

# MARKETING TODAY



SUCCESSSES, FAILURES,  
AND TURNAROUNDS

John B. Clark

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## Successes, Failures, and Turnarounds

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# PREFACE

Success is what it is all about. This is true for individuals, athletic teams, business firms, cooperatives, nonprofit organizations, and a multitude of other institutions that exist and operate in our society. However, the rate of success is often characterized by struggle, and success itself may be achieved at any time in an individual's or organization's life cycle. It may come early or late. For Ray Kroc and Colonel Harlan Sanders, it came late. Kroc founded McDonald's at age 52 and Sanders founded Kentucky Fried Chicken at age 65. For others it came early. Fred Smith was 26 when he incorporated Federal Express in 1971, and Steven Jobs and Stephen Wozniak, two college dropouts, founded Apple Computer at ages 21 and 26.

On the other hand, a number of prominent institutions—among them Penn Central, Braniff International, Woolco, DeLorean Motor Company, W. T. Grant, and the World Football League—have gone bankrupt, and many institutions—including A & P, the United States Football League, and International Harvester—are in trouble.

Other institutions, notably Chrysler, Sears, *USA Today*, and Coca-Cola, have encountered serious problems but have been turned around.

Students and business persons should be informed as to why some institutions succeed and others fail, keeping in mind that many of today's successful firms have had their share of failure and, conversely, that some in trouble today were once the leaders in their respective fields. A corporation can also be on the verge of bankruptcy and make a spectacular recovery as demonstrated by Chrysler Corporation. In this book we present some of the principles and strategies that certain U.S. institutions implemented or failed to implement that led to their success, failure, or turnaround.

This book was developed to supplement the introduction to marketing course at both the undergraduate and the graduate level. It may also be used in a marketing case course. The material is designed to stimulate classroom involvement and discussion, and should evoke creative thinking regarding the particular company and its problems. The book may also be of interest to others outside the classroom.

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# TO MY COLLEAGUES

Your teaching effectiveness and classroom involvement with students will be enhanced through usage of the Instructor's Manual which contains information that is not in the text. The Instructor's Manual is theoretically, as well as practically, formulated. Marketing principles and concepts are related to questions at the end of each case.

The cases in this book were carefully chosen. It was intentional that the institutions be highly visible ones about which students are already knowledgeable and to which they can relate.

There are three types of questions at the end of the chapters.

*Type 1.* The student can find the information in the case.

*Type 2.* Partial information is in the case.

*Type 3.* Very little information is in the case, but the question is related to the case and forces the student to think.

The major purpose of this text is to stimulate student involvement and participation. I want the students to express their ideas and relate them to marketing.

I encourage you to consider the rather comprehensive Instructor's Manual.

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# INTRODUCTION

The 16 cases described in this book represent a variety of well-known organizations. Six of these institutions are successes, six are failures, and four are turnarounds. McDonald's is one of the most successful. DeLorean Motors is well recognized as a business and personal failure. Chrysler almost failed but under the leadership of Lee Iacocca was turned around. Not all of the institutions have achieved the same magnitude of success, failure, or turnaround that McDonald's, DeLorean Motors, or Chrysler have, but a variety of institutions are discussed to demonstrate that the marketing principles of success, failure, and turnaround are present in all types of organizations.

The cases chosen demonstrate how certain institutions have reacted to their environment today. The major principles in the functional areas of business, namely, management, marketing, and finance, may be applied to most of the cases; however, marketing principles, concepts, and strategies are emphasized.

## **PART I: SUCCESSES**

The cases in Part 1 have a common theme that binds them together. All of the businesses are successful. McDonald's was a pioneer in the fast-food business and today accounts for 20 percent of all fast-food sales. Its golden arches are America's best-known corporate symbol, and Ronald McDonald, who can be identified by 96 percent of American children, ranks second only to Santa Claus. This business refuses to plateau. It adapts to a changing competitive marketplace with rapid expansion in foreign markets. To date, McDonald's has not diversified into other lines of business.

