Canadian Marketing Cases

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1. McDonald's Restaurants

The restaurant market in North America is changing. Purveyors of fast food, once the primary domain of the family market, are butting heads with a growing trend towards casual dining, as baby boomers look for somewhere to take the family to eat.

Rather than stand in long lines for burgers and fries, more families today are choosing restaurants where meals are brought to the table in a sit-down environment. Buoyed by an improved economy, it is a group that has more disposable income and demands better food and value for their money.

The baby boom segment is moving towards family-style restaurants, such as Swiss Chalet, Golden Griddle, and White Spot, which feature slightly pricier meals but full table service. A step-up from family restaurants is the casual dining sector, made up of eateries that offer table service, alcohol, and a greater variety of menu choices. It is in these restaurants—such as East Side Mario's, Jack Astor's, and Montana's Saloon and Grill and, in Western Canada, Bread Garden and Milestone's—where industry analysts anticipate the most aggressive growth.

The latest market shares for the various segments of the restaurant market are as follows:

	1998 Market Share (%)
Quick-service restaurants	56.5
Family mid-scale	17.8
Casual	14.2
Fine dining	2.2
Other	9.3

Starved for time to prepare meals at home, baby boomers and their children want a place they can enjoy—a comfortable environment that is less hurried than fast food outlets. People are tired of fast foods, especially boomers, because there is nothing new in it.

The restaurant market is somewhat of an anomaly. In total, industry sales have been growing. Since 1991, sales have increased from $26 billion to $34 billion in 1998. Over the same period, the number of restaurants has grown 22 percent. New store openings are coming at a time when same-store sales have been declining for six consecutive years. New restaurant concepts that have entered the market have caused intense competition between the various segments of the market and among direct competitors in each segment. Companies are struggling for growth, and the market is getting saturated with restaurants. To encourage growth, different methods are being employed—opening up express units or cannibalizing some of their own geographical regions with a proliferation of new restaurants. It is the old business school model: "You've got to continue to grow, otherwise you're going to fall behind," says retail consultant Charles Knight, of Arthur Andersen in Toronto.

In the burger segment, the chains account for 13.6 cents of every $1 spent on restaurant meals in Canada, up from 12.5 cents in 1993. McDonald's remains the undisputed leader of the fast food industry. In fact, McDonald's market share of 19.1 percent is equal to that of Burger King, Wendy's, A&W, Dairy Queen, and Subway combined. Refer to Figure 1 for complete details. In recent years, Wendy's and Burger

King have pumped up their marketing spending in an effort to build market share. As the share trends indicate, they have not been successful. It is as if all the fast food restaurants are in somewhat of a holding pattern. In the current market environment, McDonald's is hurting, and they are losing market share. Some critics suggest that McDonald's has a problem that no amount of marketing can overcome—customer demand for better-tasting fast food.

The sheer size of McDonald's is frightening: 21 000 restaurants worldwide and $32 billion in sales. McDonald's, like many of its fast food competitors, is racing to open new outlets to cash in on increased consumer spending. However, sales in existing restaurants are stagnating. In Canada, McDonald's operates 1100 restaurants and generates $1.8 billion in annual sales. Presently, the company claims only modest growth in same-store sales, helped mainly by the popularity of the Disney products it markets. Despite its current growth concerns, McDonald's serves three million Canadians each day—that is, 10 percent of the population.

According to the Canadian Restaurant Association and Foodservices Association, the number of visits to fast food restaurants has risen, but the amount of money Canadians spend on each visit has remained flat since 1993. The average check for commercial food service in a quick-service restaurant is only $3.90. Competition for the food dollar has produced a familiar batch of marketing tactics among fast food competitors: price slashing on selected items, new "good for you" menu items, catchy gimmicks, and promotional giveaways tied to popular movie themes. It seems like the same old thing year after year. Along the way, some chains have introduced new products. Burger King, for example, as a result of the popularity of drive-through service, introduced a new french fry that remained warmer longer so it would still taste good when the driving consumer eventually stopped to eat it. Drive-through business is important. According to A&W, it can be as much as 60 percent of store volume in some locations.

McDonald's has been a smashing marketing success story over the years, but recently, several initiatives have failed. First, there was the McLean Deluxe burger (a low-fat burger) that was introduced in 1991 and discontinued in 1996. Consumers were generally critical of the taste of the McLean Deluxe. Second, there was the McDLT, a hamburger that featured cold tomato and lettuce, a combination that is standard fair at all other fast food restaurants. It was McDonald's first attempt to woo adults, but it is long gone. Finally, there was the much-hyped Arch Deluxe line of sandwiches that was also directed at the adult segment of the market. Launched with much marketing fanfare, the line fizzled and was withdrawn in Canada in 1999.

In Canada, McDonald's newest sandwich is the Big Extra. It debuted in February 1999 and, by all accounts, has exceeded expectations. The Big Extra is a lettuce and tomato sandwich on a seasoned beef patty. The Big Extra is the first new product to be rolled out in Canada since McDonald's began installing its new "made for you" kitchen system. A year in development, the system allows patrons to customize their burger…to a certain extent. Customization is a selling point in the marketplace, since competitors Harvey's, Burger King, and the submarine sandwich maker Subway all promote customization.

In recent years, the pricing of various meal combinations has become a battleground for fast food restaurants. McDonald's offered the "my size meals" concept, but it was confusing to customers because it was not a straight discount. Customers only got that price if they purchased fries and a drink. It was nothing more than a slightly

cheaper Value Meal. In Canada, McDonald's offered 89 cent Big Macs, but it, too, was under the same conditions—buy fries and a drink to get the lower-price hamburger. Burger King responded by offering a 99 cent Whopper, no strings attached. Wendy's offered a similar deal on its Classic burger. Consumers understand and respond to that. McDonald's franchisees that were already having problems were not thrilled with the discount program, and many claimed that they could not make money selling burgers at such a low price.

A research study conducted by Market Facts should be disturbing to McDonald's. It revealed that McDonald's came in last when consumers were asked to name their favourite fast food restaurant. In the study of over 1000 consumers, 37.2 percent chose Wendy's, 31.2 percent picked Burger King, and 23.1 percent named McDonald's.

In trying to figure out what is going on in the fast food segment, industry analysts like what Burger King is doing. Burger King's market share has been trending upwards on the strength of better marketing and better store execution. Burger King uses a back-to-basics advertising strategy that stresses the taste of its products. The ads are simple, showing mouth-watering close-ups of the various products.

Where McDonald's has the advantage is in convenience. Their numbers of restaurants gives them a competitive edge. The Market Facts research showed that 30 percent of respondents selected a fast food chain because of convenience, while 45 percent said the taste of the food was the most important factor. In the case of McDonald's, respondents rank convenience as the most important factor. At Wendy's, 82 percent of customers ranked taste as most important factor. At Burger King, 75 percent of customers ranked taste as most important. The taste of the food is far less important to McDonald's present customers. The fact that there are more restaurants is a key factor in why people go there.

The research data suggested that discount programs should improve traffic because it adds to the convenience factor. It also suggested that McDonald's has to pay more attention to the formulation of the food itself. While they tried to do that with the Arch Deluxe, it did not go over well. To the raise their scores, perhaps McDonald's has to concentrate more on their taste and preparation processes. It has taken action in this area with the new preparation system and the introduction of the Big Extra.

Part of McDonald's success in the past is due to its strength in the kids' segment. In the 2- to 6-year-olds' market, there is now stiffer competition. Research indicates that about 10 percent of fast food restaurant sales come from checks that include kids' meals. In the case of McDonald's, the 2- to 6-year-olds' market segment got a little older, and they thought McDonald's was "babyish." Now they want Burger King or Wendy's. Recognizing this trend, Burger King established a Kid's Club, completely opposite to McDonald's warm and fuzzy approach. Edgier in style, the Burger King Kid's Club has created hardcore fans. Among households with kids, Burger King is presently the top choice. The Market Facts study showed that 37 percent of these households preferred the flame-broiled taste of a Burger King hamburger; 33.2 percent chose Wendy's, and 25 percent chose McDonald's.

Both McDonald's and Burger King use in-store giveaways to entice customers to visit. Lately, movie characters have been prominent in the promotion mix. In the early 1990s, Burger King benefitted the most because of its affiliation with Disney. However, through behind-the-scenes marketing and negotiations, McDonald' managed to wrestle away Disney from Burger King. Burger King is now planning new promotions with other movie producers. One of their recent successes was a toy promotion involving

characters from the sequel to Jurassic Park. McDonald's countered with a Teenie Beanie Babies toy promotion in 1999 and 2000.

Most of McDonald's present growth is coming from foreign markets, where it has more than five times the number of restaurants of Burger King. The loss of ground in North America is a step backwards. McDonald's is losing market share in a saturated market. One of McDonald's keys to success is consistency, in terms of food quality and brand image. When you enter McDonald's, you know exactly where you are and what you are going to get.

While growth prospects in the mature North American market are limited, compared with International opportunities, North America accounts for 60 percent of the company's outlets and 40 percent of its operating income. McDonald's cannot afford to let things slip. Like any other company, it has to own up to its mistakes and make appropriate changes in marketing strategy.

THE CHALLENGE

Assess the situation at McDonald's. Conduct some additional secondary research on the fast food and restaurant industries in Canada, if you wish. On the basis of the information you have, devise a basic marketing strategy that will get McDonald's back on track. Identify new product and marketing concepts that McDonald's should consider. Consider all the elements of the marketing mix and make changes, where necessary.

