the situation and whether student interpretations of the facts are reasonable. They also like to see papers that are objective, balanced, consistent, and decisive. Perhaps the most common error made by students in writing case reports is to

repeat the facts that have been provided. Instead of analyzing the data in light of alternatives, students frequently repeat statements that appear in the cases, with no clear objective in mind. Nothing upsets an instructor more than reading a paper that devotes several pages to explaining what he or she already knows about the case.

Another deficiency often observed in writing reports is the lack of organization. Students who make this error will begin with the first thought that enters their minds and continue, in almost random fashion, until they run out of ideas. The end result is a paper that has no beginning and no end, and often consists of one long paragraph. To avoid this problem, some instructors require that reports be presented in outline form. The condensed nature of such reports sometimes makes them hard to follow, however, and we prefer the more readable narrative approach.

There is no optimal length for a written case analysis. It depends on the amount of data provided, the preferences of the instructor, and the number of cases the student turns in during the course. The report should be long enough to cover the subject adequately. It is fairly obvious that written reports must be neat, legible, and free of grammatical and spelling errors. Business professors are not hired to teach English composition, but they do expect certain minimal standards of performance in written expression. Their standards for written work reflect what the business community expects from college graduates.

## **SUMMARY**

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Case analysis is designed to give you an opportunity to develop a productive and meaningful way of thinking and expressing yourself about business problems. The case method also helps train you to use logic to solve realistic business issues. Remember, however, that solutions are worthless unless they can be sold to

those who are in a position to act on the recommendations. The case approach provides you with practical experience in convincing others of the soundness of your reasoning.

### Practical Tip

#### FIXED, VARIABLE, AND SUNK COSTS

Marketing decision making often requires financial and statistical analyses as well as a

knowledge of basic “marketing math,” such as channel markups. Pricing involves an understanding of cost accounting and the interrelations among cost, markup, and price. New product decisions necessitate the use of pro forma income statements based on forecasts of unit sales. Marketing mix decisions need estimates of the elasticities of marketing instruments. Throughout this book we will provide some practical hints for doing such analyses. We begin with a review of basic cost accounting concepts.

**TABLE 1-1**  
**Product Line Profitability Analysis**

	<i>Sa 10</i>	<i>Sa 11</i>	<i>Sa 12</i>
Gross sales	\$15,514 <sup>a</sup>	\$13,517	\$8954
Discounts	194	304	192
Net sales	\$15,320	\$13,213	\$8762
Cost of goods sold			
Direct labor	\$2035	\$3352	\$1579
Direct material	1919	1701	1439
Indirect labor	1087	1189	907
Fringe benefits	81	134	64
Insurance	104	79	49
Repair service	336	254	157
Power	124	94	58
Property taxes	204	154	94
Supplies	507	1109	845
Total	\$6397	\$8066	\$5192
Gross margin	\$8923	\$5147	\$3570
Operating expenses			
Administrative	\$970	\$628	\$534
Advertising	1706	1213	797
Depreciation	2396	1906	1089
Interest	164	116	77
Research and develop- ment	1745	1241	814
Allocated overhead	892	634	416
Total	\$7873	\$5738	\$3727
Profit before taxes	\$1050	(\$591)	(\$157)

<sup>a</sup>In thousands of dollars.

Source: Charles T. Shapiro and M. Edgar Barrett, “Crowe Chemical Division,” in Douglas J. Dalrymple and Leonard J. Parsons, *Marketing Management: Strategy and Cases*, 3rd ed. (New York: John Wiley, 1983), pp. 461–467.