Federal Express is the industry leader in the overnight delivery of letters and small packages. In 1984, it extended its product line to include large packages. Fred Smith, the founder, is the ultimate entrepreneur. At age 26, he raised \$91 million in venture capital and made his idea work. The hub-and-spokes pattern that brought all letters and packages to one central location for redistribution has revolutionized the industry. Federal Express keeps abreast of changing technologies and uses its own satellites to transmit messages. Everyone is familiar with the Federal Express vans that ply our streets.

Anheuser-Busch has always marketed a well-known product. This company fought off a strong challenge by the Miller Brewing Company, which ranked seventh in 1972 and second by 1978. Miller introduced and dominated the market for light beer but Anheuser fought back and pioneered low-alcohol beer. Today these two companies have over 60 percent of the domestic beer market with Anheuser increasing its market share.

Toys "R" Us is the nation's sole national discount toy store chain. The company is highly centralized with almost all decisions made in executive headquarters. The major task of the store managers is to sell toys. Its information retrieval system allows Toys "R" Us executives to accurately predict trends and merchandise that will sell. A new division named Kids "R" Us sells brand-name children's clothing at discount prices.

Apple Computer had its beginnings in the garage of one of its founders. It is interesting to note that the home computer was not the product of an IBM, NCR, GE, or Xerox. Instead the company was founded by two young entrepreneurs named Steven Jobs and Stephen Wozniak. Apple Computer dominated the market for personal computers in its early years. IBM is currently the industry leader. Apple fought back by hiring marketing wizard John Sculley, formerly of Pepsico, went after the office market, and developed new products.

The California Almond Growers Exchange (CAGE) is the most successful cooperative in the United States. CAGE represents approximately 70 percent of the almond growers of California. CAGE developed new uses for almonds and opened up many new markets. It developed markets in countries that had never consumed almonds before, such as Japan. Its Blue Diamond brand is now known throughout the world.

## **PART II: FAILURES**

The cases in Part II are bound together by virtue of their status as failures. However, their failure has varied in degree. The United States Football League (USFL) is a new venture. Its third season concluded in

1985 and the league continued to lose money. The DeLorean Motor Company, Woolco, and Braniff are clear-cut failures. All three had to close their doors, although Braniff has since been reopened in a reorganized, stripped-down form. The last two organizations—namely, the Great Atlantic & Pacific Tea Company (A & P) and International Harvester—are having trouble meeting their goals and objectives. Both organizations have vastly reduced the scope of their operations. Their long-term survival is still questionable.

The USFL has held to a spring schedule for 1983, 1984, and 1985. In 1986, the league planned to move to a fall schedule, placing it in direct competition with the NFL. The USFL has signed a number of superstars at unprecedented salaries, thus pushing up salaries in general. On August 4, 1986, the USFL suspended play for the 1986 season as a result of a hollow victory in its antitrust suit against the National Football League. Play may resume in the fall of 1987.

John DeLorean was successful as a rising young executive at General Motors but failed as an entrepreneur. DeLorean ignored marketing research that showed his car to have a limited market. He insisted on expanding production against the advice of his executives. Some question whether DeLorean was serious about DeLorean Motors or simply using the company as a means of supporting his extravagant lifestyle.

The F. W. Woolworth Company never made a full commitment to its Woolco division. This discount department store chain was started about the same time that S. S. Kresge Company founded its successful K Mart stores. The Woolworth stores and Woolco stores were never successfully integrated. The two divisions were continually at odds with each other. F. W. Woolworth then diversified into specialty retailing. The Woolco stores were not concentrated in geographical markets; they were scattered in numerous markets nationwide. Executives at Woolworth failed to understand the potential of discounting in the 1960s and 1970s.

Braniff International was one of the pioneer passenger airlines in the United States. The company overextended itself in its zeal to become a dominant carrier. Braniff acquired routes that others avoided. Deregulation of the airline industry and a poor economy adversely affected the entire industry but Braniff, with its overcapacity and unfilled seats, was not able to survive. Price wars also contributed to its demise. It still remains questionable whether or not the reorganized Braniff will survive.