Figure 1

Fast Food Chains in Canada: Market Share

Rank '97	Rank '98	Chain	1997 (%)	1998 (%)	Change
1	1	McDonald's	19.6	19.1	–0.5
2	2	Cara Operations*	12.5	12.5	—
3	3	Tricon Global**	12.2	11.7	–0.5
4	4	Subway	4.3	4.3	—
5	6	Burger King	3.5	3.6	+0.1
6	8	Wendy's	3.4	3.5	+0.1
6	5	SR Acquisitions***	3.7	3.5	–0.2
8	6	A&W	3.5	3.4	–0.1
9	9	Dairy Queen	3.0	3.0	—
10	10	St. Hubert	2.1	2.1	—
		Others	31.8	33.3	+1.5
		Total Sales (Est. $B)	**$9.27**	**$9.02**	**+2.8%**

* Includes Harvey's, Swiss Chalet, and Cara's other properties.
** Includes KFC, Pizza Hut, and Taco Bell.
*** Formerly known as Scott' Restaurants, includes 400 KFC and Highway Travel Centres.

Source: Foodservice & Hospitality Magazine, Toronto

QUESTIONS

1. What external influences and trends must McDonald's consider prior to developing a new marketing strategy?

2. What age range or age ranges should McDonald's focus on (e.g., should they focus on kids, teens, young adults, adults, or seniors)?
3. What elements of the marketing mix should McDonald's change in order to build market share and remain a profitable organization? Make specific recommendations, where necessary.

Adapted from Astrid Van Den Broek, "Langan cooks up growth at McDonald's," *Marketing*, March 29, 1999, p. 2; Casey Mahood, "How restaurants stack up," *The Globe and Mail*, January 18, 1999, pp. B1,B4; Casey Mahood, "The fast-food race," *The Globe and Mail*, May 19, 1998, p. B6; Andrew Poon and Dawn Walton, "Tables turning on fast food," *The Globe and Mail*, July 5, 1997, pp. B1, B5; Scott Hume, "Shine is off McDonald's golden arches as U.S promo fails," *Marketing*, June 16, 1997, p. 6; Cyndee Miller, "McDonald's shifts strategy as competitors get stronger," *Marketing News*, April 28, 1997, pp. 1,10; Stephen Northfield, "Fear of price war stifles appetite for McDonald's," *The Globe and Mail*, March 25, 1997, p. B6.

2. Colgate-Palmolive: Total Gum

Chewing gum is good for your teeth! At least two new brands of dental gums, a new product category in the oral care market, hit the store shelves in late 1999. Available in many traditional gum flavours, these new gums include ingredients that allow them to make cavity prevention claims similar to those made by toothpaste and other oral hygiene products. The new gums are promoted as being well suited for oral care because they are easier to use than dental floss and the taste lingers in the mouth longer than that of toothpaste.

In the United States and Canada, Church & Dwight launched Arm & Hammer Dental Care gum. Dental Care gum makes the following claim:

> Dental Care is a gum that cleans your teeth and freshens your breath with the power of Arm & Hammer Baking Soda. Chewing two pieces daily for just four weeks has been proven to reduce unsightly plaque deposit up to 25 percent, significantly whiten teeth, and freshen breath for hours.

The active ingredient in the gum is xylitol. Xylitol is a natural sweetener and acts as the cavity fighter in the gum. Other ingredients include sorbitol and sodium bicarbonate. Sodium bicarbonate is a mild abrasive and is the ingredient that neutralizes plaque acids. Dental Care gum is available in four flavours: peppermint, ice mint, spearmint, and fresh mint. Single packages contain 12 pieces of gum and retail anywhere from $1.49 to $1.79. The product is also available in a multi-pack containing three individual packets. The retail price for the multi-pack is $3.99. Dental Care's merchandising strategy is to locate the gum in the toothpaste section of drug stores and grocery stores.

The second entry in the Canadian market was Trident Advantage. Trident Advantage is made by Adams Canada, a division of Warner-Lambert Canada Inc. Adams is an established company in the gum market; other brands in their stable include Dentyne and Dentyne Ice and Trident gum. Trident Advantage is only available in single packs of 12 pieces and in two flavours: peppermint and cool mint. Trident Advantage is priced at $1.79 but is periodically featured at a lower price. Similar to Dental Care, the active ingredient in Advantage is Xylitol. Trident Advantage makes four specific claims about the product. It will: whiten teeth, prevent cavities, clean teeth, and freshen breath.

Unconfirmed reports indicate that Breath Assure will introduce a dental gum in Canada in the near future. Breath Assure is a relatively new brand name in the breath mint market. It competes with established brands like Certs.

Both the American and Canadian Dental Associations are concerned about the product claims being made by the new dental care gums. Both associations want to see some real evidence regarding the impact the gums have on dental problems. For years, both organizations have been warning patients about the perils of chewing gum. As a representative of the CDA states, “You can’t give a patient a false sense of security about gum chewing.” Perhaps it is the irony of the relationship between gum chewing and dental care that is preventing significant interest in the category by big companies, such as Procter & Gamble and Colgate-Palmolive.

So far, Colgate-Palmolive, Procter & Gamble, and Unilever, all established companies in the oral care market and all with leading brands of toothpaste and mouthwashes, are only showing passing interest in the new gum concept. Ironically, xylitol is an ingredient that Procter & Gamble promotes in its Crest MultiCare line of toothpaste products.

In Europe, SmithKline Beecham (the makers of Aquafresh toothpaste) already markets Aquafresh gum, and Gillette markets Oral-B dental gum in Britain. Oral B is an established brand in the toothbrush market here in Canada. The expansion plans for dental gum by SmithKline Beecham and Gillette are not known at this time.

Here in North America, Colgate-Palmolive has registered the trademark Total Gum. By registering the name, they are showing some interest in the product as an extension to the Colgate Total family of toothpaste products. Colgate is the leading brand of toothpaste in the Canadian market. Market shares for toothpaste companies in Canada are as follows:

Rank	Brand	Market Share (%)	Change in Share Points
1	Colgate (CP)	39.7	+0.5
2	Crest (PG)	26.7	+1.5
3	Aquafresh (SB)	12.9	-2.4
4	Sensodyne (BD)	8.4	-0.3
5	Arm & Hammer (CD)	4.9	+0.7

(CP)= Colgate-Palmolive, (PG)= Procter & Gamble, (SB)=SmithKline Beecham, (BD)=Block Drug Co., (CD)= Church & Dwight

Presently, two of the top five brands of toothpaste are marketing a dental care gum in Canada. Colgate has to make a decision on whether or not to pursue this market. The decision should be made before archrival Procter & Gamble decides to do so.

You are the marketing manager at Colgate-Palmolive and have investigated the Total Gum concept in a preliminary way. Your initial assessment of the market has left you with positive feelings about the potential for sales and profit. You indicated to senior management that an early entry (before Procter & Gamble and other possible brands) could produce 20 percent market share and $6 million in sales revenue. A positive aspect of the

market that caught your attention is the broad range of consumers that such a product category appeals to. Virtually everyone is concerned about having healthy teeth, so anyone between the ages of 10 and 55 years should be receptive to dental care gum products.

In your preliminary analysis, you determined that the dental gum market in Canada would be worth $30 million annually. As in other new product categories, you recognize that brands and companies that jump in first have leadership advantage. Both Arm & Hammer's Dental Care and Trident Advantage have succeeded in establishing the market by creating primary demand for the category and their respective brands. Colgate will have lots of catching up to do if it hopes to be successful in this market.

The senior management has asked you to prepare a preliminary marketing strategy that could be used to introduce Total Gum in Canada. To do so, you need to assemble additional information on the market. Some secondary market research is suggested in order to learn more about the oral care market in Canada. As well, you must consider basic trends external to the company that could influence the success or failure of the new product. What do you recommend? Consider the following questions as guidelines for developing a marketing strategy.

QUESTIONS

1. What external influences should the manager consider (e.g., are there trends in existence that suggest acceptance or rejection of the dental gum concept)?
2. Should the new product be marketed under the Colgate Total brand name, or should a new name be considered? Do you have any ideas for a new name?
3. Should the packaging be similar to or different from existing brands?
4. Should Colgate have a competitive price or higher/lower price than the existing brands (Colgate is an established and reputable brand in other categories)?
5. What type of retail stores should carry the new Colgate product? In what section of the store should it be located (e.g., the toothpaste section or the gum section near the checkout counter)?
6. What product characteristics and benefits should be advertised to the target market? Should Colgate Total, or whatever the brand is named as, offer incentives to get consumers to try the product for the first time? If so, what kind of incentives should be offered?

By answering each of these questions, you will have sketched out a basic marketing strategy. Make sure you justify your recommendations.

Tuckwell Marketing Limited, 2000

3. Molson: The Plastic Beer Bottle

The Canadian beer industry has seen many a package innovation over the years. At one time, the industry standard was a large bottle (a bottle with a neck). They were replaced with short bottles, commonly referred to as stubbies; these bottles did not have a neck. Then, the industry switched back to long-neck bottles. The twist off cap was another innovation. Anything to make it more convenient to drink beer!

Brewers Warehousing is the company responsible for the distribution of all beer in Ontario, and that includes the return of empties to their original source. For this reason, the industry has adopted a common bottle. Once a bottled is returned to a Brewers Retail outlet, it does not matter which brewery (Labatt, Molson, or a microbrewery) gets the return bottle. All breweries strip the returned bottles of their paper packaging, wash and sterilize the bottles, and then reuse them an average of six times before their life expectancy is over.

