SHETH

WINNING BACK YOUR MARKET

The Inside Stories of the Companies That Did It

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THE INSIDE STORIES OF THE COMPANIES THAT DID IT

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PREFACE

Business professionals recognize that some products and services will fail every year even though the products or services themselves are basically sound. Failures come because the competition is better, because the industry has matured, or because the environment has changed. Therefore, experienced executives and managers expect a certain amount of fallout from products or services that can no longer make it in the marketplace. And yet, those failures are destructive: companies lose money, workers lose jobs, and society as a whole suffers when prosperity is diminished. The consequences are even more regrettable when we consider that many of these failures can be avoided.

It is to mitigate the undesirable consequences of avoidable failures that this book is written. The contention here is that many languishing products and services can be revitalized, and thus failures converted into successes, through the application of appropriate management strategies. The genius of management can reverse losing situations and allow business to win again in the marketplace.

But to speak of "genius" does not mean that revolutionary or profoundly inventive strategies are being employed. This book presents nine fundamental strategies, with tactical options for the consumer, industrial, and service sectors, all within a conceptual framework. Every strategy is illustrated with case histories of successful regeneration of products and services, or proposals for implementing the strategic options, or analysis of why the application failed.

The final chapter is an attempt to organize everything together into a manageable structure by matching common product- and market-related problems with potential strategic solutions. The central factors to watch for when implementing a strategy are described, concluding with a look at future key environmental trends. Individual managers will, it is hoped, be able to draw on the case histories, strategic options, and guides to strategy selection and implementation to create their own success stories.

The aim of this work, then, is to prevent unnecessary failures. Worthy products and services should flourish, companies should make profits, employees should have jobs, and we should all reap the benefits of deserved success. That is the reason for the present book: to promote the rejuvenation of faltering products, to stimulate the conversion of "dogs" into "stars."

A book such as this contains more than just the author's thought and experiences; it also draws upon the input of others. I want to acknowledge the special contributions of Glenn Morrison, a professional business writer, editor, and book reviewer. Also, thanks go to Dr. Barbara Meihoefer, Glenn's boss and director of Publication Services, Inc., in Urbana, Illinois, whose comments on the work in progress and whose personal support and that of her staff were very valuable. I appreciate the efforts of Julian Bach and his agency in the book's publication.

I have benefitted also from the analyses of my professional colleagues who have kindly refined my ideas and added their own. I would especially like to acknowledge the contributions of Professor Philip Kotler of Northwestern University and Professors Gary Frazier, Richard M. Hill, and David Gardner of the University of Illinois. Thanks are due, as well, to Mr. S. Ram, my research assistant, who helped organize the bibliography and who reviewed the first draft.

Material in this volume has been tested in more than 100 sessions of in-house seminars taught for such corporations as AT&T, Whirlpool, and Monsanto. A form of the ideas presented here has been a part of seminars in at least 10 different countries and in many cities across the United States. I would like to express my appreciation to all those participants who listened attentively to and reacted to what I had to say; their responses helped to shape the book.

JAGDISH N. SHETH

Los Angeles, California
October, 1984

WINNING BACK YOUR MARKET

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STAR-MAKING STRATEGIES

A few years ago when Philip Morris, makers of *Marlboro* cigarettes and many other brands, purchased the Miller Brewing Company, the "champagne of bottled beers" had long lost its ability to spark the imagination of the drinking public. From far back in the pack in sales, *Miller* beer faced an uninspiring future; there seemed little likelihood that Philip Morris could successfully challenge the market leaders—then, *Budweiser, Schlitz,* and *Pabst*—from such an unenviable position. But within one year, *Miller* beer, now *Miller High Life,* had rocketed to fourth place in market share. From there, it rapidly fought its way into its current height as co-market leader with *Budweiser.*

The *Miller High Life* success story is fairly well known, and it is often attributed to clever advertising. The real reasons are more involved than that, however, and they will be examined in detail in Chapter 2. For now it is important to say that Miller succeeded by concentrating on the customer and not the product. Management analyzed the factors that motivated beer drinkers, identified the heavy users, and directed the company's advertising and distribution strategies to reach those markets. By doing so, they turned around the business.

Furthermore, there are numerous variations of the Miller story to relate, and they all involve making success out of failure through intelligent strategic management. Of the many that are analyzed in the chapters to follow, a representative sample might include these reversals of form:

- ☐ *Dishwashers* were not selling well until the manufacturers managed to install their product as a standard kitchen appliance in new housing units by motivating the builder instead of the end user (Chapter 3).
- ☐ *Smoke-detector* factories were idle until state fire codes were changed (Chapter 4).
- ☐ A well-known *chewing-gum's* fortunes were a mess in a foreign country until new packaging and pricing tactics were tried (Chapter 5).
- ☐ *Orange juice* was stuck in a narrow market until the industry broadened its horizons (Chapter 6).
- ☐ *Baking soda* was falling flat until the manufacturer listened to the customer's inventive uses as an odor killer in refrigerators and cat litter boxes (Chapter 7).
- ☐ The *electric can opener* was not doing well as a small appliance until it appeared in gift-giving situations (Chapter 8).
- ☐ *Baby shampoo* was declining along with the baby boom until it was repositioned for adults (Chapter 9).
- ☐ *Bottled water* was commanding no respect until *Perrier* redefined the market as cocktails (Chapter 10).