International Harvester is one of America's founding industrial corporations. In its early history, it was recognized as an innovator in product development. The company pioneered the development of a modern sales organization and franchised dealership network. Diversifying into trucks, construction equipment, home appliances, and other businesses, the company became unmanageable. Although the company

was a behemoth in sales, the profit margins of most divisions lagged behind its competitors. Lack of profits, coupled with a misreading of the market for agricultural equipment, led to the sale of the agricultural equipment division in 1984. International Harvester is no longer international in scope. Today the company only manufactures and assembles trucks.

### **PART III: TURNAROUNDS**

The cases in Part III illustrate various types of turnaround situations. These companies have faltered and have been reoriented towards success.

*USA Today* is a special kind of turnaround because this national newspaper is a new product. The first day of issue was September 15, 1982. The Gannett Publishing Company planned to sustain substantial losses until 1987. Its goal is to make *USA Today* profitable and the number one paper in circulation. Because losses during the first three years far exceeded projections, the steps taken to reduce these losses can be considered part of a turnaround process. The case illustrates the marketing problems encountered in introducing a new product and sustaining substantial losses, and the strategies employed in obtaining profitability.

Chrysler Corporation is the classic turnaround situation. Teetering on the brink of bankruptcy, the company has made a spectacular recovery. The architect behind this renaissance was Lee Iacocca. The new Chrysler Corporation that he created has modernized its plants, controlled its costs, and become a much more efficient producer. Iacocca is a marketing man. He has a keen instinct for new products and is a supersalesman. Iacocca has given Chrysler a new image and returned the company to profitability.

Sears, Roebuck and Company was 100 years old in 1986. In total sales as well as merchandise sales, it is the largest diversified retailer in the United States. During the 1960s and 1970s, the company lost its momentum. The new retailers—discount stores, catalog showrooms, and off-price retailers—cut into Sears' sales and profits. The economic conditions of inflation and recession were not conducive to its type of operation. Sears floundered with a number of different ineffective marketing strategies. In 1980, Sears diversified into financial services and created a new image based on the new "store of the future" that featured fashion, quality, and value. Sears has regained its lost momentum. Today, both its financial and merchandising divisions are prospering.

Coca-Cola made a classic marketing blunder. It deleted a product that a sizable proportion of its customers still wanted, thus causing a consumer revolt. However, it quickly reversed its decision and brought

back old Coke while still retaining new Coke. This multiple Coke strategy (megabrand strategy) will impose a complicated marketing strategy for Coca-Cola. It remains to be seen how the various Coke brands will perform against Pepsi and the rest of the soda industry.

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# CONTENTS

PREFACE     *ix*

TO MY COLLEAGUES     *xi*

INTRODUCTION     *xiii*

## **PART ONE SUCSESSES**

### **1   McDONALD's     1**

History and Growth

Ray A. Kroc

The Marketing Mix

*Customers / Product / Price / Promotion / Place / Restaurants*

Marketing and Society

Hamburger University

McDonald's International Division

Conclusion

Questions

### **2   FEDERAL EXPRESS     19**

Introduction

Description of Business

History of Federal Express  
Frederick W. Smith  
Federal Express and Its Competition  
Promotion  
Conclusion  
Questions

**3 ANHEUSER-BUSCH 31**

Background on the Beer Industry  
History of Anheuser-Busch  
Outstanding Individuals  
The Beer Environment Today  
Anheuser's Marketing Strategy  
Conclusion  
Questions

**4 TOYS "R" US 41**

Introduction  
Charles Lazarus  
History of Toys "R" Us  
Financial Statistics  
Toys "R" Us  
Marketing and Promotion  
Toys "R" Us versus the Competition  
Kids "R" Us  
Toys "R" Us versus Federated Department Stores and General Mills, Inc.  
Foreign Markets  
Conclusion  
Questions

**5 APPLE COMPUTER 55**

History and Growth  
Outstanding Individuals  
Marketing Mix  
*The Apple Product Line / Promotion / Distribution / Pricing*  
Apple's Major Competitors  
Counterfeit Models  
The Educational Market