The aluminum can was another innovation. When aluminum was first introduced to the soft drink industry, it was an instant success. Aluminum manufacturers then began lobbying the beer manufacturers to accept aluminum as an alternative to glass. What erupted was a war between the glass and aluminum packaging industries. Glass companies stood to lose a lot if the can was a hit. Well, aluminum was accepted as an alternative, but it was not an out-an-out hit. Presently, beer sold in aluminum cans accounts for about 25 percent of the total volume sold in Canada. To this day, however, a beer connoisseur will say, "Beer in a can does not taste as good as beer in a bottle." That perception has protected the suppliers of glass bottles from further volume erosion.

In Canada, both Molson and Labatt are concerned about shrinking profits, and both companies are scaling back their operations. In recent years, Molson has sold off its chemical business (Diversey) and its lumber retailing business (Beaver Lumber), and now, the Molson Centre in Montreal and the Montreal Canadiens are up for sale. Labatt is following a similar strategy. Interbrew, which is the parent company of Labatt is trying to sell the Toronto Blue Jays. Both companies have decided to focus on what they do best: brew and market beer.

The Canadian beer market is actually declining slightly from year to year, and that poses a problem for both companies. The Molson and Labatt combination control 90 per cent of the market, but each year, they lose little more ground to the microbreweries. Niche beers, from companies like Sleemans and other microbrewers, have caught the fascination of many a good beer drinker. The only way that Molson or Labatt can grow domestically is to steal market share from each other. Hence, they are constantly in a marketing tug-of-war for consumer loyalty. Both companies spend heavily on advertising to try to pry users away from each other. The combination of flat sales and escalating marketing costs has produced lower than expected profits for both companies.

Now, Labatt and Molson are looking at cost control measures. Efficiency on the cost side of the equation may compensate for high marketing expenditures. Anything that will save money in the production and marketing process is fair game for implementation. Recently, the leading plastic manufacturers in Canada approached Molson and Labatt. Their proposal was very simple: why not package beer in plastic bottles? Plastics experts say they have developed an unbreakable bottle that is seven times lighter than a glass bottle. They also claim that beer packed in the plastic bottle tastes better and the product will have a six-month shelf-life. In short, the plastic bottle saves the company money while providing additional benefits to drinkers. Therefore, these benefits have to be seriously considered.

The plastic bottle concept has been test marketed in the United States, but with limited success. Both Anheuser-Busch and Miller Brewing tested the plastic bottle in 1998. Both companies were concerned about how the younger consumers (21 to 29 years of age) would react to the plastic concept. Appealing to new and young drinkers has always been the route to success in beer marketing. The tests were inconclusive, and as of the end of 1999, neither company has decided what their next step will be.

The marketing research manager at Molson has been asked to review the plastic bottle situation as it applies to Canada. Is such a proposition feasible? Will the Canadian beer drinker accept the concept? In scanning some of the American research data, the manager determined it would be a tough sell here. His thinking was based on respondent statements, such as “it would be good for sporting events, concerts, and the beach, but it would, in the context of social drinking suggest a lack of taste and refinement.” Another statement that summed up many respondents’ thoughts was “I’d never serve beer in plastic bottles to guests for fear of appearing cheap and insensitive.”

The research in the United States also indicated that drinkers did not believe the claims made by the plastic manufacturers. Respondents were sceptical that plastic-bottled beer would remain cold and fresh. Others worried about the taste, with a strong minority comparing plastic-bottled beer with plastic-bottled soda. They felt that the plastic-bottled product was an inferior product. Attitudes like these have to be weighed carefully against potential cost savings.

You are the marketing research manager at Molson. Senior executives have asked you to investigate the situation and develop a marketing research proposal that will get to the bottom of things. What kinds of research activity will you recommend to get good feedback from Canadian consumers of beer? Be specific with your recommendations. Your deadline for presenting the results of your research is two months from today. The tight time frame will have a bearing on the type of research study you implement.

The following questions may serve as guidelines for devising a research proposal.

QUESTIONS

1. What type of primary research should be conducted? Clearly state the objective of the research study.
2. Who should participate in the research study? Consider the sample and identify a sampling frame.
3. Should the research consider some or all of the primary research methods: survey, observation, and experiment?
4. Should the research be qualitative or quantitative in nature? Clearly identify the nature of information that Molson needs to collect and assess.
5. If a survey is recommended, by what means should it be implemented?

Perhaps you could conduct a focus group or implement a small survey on the basis of your research proposal to determine how your colleagues react to the plastic beer bottle concept.

4. Kellogg Co.

For over 100 years, Kellogg has built its business on flakes, and in the process, the company has become the world’s leader of filling breakfast bowls with such favourites as Corn Flakes, Frosted Flakes, Rice Krispies, and Special K.

At the dawn of the 21st century, Kellogg finds itself with too much cereal and not enough new products in other food categories. Presently, ready-to-eat cereal products generate 75 percent of all Kellogg’s sales revenue. Consequently, the company is

spending a lot of time and money trying to recapture its lost cachet with the health-conscious crowd as it seeks some "snap, crackle, and pop" to offset a serious slump in cereal sales. Other products marketed by Kellogg include Pop-Tarts, Nutri-Grain snack foods, Eggo, Kellogg's Corn Flake Crumbs, and Kellogg's Stuffing Mix.

In financial terms, the bull market of the past decade passed right by Kellogg. At year-end 1999, share prices were $32, the same price they were 10 years earlier. It would appear that Kellogg has been stagnant marketing-wise, while a lot of new and exciting things were occurring in the ready-to-eat cereal and snack food categories. Both General Mills (makers of the Cheerios family of cereals) and Quaker Oats have been making inroads at the expense of Kellogg.

In the early 1990s, it was not uncommon for Kellogg and its major competitors to increase prices 6 to 8 percent every year thus guaranteeing reasonable rates of sales and profit growth. In the mid- and late 1990s, sticker shock set in, and all cereal companies were accused of price gouging by consumers. Private label brands became more popular with consumers. Lifestyle changes also took a toll. More and more, consumers are skipping sit-down breakfasts featuring cereals, preferring to grab a muffin or a bagel on the go. As a result, cereal consumption is sliding, and Kellogg is losing market share. In the United States, Kellogg's share of total dollar volume in cereals dropped to 31 percent in 1999 from 35 percent in 1995 and 40 percent in 1990. General Mills' share, meanwhile, has climbed to 31.8 percent from 30 percent in the same period. Leadership in the cereal market, once the private domain of Kellogg, is now up for grabs!

In Canada, Kellogg has not been hit as hard. From statistics compiled by AC Nielsen, Kellogg controls 43.2 percent of the market. General Mills is a distant second with 17.3 percent. Canadian market share trends are as follows:

Rank 1999	**Rank 1998**	**Manufacturer**	**1999 (%)**	**1998 (%)**	**Change '98-'99**
1	1	Kellogg	43.2	43.9	-0.7
2	3	General Mills	17.3	15.9	+1.4
3	2	Kraft (Post Cereal)	16.7	18.7	-2.0
4	4	Quaker	8.4	7.7	+0.7
		All Others	14.4	13.8	+0.6
		Total Sales ($M)	**$765.8**	**$746.8**	**+2.5%**

To show how consumers' eating patterns have changed, consider that more people are eating Rice Krispy Treats (a snack treat prepared with melted marshmallows and Rice Krispies), rather than Rice Krispies. Rice Krispy Treats are part of Kellogg's fast-growing convenience foods product line. That is an opportunity, of course. But it is also a problem for a company that derives 75 percent of its more than $7 billion in annual sales from cereals.

Kellogg is less known for its snack foods, but it does have an impressive line of products that include Nutri-Grain granola bars and flavoured snack bars and Pop-Tarts, in addition to Rice Krispy Treats.

The snack food category is actually referred to as nutritious portable foods (NPF). It includes anything from fruit leathers and rice cakes to granola bars to old favourites

like Rice Krispy Squares. These types of products are positioned as "guilt-free" snacks and are popular with both kids and adults. Total NPF category sales in 1998 were $266.3 million in Canada. As indicated by the following chart, private label products are the market leaders.

Nutritious Portable Foods—Canadian Market 1998

Product	Sales Volume	Growth (%)	Company	Market Share (%)
Granola Bars	$100,480,300	+6	Private Label	22.9
Cereal Bars	59,974,100	−1	General Mills	19.3
Fruit Snacks	58,820,900	+17	Quaker Oats	16.6
Rice & Corn Cakes	25,738,600	−3	Kellogg	12.1
Cereal Snacks*	21,245,400	+76	Kraft	11.7
Total	**266,259,300**	+9	Biscuit Leclerc	4.1
			Christie	3.0
			All Others	11.3

*Rice Krispy Squares

Source: A.C. Nielsen

In the NPF category, each of the major companies has carved out its own niche. General Mills dominates the fruit snacks category with such brands as Fruit Roll Ups, Fruit by the Foot, Gushers, Sodalicious, and Fruit Sting Thing. All these products are designed to provide kids with the nutritious benefits of fruits and are often used as a snack instead of cookies or other sweets. Quaker Oats is a leader in the granola bar category, and its rice cake and mini-rice cake lines are very popular. Kellogg's strength is based on Rice Krispy Squares.

At the corporate level, Kellogg has investigated an acquisition and merger strategy as a means of stimulating growth. The company did talk to Unilever about a possible sale. PepsiCo expressed some interest in acquiring Kellogg. For a time, it was felt the PepsiCo's Frito-Lay snack food division would be a good marriage with Kellogg, but in the end, PepsiCo decided to build its snack food business internally.