These are only some of the examples of consumer products rescued from impending failure; there are several other illustrations in the consumer, industrial, and service sectors of success built upon success—such as *Roundup* herbicide finding a profitable new situation in sewage treatment (Chapter 8)—or triumphs projected for the future when, or if, certain strategies are implemented—such as Bell operating companies turning around the local exchanges into a profitable service. One doesn't have to wait for a business to drown before learning life-saving techniques.

And yet, the primary clients for these revitalizing strategies are the companies with seriously troubled products like those listed above. It is those companies that have "dogs" that can be converted into "stars."

DOGS AND STARS

In business parlance, a "dog" is a product with low profits, or even losses, and low or negative growth. Such a product neither brings in much revenue nor shows much promise of ever doing so. It may have good qualities and even may have been very successful once, but now it is unappreciated in the marketplace—like the *Miller* beer that *was*. On the other hand, the "star" product has high profits and sustained growth (see Exhibit 1.1). It has a vital present and virtually unlimited future—like the *Miller High Life* that *is*.

When we speak metaphorically about a product or a business becoming a "star," we are really describing the fulfillment of the primary objectives of most business units; that is (1) achieving a reasonable amount of growth and (2) making a reasonable profit. Because of their nature, products that are "dogs" thwart a business's push toward growth and profit. But what do we do with these poor performers? As we shall see, it is not always so easy to follow the advice of many consultants, namely, to divest ourselves of the product. The argument here is that it is better to use the talents of management to give new life and energy to the business—just as

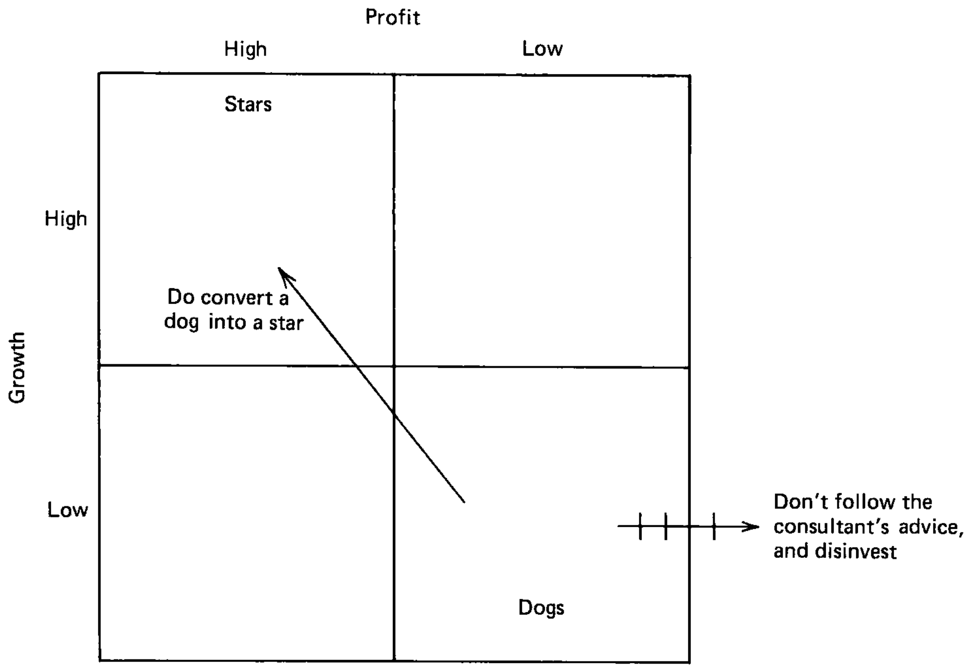

Exhibit 1.1 Relationship of "dogs" and "stars" to profit and growth.

Philip Morris did with the Miller Brewing Company, and just as other companies have done in the industrial and service sectors.

The intent of this book is to analyze the several strategies that have been successfully employed to revitalize faltering products and services. The focus will be on company or industry case histories; but we also apply the strategies to developing situations to suggest solutions to businesses and industries in trouble. The "dogs" and "stars" imagery will be used sparingly after this chapter when its function of providing perspective for the task ahead has been accomplished. To that end, we now look to some other approaches or "models" that have had wide application in this area.