Conclusion

Questions

**6 CALIFORNIA ALMOND GROWERS EXCHANGE/  
BLUE DIAMOND 70**

Introduction

Description of California Almond Growers Exchange

Outstanding Individuals

Major Competitors

Domestic Marketing

Foreign Markets

*General Characteristics / Japan / India*

Conclusion

Questions

**PART TWO  
FAILURES**

**7 UNITED STATES FOOTBALL LEAGUE (USFL) 87**

Introduction

History

*Origins of the USFL / 1983 Season / 1984 Season / 1985 Season /  
1986 Season*

Competition

Marketing

*Market, Market Research, and Image / Product / Place /  
Price / Promotion*

Legal Issues

Conclusion

Questions

**8 BRANIFF INTERNATIONAL 103**

Introduction

History and Background, 1926–1979

The Braniff Leadership

The Airline Deregulation Act of 1978

The Difficult Years, 1979–1982: An Assessment

Comparison with Competitors

The Return of Braniff, March 1984–September 1984

September 1984–December 1984

Conclusion

Questions

**9 F. W. WOOLWORTH 113**

Introduction

Brief History before Incorporation, 1879–1911

Brief History after Incorporation, 1912–1984

Comparison with Variety Stores

Woolco versus K Mart: No Comparison

F. W. Woolworth Company: Success or Failure?

Conclusion

Questions

**10 DE LOREAN MOTOR COMPANY 124**

Introduction

John De Lorean

The Market and Competition

The Marketing Mix

*Product / Distribution / Pricing and Demand / Promotion*

De Lorean's Lifestyle and Ethics

Conclusion

Questions

**11 THE GREAT ATLANTIC & PACIFIC TEA COMPANY (A & P) 132**

Introduction

Early History of A & P

*1859–1911 / 1912–1930 / 1931–1950 / 1951–1971*

WEO Campaign of 1972

Jonathan L. Scott, 1975–1980

The Tenglemann Group, 1979

James Wood, 1980 to Present

Conclusion

Questions

**12 INTERNATIONAL HARVESTER 142**

Introduction

History of International Harvester

*Acceptance of the Reaper / IH's Early Sales Organization*

The Major Divisions of IH  
*Agricultural Equipment, 1831–1984 / Trucks, 1923–Present /*  
*Construction Equipment, 1928–1982 / Refrigeration, 1944–1945 /*  
*Solar Turbines, 1960–1981*  
Conclusion  
Questions

## **PART THREE TURNAROUNDS**

### **13 CHRYSLER 158**

Introduction  
History of Chrysler Corporation  
Lido Anthony Iacocca  
The Management Strategy  
The Marketing Strategy  
*Image / Target Market and Market Share*  
Marketing Mix  
*Product / Promotion / Distribution / Price*  
Imports  
Chrysler's Future  
Questions

### **14 USA TODAY 174**

Introduction  
The Gannett Company, Inc.  
Key Personnel of *USA Today*  
History of *USA Today*  
Market Research  
Demand Forecasting and Competition  
Marketing Strategies of *USA Today*  
*Target Market / Market Positioning*  
Philosophy of *USA Today*  
Marketing Mix of *USA Today*  
*Product / Place / Price / Promotion*  
Advertising and Circulation  
*USA Weekend*  
*Florida Today*  
Conclusion  
Questions

<b>15</b>	<b>SEARS, ROEBUCK AND COMPANY</b>	<b>189</b>
	The Business of Sears, Roebuck and Company	
	History of Sears, Roebuck and Company, 1886–1960	
	Sears, 1970–1979: A Failure?	
	K Mart versus Sears	
	The Marketing Strategies of 1967, 1977, and 1978	
	The 1980s: A Return to Profitability	
	Sears' Financial Empire	
	Conclusion	
	Questions	
<b>16</b>	<b>COCA-COLA</b>	<b>202</b>
	Introduction	
	The Decision to Delete Old Coke	
	Robert C. Goizueta	
	Pepsi versus Coca-Cola	
	<i>Financial Data / Market Share Data</i>	
	Marketing Research and Consumer Research	
	The Consumer Revolt	
	The Marketing Mix	
	<i>Product / Promotion / Place (Distribution) / Price</i>	
	Conclusion	
	Questions	
	<b>WHAT CAN BE LEARNED</b>	<b>216</b>
	Successes	
	Failures	
	Turnarounds	
	Questions	
	<b>ABOUT THE AUTHOR</b>	<b>220</b>