An industry rumour had Kellogg acquiring Quaker Oats. Quaker's strengths in hot cereals, low-cost bagged cereals, and NPFs would have been an excellent fit with Kellogg's product lines. Acquiring Quaker would also bring Gatorade, the dominant brand in the sport drink category, to Kellogg.

In deciding what direction to take, Kellogg decided to stay away from selling the company or merging it with another company. Instead, it would retrench. Senior executives decided to place less emphasis on new product development. They focused on

developing existing product lines by introducing product-line extensions (e.g., new flavours and varieties of existing products). Before making this decision, Kellogg did launch Vector cereal in Canada in 1999. Vector was touted as the first "flaked meal replacement" in a bowl. It is sold in the cereal aisle but appeals to a more health-conscious consumer. The success or failure of Vector has yet to be determined.

Kellogg is following a market development marketing strategy. It is trying to create excitement for its old standbys by offering them in new versions, stuffing toys into cereal boxes and using Cindy Crawford to promote Special K (in the United States). In Canada, Kellogg is using an innovative advertising campaign to rejuvenate Special K. The theme of the advertising—"Look good on your own terms"—is quite a departure from previous advertising messages. The new message swims against the cultural current, challenging unrealistic body image standards by which women judge themselves. The Canadian advertising strategy has been effective, and Special K remains a leading brand in the market. Perhaps new and innovative advertising is needed for other mature Kellogg brands.

Some of the line extensions recently introduced by Kellogg in the cereal market include Honey Crunch Corn Flakes, Honey Rice Krispies, and Special K Fibre. In snack foods, Nutri-Grain Fruit-full Squares and Pop-Tarts Snak-Stix were launched. Nutri-Grain squares were positioned as a between-meal snack for the health-conscious, while Pop-Tart Snak-Stix were positioned as a delicious and fun snack for teens.

The popularity of several pre-sweetened cereals led to the development of a new snack food product line in the United States. Kellogg launched a portable, flavour-enhanced version of three popular cereals—Fruit Loops, Rice Krispy Treats Crunch, and caramel-flavoured Corn Pops. It was cereal transformed into a snack food. Aimed directly at tweens, the cereals are packed in resealable canisters under the brand name "Snack 'Ums." Research conducted by Kellogg showed that 5 to 10 percent of cold-cereal consumption is for snacking. Packaged much like Pringles, this new product will be, Kellogg hopes, relevant to the younger on-the-go set.

Kellogg has diligently looked at ways to cut costs. In the marketing area, the company decided to advertise and promote its bran-based cereals (Bran Flakes, All-Bran, and Raisin Bran) as a family of products rather than as individual products. The family approach to marketing could benefit the development of all brands.

Kellogg admits that the financial outlook for the future is not stirring. Potential investors look at the company and see an operating income 10 percent below what it was five years ago. Perhaps Kellogg's strategy of remaining faithful to its roots in cereals has not been the best strategy. While they stayed focused on cereals, competitors, such as General Mills and Quaker Oats, were diversifying into new product categories. In spite of their present situation, Kellogg says it expects mid-single-digit sales growth in 2000 on higher volumes and 8 to 10 percent growth in operating profits.

Carlos Gutierrez, chief executive at Kellogg, only took charge in April 1999. He has taken action to refocus the company and cut costs. He closed the original Battle Creek cereal plant and sold the disappointing Lender's Bagel unit.

In November 1999, Kellogg acquired soy burger maker Worthington Foods and its Morningstar Farm brands. With such a purchase, one can expect that Kellogg will soon launch a soy-based cereal. Kellogg's was attracted to soy because of the success of soy-based products in other categories. Sales of soy milk, for example, are rising 40 percent a year. The Food & Drug Administration in the United States allows manufacturers to boast about soy's health benefits (e.g., soy helps lower cholesterol levels), so it looks like an attractive opportunity.

There is a downside to the soy strategy. The track record for "healthful" foods, or what the trendy call "functional" or "nutriceutical" foods, is not all that healthy. PepsiCo struck out with its "Wow" products (cholesterol-reduced chips and snacks), and Nabisco's early splash with low-fat Snackwell's cookies and crackers were instantly successful but then took a dive.

Kellogg has stumbled in this area as well. A year after making a big to-do about its new line of "functional" foods, the company pulled the plug on its "Ensemble" concept of entrees, cereals, and breads which were made with psyllium fibre. Ensemble was aimed directly at the cholesterol-conscious consumer. It seems that Kellogg got caught in an age-old research trap with this product. Research shows that consumers are always interested in products that are "better for you." But, when the product is actually on the market, consumers show more concern for taste and quality than they do for the health benefits.

The strategies being implemented by Kellogg have been described by Pam Murtaugh, a prominent marketing analyst in New York, as " the McDonaldization of Kellogg's marketing." Says Murtaugh, "It's a sign they have lost their way when they have to borrow appeal from somewhere else to fuel market share. They don't know what to be; all they know is what they have isn't working."

Kellogg does seem to be stumbling around in plotting its future. The corporate strategies and marketing strategies that are being implemented or being considered appear to be all over the map. It must decide on the right strategy or set of strategies in order to succeed in the future. If it does not succeed, it might get a taste of what "ready-to-eat" really means in the world of business.

QUESTIONS

1. Are there other trends in the Canadian market that Kellogg should give serious consideration to?
2. Clearly identify and assess the corporate strategies being considered by Kellogg. What strategy or strategies should the company pursue in order to achieve better than average growth? Are there other corporate strategies worth considering? Defend your position.
3. Assess the marketing strategies employed by Kellogg. Are there other marketing strategies (e.g., product development, market penetration, and diversification) that should be considered or other elements of the marketing mix that should be exploited? If so, what do you recommend? Defend your position.

In analyzing this case, students should undertake some secondary research to identify strategies being used by competitors, such as General Mills, Quaker Oats, and Frito Lay.

Adapted from **www.kelloggs.com/products**, **www.marketingmag.ca/index**, Sandra Ward, "It's crunch time for Kellogg," *The Financial Post*, December 28, 1999, p. C12; Emily Kaiser, "Kellogg turnaround bumpy, but on track," *The Financial Post*, December 1, 1999, p. C14; Stephanie Thompson, "Kellogg pushes portable snacks as cereal biz lags," *Advertising Age*, October 18, 1999, pp. 4, 78; Krista Lennox, "Safe snacking," *Marketing*, March 9, 1998, pp. 12,13.

5. Special K

For over 100 years, Kellogg has built its business on flakes and, in the process, has become the world's leader of filling breakfast bowls with such favourites as Corn Flakes, Frosted Flakes, Rice Krispies, and Special K.

In North America, Kellogg is a $7 billion company. Presently, the ready-to-eat cereal products which it markets account for 75 percent of sales revenue, and the cereal market is only growing at about 2 percent a year. That translates into low growth prospects for Kellogg. Other products marketed by Kellogg include Pop-Tarts, Nutri-Grain snack foods, and Eggo frozen foods.

In the 1990s, Kellogg was not that active developing new products. Both General Mills (makers of the Cheerios family of cereals among others) and Quaker Oats (now famous for bagged cereals at lower prices) have been making inroads at the expense of Kellogg.

In the United States, Kellogg's dollar share of market has dropped to 31 percent from 35 percent in 1995. General Mills' share, meanwhile, has climbed to 31.8 percent from 30 percent in the same period. Leadership in the cereal market, once the private domain of Kellogg is now up for grabs!

In Canada, Kellogg has not been hit as hard, though there are signs of weakness. Latest statistics compiled by AC Nielsen show Kellogg controlling 43.2 percent of the market. General Mills is a distant second with 17.3 percent. Canadian market share trends are as follows:

Rank 1999	Rank 1998	Manufacturer	1999 (%)	1998 (%)	Change 98-99
1	1	Kellogg	43.2	43.9	-0.7
2	3	General Mills	17.3	15.9	+1.4
3	2	Kraft (Post)	16.7	18.7	-2.0
4	4	Quaker	8.4	7.7	+0.7
	All Others	14.4	13.8	+0.6	
	Total Sales (4M)	**$765.8**	**$746.8**	**+2.5%**	

Kellogg has to be concerned about several trends among consumers. First, eating patterns have changed. To demonstrate, consider that more people eat Rice Krispy Treats (a snack prepared with melted marshmallows and Rice Krispies) than regular Rice Krispies. The snack food segment of the market is growing at a much higher rate than cereal. Second, busy people in dual-income families have less time for sit-down breakfasts. Instead, it is breakfast on the fly, with pre-packaged nutrition bars or a quick stop at Tim Horton's for a toasted bagel and coffee. Third, young kids who are the biggest consumers of cereal are more interested in pre-sweetened varieties. For them, it is taste at the expense of nutrition.

These trends are hurting long-established brands, such as Kellogg's Corn Flakes, which resides at the top of the Canadian market, and Special K, which is a member of the Top 10 brand club (at least for now).

In the cereal business, Kellogg has a lot at stake, and that is the source of a current marketing and advertising problem. Since 1997, Kellogg has been advertising Special K under the theme "Look good on your own terms." The campaign successfully repositioned Special K in the minds of women. The campaign was developed to inspire and encourage women to measure themselves by their own interpretation of what it means to look good. Through the use of humour and exaggerated irony, a series of television spots encourage women to develop healthy aspirations with proper nutrition, regular exercise, and starting each day with a balanced breakfast. According to Kellogg, "The campaign swims against the cultural current, challenging the unrealistic body image standards by which women judge themselves."