STRATEGIC PLANNING MODELS

In recent years several strategic planning models have been developed to identify the dog products or services of a business or corporation and to suggest ways of dealing with them. Three of the most popular are the Boston Consulting Group (BCG) grid, the business screen, and the product life cycle curve.

The Boston Consulting Group (BCG)

The BCG approach stresses the importance of market share as well as industry growth. BCG, thus, organizes its model according to the dual criteria of cumulative annual growth of an industry and the market share of a company's product in that industry. The resulting arrangement is the well-publicized BCG grid (see Exhibit 1.2).

Joining the "dogs" and "stars" on the BCG grid are "cash cows" and "problem children" (sometimes known as "question marks"). A product or business unit that is a cash cow generally has a high market share of a low-growth industry; it generates revenues, although not necessarily excess cash. A product or business unit that is a problem child has a low share of a high-growth market. It consumes cash but has the potential to become a star.

The BCG approach is to analyze the entire business portfolio of a multiproduct or multibusiness corporation. Products or business units can be identified as stars, cash cows, dogs, or problem children according to the criteria of the grid. In general, a product breaks into the "high" growth half when its cumulative annual growth rate is 10 percent; it acquires a "high" market share when it approaches 25 percent or higher of the market served by that business unit.

The position of a product on the grid provides the basic framework for BCG's recommendations. Commonly, the strategy is to (1) utilize the revenue generated by the cash cows to commit resources to problem children and (2) disinvest dogs and reinvest the released capital into problem children. One can also "harvest" dogs by

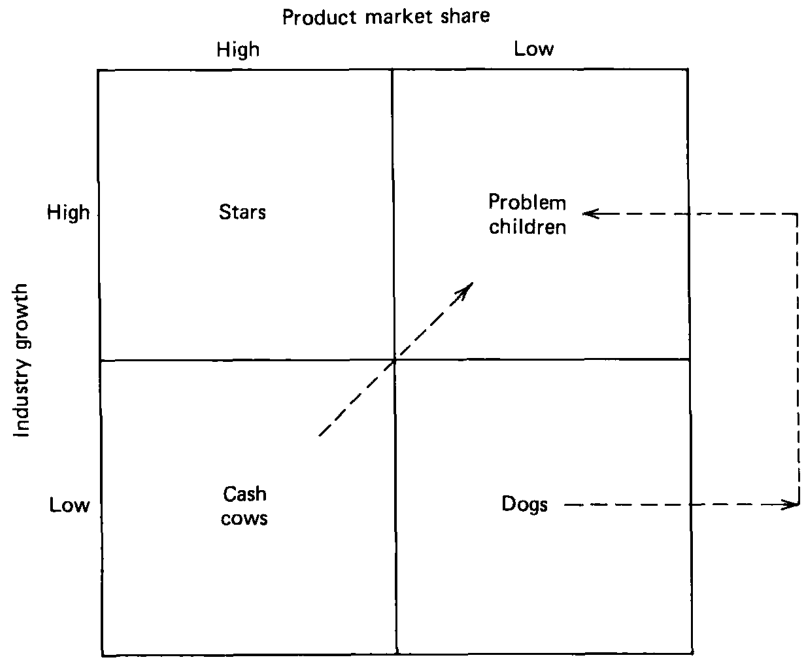

Exhibit 1.2 BCG grid.

cutting support costs to maximize profit in the very short run, in effect giving them brief careers as revenue producers. The assumption is that pouring resources into "problem children" products will allow them to reach their potential for high growth and high market share. The hoped-for result, therefore, is a portfolio rich in stars and devoid of dogs.

The Business Screen

The strategic business screen is a bit more comprehensive and sophisticated model than the BCG grid. This approach plots a product or business unit on a three-by-three grid (see Exhibit 1.3) according to its competitive business strengths and according to the attractiveness of the industry to which it belongs. The industry attractiveness evaluation is based on a weighted rating of such criteria as market size, market growth rate, profit margin, competi-

Industry attractiveness \ Business strength	High	Average	Low
High	Invest and grow	Invest and grow	Hold
Average	Invest and grow	Hold	Harvest or divest
Low	Hold	Harvest or divest	Harvest or divest

Exhibit 1.3 *Strategic business screen.*

tive intensity, cyclicality, seasonality, and scale economies. The product's or unit's strength is a calculation of its ability to compete in the industry; that is, does the product or unit have the requisites for success in its particular business environment? Business strength is evaluated by a weighted rating of such criteria as relative market share, price competitiveness, product quality, knowledge of customer/market, sales effectiveness, and geography.