Prior to this campaign, Special K promoted the perfect body image and always included the perfect looking female in its commercials (e.g., that young fashionable career woman clad in the latest exercise attire, but looking like the last thing she needs is a workout). There she was, ready to go after a bowl of Special K and a glass of orange juice.

When the "Look good on your own terms" campaign was launched, the media jumped all over Kellogg, accusing them of double standards. Truth be known, Kellogg was simply reacting to consumer trends. The 1980s and early 1990s were a time when consumers pushed their bodies to extremes. It was an era in which "wellness" (both physical and mental) preoccupied consumers. They joined fitness clubs, purchased the latest exercise equipment, and consumed low-fat and low-calorie foods, all to achieve one common objective: to create a better image of themselves. The belief is simple: if we look better, we will feel better, and the people we associate with will have a better image of us (pure application of the self-concept theory).

By 1996, things were changing. Kellogg saw emerging signs that suggested that the rigid constraints of body image were being loosened. The fitness movement shifted into slower gear, largely a reflection of the aging population, and a general desire for more indulgence in all age groups. Such knowledge led to the development of the Special K campaign. Showing a new understanding of their consumers, Kellogg moved away from images depicting the ideal self, to images portraying the real self. One of the initial print ads attacked our former ideas of body image. The ad included a strikingly thin model with the copy: "If this is beauty, there's something wrong with the eye of the beholder." The company also launched a web site (**www.specialk.ca**) that allows people to discuss their body issues online.

The new strategy was executed via television and print and was a success in Canada. Kellogg discovered a multitude of women who were unhappy and frustrated with their bodies, especially when you consider all the years of unhealthy cultural conditioning around women's body image. In print, the ads pushed back some of the sources of women's insecurities. The ads focused on honesty and empowerment and reinforced positive body image messages while encouraging women to have realistic aspirations and to judge themselves by their own standards. The "Look good on your own terms" campaign is now four years old.

The campaign was created by Lorraine Tao (copywriter) and Elspeth Lynn (Art Director) at Leo Burnett Advertising (Kellogg's longstanding adverting agency). The pair had just come off a hugely successful campaign for Fruit of the Loom. Their humorous television ads featured a clothesline, on which, bumping along to the *Stuck in the Middle with You* soundtrack, pranced a gingham thong, a red French-lace thong, a phantasmagoria of punishing panties. Then came the visual punchline—a pair of relievingly broad-seated all-cotton briefs that "always stays comfortably in place. Sorry guys." Their creative strategy moved Fruit of the Loom and won the pair a slew of advertising awards.

Could they duplicate this success with Special K? They crafted a series of black-and-white TV ads that brought new meaning to marketing packaged goods. They rejected the young-moms-in-designer-kitchens look, opting for the image of a male model, overweight and middle-aged, trussed in some form of designer horror, the straps of which caused his tortured flesh to ooze most unflatteringly as he took a turn on the catwalk. "Designers should try wearing what they design for us," went the script. It was the start of a groundbreaking campaign. Another ad showed a woman fruitlessly trying on bathing suits in a piece titled "Change room or Torture Chamber." Kellogg knew it had hit on a winning formula shortly after it ran a print ad featuring a woman on an oversized grocery scale with the headline "A woman's value should not be determined by the pound." It attracted over 200 telephone calls, even though Kellogg had not yet set up a toll-free number.

The new campaign was moving the brand. Prior to the ad launch, Special K's baseline (non-promotional) sales were declining. The company went on to register a combined 18-point swing for baseline sales. The campaign was different and was one of the reasons that *Marketing Magazine* selected Kellogg Canada as one of the "10 marketers that made a difference" in the 1990s.

Rarely does an American parent company adopt a Canadian advertising idea but Kellogg USA got caught up in the frenzy of the new creative strategy and decided to launch it in the United States in 1998—a good idea! The campaign ran for about a year and a half, but the anticipated results never materialized. According to Betsy Andersen, vice-president and account director at Leo Burnett USA, "The advertising was designed to be disruptive, but we may have been a little too far ahead of the curve." Kellogg USA said it had done research and found "the key component missing was the aspirational aspect of wanting to look better, feel better than you actually are." Cindy Crawford embodies the brand and puts back this "aspirational" element.

In January 2000, Kellogg USA announced it was reverting back to its more traditional form of advertising—the beautiful woman approach. In fact, Cindy Crawford is sashaying to the rescue of Special K and a few other flagship brands. In a new campaign, Crawford will become the face—and the body—representing Special K, a brand that is aimed directly at the health-conscious woman between 25 and 49 years. It should be noted, however, that 40 percent of Special K consumers are men. In defending the shift in advertising, Andersen says, "The category is tough, so we are doing everything we can to keep our brands relevant."

The question now is, what will happen, or what should happen, in Canada? Kellogg is no different from any other North American marketing organization. Many of their marketing decisions are made for them by American executives, and for good economic reasons. Efficiencies in marketing and advertising are a necessity in times of constraint and scarce marketing budgets. If the new ad campaign for Special K takes off in the United States, Canadian women watching American-based shows will see it. Doesn't it make sense to deliver the same message and image in both countries?

THE CHALLENGE

Your task is to evaluate relevant consumer trends and behavioural influences that will affect the cereal market in Canada and the direction of marketing strategy needed for Special K. What advertising (message) strategy should Special K implement in Canada? Should Kellogg Canada keep its current campaign, or should it adopt the new American campaign? Be prepared to defend your position.

If you wish to see some of the current television ads, visit the Special K Web site. They are just a click away. Some secondary research on consumer attitudes and lifestyles is also suggested prior to forming a solution to the case.

Consider the following questions as guidelines for developing your marketing recommendation.

QUESTIONS

1. What psychological influences have influenced the present advertising strategy adopted by Special K in Canada?
2. Are there new trends and consumer influences that should be considered (e.g., 2000+ compared with the 1990s)? Will these trends force a change in the advertising strategy used by Special K?
3. Are relevant consumer attitudes and lifestyles that different between Canada and the United States (e.g., attitudes and lifestyles that dictate eating habits)? Is there enough of a difference to justify unique advertising strategies in both countries?
4. Men represent a significant portion of Special K customers. Will the present strategy influence them the same way as it does women?

Adapted from **www.specialk.kelloggs.ca**; Stuart Elliot, “Nervous Kellogg switches to Cindy,” *The Financial Post*, January 6, 2000, p. C10; Paul Brent, “New Kellogg ads carry a weightier message,” *The Financial Post*, April 19, 1999. p. C4; Jennifer Wells, “Hold the bikini babes,” *Report on Business Magazine*, May 1998, pp. 66–70.

6. Dylex Limited: Braemar

Dylex Limited is at the forefront of Canada’s retail environment. Its operating divisions include some of Canada’s best-known specialty store banners: BiWay, Braemar, Fairweather, Thrifty’s, and Tip Top. All of Dylex’s retail divisions are leaders in their respective retail markets, supplying quality merchandise in today’s fashions at value-oriented prices.

Dylex presently operates 640 locations throughout major urban and suburban areas in Canada. Throughout the 1980s and 1990s, Dylex grew considerably, and the company weathered the ups and downs of the economic cycles. Some years were more profitable than others, and in some years, there were significant losses. In December 1999, the company announced that it would conduct a Strategic Review Process that could involve the potential sale of one, some, or all of its operating businesses. The company was well into the review when the announcement was made. The review process was needed because of poor operating results in some divisions and generally poor financial results. Refer to Figure 1 for some financial details.

In 1999, the company reported a net loss of $36.4 million on consolidated sales of $1.1 billion. The previous year’s sales were $1.1 billion, and there was a profit of $20.6 million. Apart from department stores, direct competitors include such stores as D’Alliards, Reitmans, Suzy Shier, Jack Fraser, and Moores.

Figure 1

Financial Data—Annual Report, Fiscal 1999

(Thousands of dollars, except per share data)

	Jan 29, 2000	Jan 29, 1999	Jan 29, 1998
Sales	1,081,767	1,077,102	1,022,094
Net Earnings (loss)	(36,387)	19,911	46,202
Per Share:			
Net Earnings	$(0.73)	$0.39	$0.91
Total Working Capital	29,648	96,046	107,266
Operating Data:			
Percent Sales Growth	0.4	5.4	(17.3)
Growth-Same Store Sales	(1.9)	5.1	(0.9)
Number of Stores	642	640	638

OPERATING DIVISIONS

The various divisions offer different types of clothing and appeal to different targets. Some divisions are more profitable than others. The following is a brief summary of each division.

BiWay

BiWay offers everyday low prices on a narrow range of general merchandise, food, health and beauty aids, and family apparel. It is a discount chain with 280 stores located in Ontario and Atlantic Canada. Over 100 of the stores were recently renovated so that they are now cleaner, brighter, and easier to shop in. BiWay appeals to price-conscious consumers who want convenience shopping near their neighbourhood. BiWay is the largest division of Dylex, with sales in 1999 amounting to $582.9 million. Despite the high sales, BiWay had an operating loss of $33.9 million.

Braemar

Braemar operates 59 locations across Canada. It is known for classically styled quality fashions, designed with career women over the age of 35 years in mind. Braemar also offers fashions for small-sized women through Braemar Petites. Braemar's 1999 sales amounted to $80.1 million, with an operating income of $1.6 million. It is the smallest of the established divisions of the company. Additional information about Braemar appears later in the case.

Fairweather

Fairweather is a 72-store chain catering to contemporary working women between 25 and 45 years of age. Fairweather carries sizes and fashions in regular and petite sizes.

Fairweather showed some financial improvement in 1999. Sales were $129.6 million, and the operating profit was $10.4 million. A year earlier, sales were $124.2 million and profit $7.7 million.

Labels

Labels is a new division that opened in September 1999. Labels offers designer and brand name fashions at 25 to 65 percent off specialty and department store prices. Labels will locate stores in power malls in order to compete with other off-price shopping destinations. It will carry lines that appeal to men, women, and children. Presently, there are only eight stores in operation. Sales for four months in 1999 amounted to $7.1 million, but there was an operating loss of $1.4 million. Customer reaction has been positive, and Dylex is looking forward to a profitable year for labels in 2000.

Thrifty's

Thrifty's continues to reinforce its position as the leading Canadian denim retailer, achieving gains in both sales and profits in 1999. Sales amounted to $147.2 million, and profits were $21.6 million. Thrifty's leads the market in mid-priced, fashion-forward, causal clothing at each of its 112 locations. The store appeals to teens and young adults.

Thrifty's is also known for its Bluenotes brand jeanswear. Plans to expand the jeanswear line have resulted in the opening of two new stores (Toronto and Burlington) under the Bluenotes name. Thrifty's also recognizes the opportunities presented by other national designer brands and, as a result, has created a store concept that focuses on nationally branded merchandise. Operating under the banner XX XY, a limited number of stores will open soon in major urban centres, starting with Toronto and Vancouver.

Tip Top

Tip Top is the oldest division of the company. With an 89-year heritage to build upon and 125 stores from coast to coast, Tip Top remains one of Canada's signature retail brands. A few years ago, Tip Top experimented with a move to a more upscale line of merchandise and a higher price point. The experiment failed. Realizing that its image was entrenched in the mid-market, the company retreated to familiar territory. Tip Top is a leader in specialty menswear, offering quality, style, service, and value. In 1999, sales were $134.8 million, and the profit was $6.3 million.

Refer to Figure 2 for a summary of financial data for each of the operating divisions.

PRESENT SITUATION

As a result of the strategic review, some decisions on the direction of the company have been made. In May 2000, Dylex announced that Grafton-Fraser would purchase all assets of Tip Top Tailors retail division and related manufacturing operations that include Weston Apparel and San Remo Knitting Mills. Grafton-Fraser operates Jack Fraser stores, a direct competitor of Tip Top. The sale generated $32 million in cash for Dylex. "Tip Top Tailors has been an important part of Dylex's history. The decision to sell Tip Top was a difficult one, but it is consistent with Dylex's focused strategic direction," said William Anderson, chairman and CEO of Dylex Limited.

Figure 2

Financial Summary for Operating Divisions

(Thousands of Dollars)

Division	Sales 1999	Sales 1998	Profit 1999	Profit 1998
BiWay	582,928	587,901	(33,909)	16,529
Braemar	80,072	86,008	1,558	5,889
Fairweather	129,619	124,205	10,420	7,718
Labels	7,083		(1,384)	
Thrifty's	147,249	138,419	21,687	20.483
Tip Top	134,816	140,569	6,332	4,364
Total	1,081,767	1,077,102	(5,101)	47,538

Note: Loss on divisional operations amounted to $5.1 million. Problems within BiWay and costs associated with the strategic review process contributed to the total company loss of $35.7 million.

At the same time, Dylex also announced the sale of its head office building in Toronto for $21.5 million. The head office is an aging landmark building located on Toronto's waterfront.

In June 2000, Dylex announced that it had been approached by a third party—Schottenstein Stores Corp. of Ohio—about possible selling of the entire company. Those talks broke off in early August.

BRAEMAR'S POSITION

For years, Braemar had tailored its fashion offerings to the 40- to 55-year-old target market. But, in an attempt to rejuvenate its image, the company started to direct its attention to a younger audience. The clothing lines changed to something more casual and edgier with a lot less classic career wear. Pricing became more moderate. It seemed that the change in strategy was making Braemar a competitor of its own Fairweather division, a strategy that seems questionable.

The change seems to be another case in failed repositioning. One would think Dylex would have learned its lesson from Tip Top. It was just three years ago that Tip Top moved upscale only to face disastrous results. Tip Top has just recently returned to a profitable position within Dylex, and it is about to be sold to Grafton-Fraser Inc. In the process of change, Braemar lost many of its older, long-time customers. Perhaps the change was too dramatic.

Philippe Vanier has just been appointed president of Braemar. Prior to this appointment, he was the president of the Fairweather division. His goal is to reconfigure Braemar starting in the Fall 2000. His plan is to return Braemar to the more traditional, career-oriented styles, in an attempt to win back the old customers. Braemar faces similar challenges to Tip Top, and it will not be easy to change things—it is a cardinal sin in retail to send out so many mixed messages to consumers.

One thing going in Braemar's favour is the fact that it had a loyal following initially, but its image among the general public was not that strong. Braemar is by no means a significant advertiser, so it can start to rebuild the business with the goal of attracting more shoppers in the older demographic group.

In reviewing Braemar's financial performance, in 1999, both sales and profits were lower than in 1998. In the last quarter alone, total sales fell 17.5 percent to $14.6 million from a year earlier, while same store sales fell 16 percent (same store sales are those in outlets open a year or more and are considered a key measure in retail).

At the annual shareholders' meeting, one shareholder stood up and openly complained about the "continuous flip-flops" at Braemar. Vanier replied that the retailer "went way too young"—trying to attract customers as young as 20 years—and that it will return to its 40-plus roots over the next year."

Braemar may be operating at a disadvantage. By not advertising, it is difficult to get a message out. The chain has always relied on database marketing and mails flyers to its regular customers—whose numbers are dwindling. As well, Braemar only sells its own labels. Shoppers will go the Gap for its in-house fashions or the Bay for Tommy Hilfiger, but the Braemar brand is not exactly a big draw.

Pricing is another sensitive issue. Compared with its competitors, Braemar's dresses had an average price of $80 in 1999, the market average being $52 and the Bay's average $75. Prices were dropped by 20 percent in 1999, but that decrease was not implemented until the second-half of the year—too little too late, perhaps.

THE CHALLENGE

The task at hand for Braemar is to determine the best direction to take. Should Braemar simply revert back to its roots and appeal to the 40-plus crowd, as the president wants, or is there another positioning strategy that could be implemented? Retracing one's steps is not always the best approach. In reaching a solution, it is expected that you will conduct appropriate secondary research on the women's fashion retail market to see if there are any niches that make sense for Braemar and Dylex. Use the following questions as guidelines for developing a marketing recommendation.

QUESTIONS

1. Who are Braemar's direct competitors? Identify the target market (e.g., demographic and psychographic characteristics) that each competitor is appealing to and their basic positioning strategy.
2. On the basis of price and quality (or any other buying characteristics that you judge appropriate), locate Braemar and its competitors on a positioning map.
3. What target market do you recommend Braemar should appeal to?
4. Where should Braemar be positioned in the fashion retail market? Devise a clearly worded positioning strategy statement that embraces the image that Braemar will project to its target market.
5. What elements of the marketing mix should Braemar employ in repositioning itself in the retail market? Should Braemar continue with database marketing techniques, or are other alternatives worthy of consideration? Clearly identify specific recommendations for each element of the mix you judge to be important.
6. Assess Dylex's business portfolio. Was it wise to sell Tip Top when it was just returning to a profitable position? Are there any other divisions that should be sold? Justify your position.

Adapted from Marina Strauss, "Braemar fashions another makeover," *The Globe and Mail*, June 2, 2000, p. M1; **www.dylex.com**.

7. Kraft Canada Inc.—Post Shredded Wheat

You are the brand manager for Post Shredded Wheat, one of the oldest brands of ready-to-eat cereals on the Canadian market. For the past five years, the sales volume for Shredded Wheat has been declining, and the market share has slipped to 1 percent from 1.3 percent. Shredded Wheat is a staple packaged-goods item that has widespread distribution in all Canadian grocery stores.

BRAND AND COMPANY HISTORY

Shredded Wheat was the invention of Henry D. Perky. While working at home, Perky developed a small shredding machine for his personal use. He loved his Shredded Wheat so much that he figured others would like it to. He opened his first Shredded Wheat Bakery in 1893. Eventually, Perky sold his interests in Shredded Wheat to Nabisco Foods, and until the early 1990s, the product was sold as Nabisco Shredded Wheat.

Post Cereals date back to 1895 when C.W. Post made his first batch of Postum, a cereal beverage. In 1897, Post introduced Grape Nuts cereal, one of the first ready-to-eat cereals. C.W. Post used marketing techniques that are now considered industry standards but which were innovative at the time. These techniques included extensive advertising, coupons, free samples, product demonstrations, plant tours, and recipe books. As time passed, the Post cereal business expanded. Throughout the years, such well-known brands as Grape Nuts Flakes, Bran Flakes, Raisin Bran, Sugar Crisp, Alpha Bits, and Honey Combs were added. The last three brands are prominent in the pre-sweetened segment of the market. Shredded Wheat also added new product lines. First, it was smaller versions of the big biscuits—Shredded Wheat Spoons Size and Shredded Wheat & Bran. More recently, Honey Toasted Shredded Wheat was added to the product line.

When healthier eating patterns emerged in the 1980s and early 1990s, Kraft responded by introducing a line of high-fibre cereals called Post Fruit & Fibre and Post Great Grains. These products appeal to consumers on the basis of low-fat and high-fibre content.