Any product or unit analyzed by the business screen thus receives a general rating—high, average, or low—in terms of industry attractiveness and business strength. The combination of those two ratings puts it into one of three zones. The successful products would be in the zone defined by any combination of "high" and "average." Thus, a "star" product could have: (1) high strength, high industry attractiveness; (2) high strength, average attractiveness;

or (3) average strength and high industry attractiveness. The universal advice for such a star is to "invest and grow."

For any product in the zone defined by the middle diagonal of the screen—low attractiveness, high strength; high attractiveness, low strength; average in both—the advice is to "hold your ground." That is, such units should try to maintain their competitive position rather than seek to grow. These business units are cash cows in the BCG system.

The third zone on the screen consists of products with low industry attractiveness and average or low business strengths and products of average attractiveness and low strength. The recommendation for these poor performers is the same as for the dogs in the BCG grid: harvest or divest.

The Product Life Cycle Curve

The product life cycle concept is another planning tool. It not only helps identify "dogs"—products that have outlived their productivity, so to speak—but allows one to think of the "birth" and "death" of those products within some sort of "natural" or biological context: all things will eventually decline and die at the end of a useful life.

The life of a typical product follows the curve on the graph in Exhibit 1.4. Most, though not all, products follow four stages: embryonic, growth, maturity, and aging. At the embryonic stage products require a great deal of resource commitment if they are to survive and reach their potential. Products at the growth stage are self-sustaining; they should produce enough to take care of their future growth. The mature products tend to generate positive cash flow, which can be utilized, among other things, for investment in embryonic products. Products in the later stages of aging are no longer self-sustaining; they have become a burden to the organization.

The life cycle stages have their correlates with the terminology of the BCG grid (see Exhibit 1.5). Question marks are embryonic products, stars are growth products, cash cows are mature products,

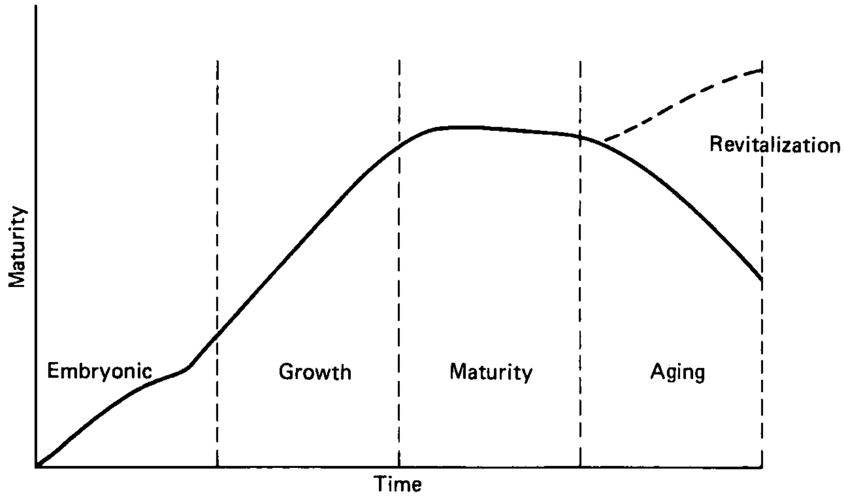

Exhibit 1.4 Product life cycle curve.

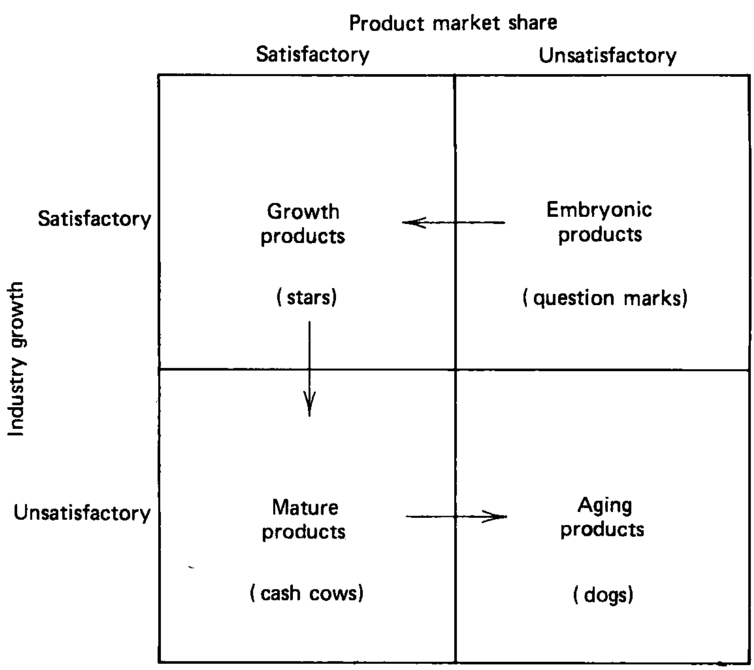

Exhibit 1.5 Product life cycle and BCG grid combined.