At the corporate level, Kraft Inc. and General Foods Corp. merged in 1989 to form Kraft General Foods, the largest food company in North America. In 1993, Kraft General Foods acquired all the ready-to-eat cereal brands marketed by Nabisco. At the time, Nabisco was consolidating operations and wanted out of the cereal business, and Kraft was looking to expand its cereal business. For a time, Kraft General Foods retained the Nabisco banner on the cereal boxes, but the long-term plan was to phase out the Nabisco name while phasing in the Post name. At one time, both names appeared on the box, but eventually the Post name took over. Since the merger of the two companies, Kraft and General Foods had operated as separate divisions, but in 1995, KGF was reorganized into one operating company—Kraft Foods, Inc. So, after a long history, Shredded Wheat, once a Nabisco brand, is now a Post brand marketed by Kraft Foods.

THE CEREAL MARKET

As of 1999, the Canadian cereal market was worth $765 million in retail sales, with an average annual growth rate between 2 and 3 percent. Forecasted retail sales for 2000 are $785 million. The cereal category is one of the largest categories in grocery store sales. Other large categories include soft drinks and pet food. Much of the growth

in dollar sales throughout the 1990s was attributed to price increases. Unit volume was actually declining marginally. Consumers now perceive cereals to be a rather expensive item (e.g., the average box costs anywhere from $4 to $5). Consequently, consumers are now more selective about how they shop for cereals.

The ready-to-eat cereal market is divided into several segments: hot cereals, cold ready-to-eat cereals, and pre-sweetened ready-to-eat cereals. The market can also be divided into boxed cereal and bagged cereals. While boxed cereals dominate the market, Quaker Oats has carved out a niche in the bagged cereal market offering several unsweetened and pre-sweetened brands in this segment. In the wake of rising cereal prices throughout the 1990s, the bagged cereal products were quickly accepted by cost-conscious consumers. The average price of bagged cereal is lower than comparable-sized boxes.

Kellogg is the dominant cereal manufacturer in Canada, commanding 43.2 percent market share. The most recent market share trends are as follows:

Rank	Company	1999 Share	1998 Share	Change
1	Kellogg	43.2	43.9	-0.7
2	General Mills	17.3	15.9	+1.4
3	Kraft	16.7	18.7	-2.0
4	Quaker	8.4	7.7	+0.7
5	All Other	14.4	13.8	+0.6

Both Kellogg and Kraft are facing declines in market share. General Mills and Quaker's market shares have been rising mainly due to new product introductions that have been successful. Private label brands are included in the all-other category and are estimated to be 10 percent of the market.

All companies in the cereal business face similar problems. How do they maximize sales of their traditional and leading brands and retain premium images without overpricing them? As indicated earlier, annual price increases were commonplace each year in the 1990s. One hand would increase the price, while the other hand would offer a price incentive (e.g., coupons, cash refunds, and premium offers) to combat the higher retail price and protect sales. In fact, companies were spending much more on sales promotion activities than they were on brand advertising. Short-term tactical marketing activities were taking precedence over long-term brand building activities. With sales being flat and marketing costs escalating, profits were declining. The actions being taken by all cereal manufacturers seem questionable.

While this was going on, companies were also trying to breathe new life into their established brands. The 1990s saw the introduction of all kinds of pre-sweetened versions of established products. Cheerios, for example, is now available in several versions: Honey Nut, Frosted, Apple Cinnamon, and Multi Grain. Kellogg's Corn Flakes is available in Honey Crunch Corn Flakes. Attempts like these to build market share have not been successful. The new versions cannibalize sales from the core product. Shredded Wheat got caught up in the pre-sweetened line extension strategy as well. In 1997, Kraft launched Honey Toasted Shredded Wheat in Canada. Now, there are simply too many pre-sweetened cereals on the market.

These are but a few examples of the endless array of line extensions that were introduced in the 1990s. Needless to say, the proliferation of line extensions has put shelf space in the cereal aisle at a premium. When a company introduces a new line extension, it often has to eliminate one of their own slower-moving lines or brands in order to find space for the new line at retail.

Presently, the cereal market is being affected by several trends:

- New products are identified by line extensions and expanded product use outside the breakfast meal.
- The category is the largest in terms of coupon use.
- Private label cereals have increased in popularity due to the high cost of branded cereals and the comparable quality of private labels.
- A majority of cereals are sold through traditional channels that require slotting fees and promotional fees.
- Health food markets and natural products are becoming more popular.
- The use of health claims is becoming more prevalent. In the United States, Quaker Oats recently co-funded heart research and can now claim their products reduce the risk of heart disease.

In the 1990s, a niche market developed for healthier cereals. Presently, the healthy segment of the ready-to-eat cereal market accounts for about one-third of sales or approximately $250 million. This segment of the market includes such brands as Kellogg's Muslix, Post Fruit & Fibre, Quaker Oat Bran, Oat Squares and Harvest Crunch, General Mills' Oatmeal Crisps, and a host of hot cereals. The introduction of new and more innovative products, such as Quaker Oat Bran, Quaker Oat Squares, and Oatmeal Crisps, from General Mills has proven to be popular with adult cereal consumers. These brands have a healthy and contemporary image. In comparison, Shredded Wheat, despite its excellent reputation, is seen as an outdated brand.

Breakfast cereal bars are also negatively influencing the sales of traditional cereals, such as Shredded Wheat. Catering to time-pressed consumers who are looking for something quick to eat in the morning, products such as Kellogg's Pop Tarts and Kellogg's Nutri-Grain snack bars are capitalizing on the consumer trend of skipping breakfast or eating breakfast while on the go.

SHREDDED WHEAT'S POSITION

Shredded Wheat has always relied on tradition for its success. The brand's positioning strategy has remained constant throughout the years and can be summed up as follows:

> "Shredded Wheat is made from 100 percent natural whole wheat—a delicious wholesome toasty flavour with a good healthy crunch. It is naturally cholesterol free and low in fat, with no added sugar or salt."

Bland on taste, yet high on nutrition, the original Shredded Wheat appeals mainly to adults. It is as natural as cereal can be and a product that should be more popular with today's health-conscious consumers.

On the surface, the addition of Honey Toasted Shredded Wheat seems to contradict the brand's positioning strategy. However, a closer look reveals that the sweetened version was Shredded Wheat's attempt to attract a younger age segment. Honey

Toasted Shredded Wheat has just enough delicious frosting along with the goodness of a touch of brown sugar baked into each bite-size biscuit. It offers a little indulgence with the natural goodness of Shredded Wheat. Among parents with children who constantly demand pre-sweetened cereals, a brand like Honey Toasted Shredded Wheat sounds more appealing than alternatives like Fruit Loops, Coco Pebbles, or Count Chocula.

Regular Shredded Wheat is available in two sizes. Although retail prices vary from chain store to chain store, the average price for the 450 g size (12 biscuits) is about $3.69 and the 600 g size (18 biscuits) about $3.99. Prices for each pack size can be 20 to 30 cents higher, depending on the chain where the product is purchased. The larger size outsells the smaller size by a 2:1 ratio. Shredded Wheat Spoon Size is only available in one pack size (676 g) and has a retail price ranging from $3.79 to $4.29. Honey Toasted Shredded Wheat (620 g) sells for anywhere from $3.99 to $4.49.

As the brand manager, you are in a quandary over what to do with the Shredded Wheat family of products. If present sales trends continue, marginal volume declines could become significant declines. The immediate task is to develop a marketing strategy that will halt the decline and perhaps rejuvenate interest in the brand.

Being on the east side of the product life cycle curve, senior executives at Kraft Foods do not express much interest in the brand. They see Shredded Wheat as more of a maintenance brand that can provide funds for the development of new brands. Executive priorities are more focused on innovative product categories and brands that offer much more sales and profit potential. Consequently, Shredded Wheat is rolling along without any significant marketing support. However, at a recent brand review meeting, you presented some opportunities to the senior management that you think will turn things around for Shredded Wheat. They have asked you for more details.

The target market for regular Shredded Wheat and Shredded Wheat Spoon Size is described as men and women aged 35 years and over. Honey Toasted Shredded Wheat also appeals to adults (those with a bit of a sweet tooth), but the primary target market is teens and tweens. Other demographic variables are relatively unimportant in the cereal category. Core users of Shredded Wheat tend to be health conscious and follow a regular eating pattern (e.g., they are not likely to skip breakfast).

Given the recent performance of the brand, the following marketing objectives have been established for 2000:

1. To achieve sales volume growth of 2 percent.
2. To retain market share at present levels.
3. To retain distribution in all current accounts at present levels.

THE CHALLENGE

As the brand manager, your immediate task is to map out a marketing strategy that will meet the above objectives. You must consider that the market is mature and that Shredded Wheat is in the mature stage of its product life cycle. Therefore, certain elements of the marketing mix may be more important than others, and any significant investment in marketing activity must be thoroughly justified. In devising a marketing strategy, a marketing budget must be developed, with funds allocated to the activities that are recommended. For the purpose of developing a budget, assume that revenue for Shredded Wheat as it leaves the factory door amounts to 70 percent of retail sales.

For assistance in developing a new marketing strategy, you may refer to the following questions.

QUESTIONS

1. Should Shredded Wheat market individual product lines, or should all the lines be marketed as a family?
2. Is the positioning strategy statement for Shredded Wheat still appropriate, or should it be changed? If change is needed, develop a new positioning statement.
3. Should new lines be added to Shredded Wheat, or should some of the present lines be dropped?
4. Visit a store and evaluate the Shredded Wheat package and the packages of other leading competitors. Does the Shredded Wheat package project an appropriate image? Is there a need to change the package?
5. How important is marketing communications in rejuvenating interest in Shredded Wheat? Are certain elements of the marketing communications mix more important than others?
6. What marketing strategies do you recommend to extend the life cycle of Shredded Wheat? Be specific about your recommendations and justify the direction you take.

Adapted from information obtained at **www.kraftfoods.com/postcereals** and **www.agric.gov.ca/food/process**.

8. Bauer Nike Hockey Inc.

The undisputed king of the running shoe market decided to enter the sports gear market full bore when it purchased Canstar Sports Inc., maker of Bauer and other brands of protective skates. The acquisition occurred in 1995 at a cost of $545 million. Bauer Nike Hockey is the world's leading manufacturer of hockey equipment and is a unit of Nike Inc., the world's leading sports and fitness company.

Phil Knight, a former track-and-field athlete with an intense competitive spirit, founded Nike in the late 1970s. Knight is one of those "win at all costs" type of guys. His track-and-field mentality spills over into the business arena, where there is little doubt about his instincts and business acumen. The company was founded on an evangelical mission, with Knight selling shoes out of the trunk of his car. From rather humble beginnings, Nike has become an overwhelming financial success, with annual sales in the $9 billion range for the past three years.

In the late 1990s, Nike started to face the wrath of public scrutiny. Nike never was the model corporate citizen, but Nike's Knight became the whipping boy of human rights activists, who accused him of using Asian factories as slave-labour camps. Suddenly, Nike appeared greedy. Its arrogant presumption that it could charge whatever it damned well pleased for its products was coming back to haunt it. As well, several celebrity endorsements backfired. Mike Tyson's ear munching incident and basketball star Latrell Sprewell's assault on his coach were two of them. The impact has resulted in flat sales and lower-than-expected profits in 1999. Suddenly, Nike was not so cool, and the big swoosh was the sound of falling profits. In 2000, sales remained at $9 billion, and net income increased by 28 percent to $579.1 million.

Nike has built its business around marketing. In the running shoe market, it has been one innovation after another but all based on the "Air" principle. First it was Nike Air, then Air Jordan, then Zoom Air, and now Visi-Zoom Air. Product innovations like these have kept Nike well ahead of rivals, such as Reebok, Adidas, Puma, and others. A good product combined with incredible advertising that features celebrity endorsers, such as Jordan, Agassi, and Tiger Woods, and the famous slogan "Just Do It," has kept Nike the dominant brand in the minds of customers. The swoosh made many people feel as if they were winners.

If the customer is a winner, then Nike was a financial winner! In the late 1980s, Nike and Reebok were considered equals in the running shoe and sports apparel markets. Both companies had a market capitalization of about $4 billion. By 1998, Nike's market cap had reached $10 billion, while Reebok sank to about $2 billion. Such growth was the direct result of good marketing and manufacturing outsourcing. The decision to outsource provided Nike a cost-efficient means of production.

Nike's venture into the sports gear market in 1996 was well planned. At the time, in North America, the top 10 growth sports included snowboarding, inline skating, roller hockey, walking, soccer, mountain biking, golf, youth ice hockey, old-timer hockey, and lightweight camping. Armed with such knowledge, Nike's mission was not just to make and sell equipment; it was to design something new and then throw Nike's awesome marketing muscle into convincing the world of its technical superiority. Their goal was to be the sports gear category leader by 2002. It wanted a piece of the action in as many of these growth sports as possible. The sports gear market in North America was estimated to be worth about $40 billion annually, almost twice the size of the running shoe market.

When Nike acquired Canstar Sports, the prime attraction was inline skates. Bauer was already a key player in the inline-skates market in North America. In the American market, recreational inline skating and roller hockey were much more popular than ice hockey, so Nike saw the Canstar venture as an easy way into the market. But Nike soon learned that Bauer's primary strengths were in ice hockey. The Bauer brand name is a worldwide leader. It is synonymous with quality skates at all price points (entry-level to high-end professional models). Competitor brands, such as CCM and Graf, are also popular.

Despite Nike's intentions, the wheels literally fell off some of their new product launches. For example, a new line of Nike inline skates were launched with much fanfare at a huge sporting goods convention in Chicago. During a demonstration by an inline skating team, the wheels began to disintegrate.

Nike's assault on the hockey market started in 1996 when it launched futuristic-looking, light-weight skates along with a new hockey stick made of high-tech carbon composites and coated with a Velcro-like material that clung to similarly coated Nike hockey gloves. Prices of the new skates were as high as $600 a pair. The skates were immediately popular with customers under 25 years, who were snapping up anything with Nike's trademark swoosh. Older consumers were somewhat sceptical of the Nike skates and remained loyal to traditional brands.

Nike's rookie season in hockey soon went into a tailspin. Almost as quickly as the skates flew out the door, they started coming back. Consumers had a litany of complaints: they did not fit right; the boot was too stiff; the toe was fraying. According to a prominent Toronto retailer, "For every 100 pairs I sold, 40 were returned—an astonishing number in an industry where return rates are usually 1 or 2 per cent." Adding to customers' frustrations, Nike took up to 4 weeks to fix the skates.

Nike's missteps in hockey shows what happens when a company, even one with a powerful global brand, rushes a new product to market before all the bugs are worked out. Now, two years later, Nike is still struggling to win back the faith of retailers and customers, even though, by most accounts, its products are much improved.

Internally, in Canada, Bauer Nike Hockey Inc. is in a bit of a mess. In May 1999, Pierre Boivin resigned as head of Nike's hockey unit. Boivin was subsequently appointed president of the Montreal Canadiens. Then, John Collins, the vice-president of sales and marketing and general manager for North America, resigned in September. In November 1999, The company hired Gary Kiedaisch as president and chief executive officer. With his 30 years of experience in marketing and management, it is expected that the new president will provide global vision to reinforce the company's leadership position in the hockey industry. Kiedaisch was previously president and chief executive officer of Bolle, Inc., the maker of premium eyewear and the number-three brand worldwide.

Executives were not the only ones leaving. Some of its National Hockey League endorsers were also departing. In September 1999, Sergei Fedorov of the Detroit Red Wings bailed out. In explaining why, Fedorov said, "I wasn't comfortable in Nike skates." Federov decided to switch to Graf, the brand he previously used. Jeremy Roenick, star of the Phoenix Coyotes, left Nike in 1997. He also complained the skates never fitted right.

In October 1999, Mats Sundin, captain of the Toronto Maple Leafs, announced that the Nike swoosh was gone. Sundin switched allegiance and signed a 3-year deal with Hockey Co. makers of CCM skates and equipment. Under this deal, Sundin would use CCM skates, gloves, sticks, helmets, and protective equipment. CCM plans to feature Sundin as its leading spokesperson worldwide.

With so much at stake, how could Nike falter in the hockey equipment market? Critics trace the problem right back to the acquisition of Canstar and the manufacturing policies it adopted at the time. Making ice-skates is a labour-intensive process that requires skill and attention to detail. But Nike, hoping to replicate the success it had with running shoes, sacrificed such essentials as comfort and fit for flashy graphics and audacious styling. One retailer, who wished to remain anonymous, said, "The skates were the biggest butcher job I've ever seen."

Another mistake, say the critics, was moving production to contract plants in Asia. These plants may be fine for entry-level skates, but the workers lack the skills necessary to produce high-end skates. Nike's only Canadian plant is in St. Jerome, Quebec. The Bauer hockey factory located in Cambridge, Ontario, was closed by Nike shortly after the acquisition of Canstar. Entering the 1999 season, Nike was still making skates in Asia that carried a retail value of $400 in Canada.

Entering 1999, Nike believed that many of its problems had been resolved and improved products were introduced. The Nike Ignite skate line was revamped. The new models featured an air bag in the insole, a new moulded tongue, and a lining that absorbs moisture, and the skates were lighter than before. All these features provide better fit, performance, and comfort. Nike says it has learned from the past. Now, the big question is, will the Canadian public give them a second chance in the hockey market?

In the hockey market, the Bauer brand presently accounts for 80 percent of Nike hockey business, but Nike's goal is to change the ratio to 60 percent Bauer and 40 percent Nike. Clearly, the goal is to build the Nike brand name in hockey equipment. In the Canadian hockey market, this may or may not be the right goal to pursue. With regard to positioning strategy, the company wants the Nike brand to appeal to the

younger, more innovative customer. Branding strategy, positioning, and product strategy are central issues in this case. What direction should Bauer Nike Hockey take to build its presence in the hockey equipment market? Consider the following questions as guidelines for formulating your recommendations.

QUESTIONS

1. Does the company need two distinct product lines in the hockey equipment market? Are two brand names necessary? What are the benefits and drawbacks of the dual brand strategy?
2. If only one brand name is retained, which brand name should it be? Consider the domestic market and global market when making your decision.
3. Are there additional external influences that Nike must consider prior to developing a marketing strategy for hockey equipment?
4. What is the primary target market? Does the strategy of appealing to younger customers with Nike and older customers with Bauer seem appropriate?
5. How should Bauer Nike position their skate products in the hockey market? Devise an appropriate positioning strategy statement.
6. Devise a marketing strategy that will firmly position Bauer Nike Hockey skates in the hockey market. Consider all elements of the marketing mix but focus specifically on product as a key element.
7. It has been rumoured that Nike will eventually eliminate the Bauer brand name. Is this a wise decision? Emotional arguments aside, you must consider such a decision from a business point of view.

Adapted from John Heinzl, "Sundin loses the swoosh," *The Globe and Mail*, October 1, 1999, p. M1; John Heinzl, "Nike's hockey offensive skates offside," *The Globe and Mail*, September 27, 1999, p. M1; Bernard Wysocki Jr., "The plight of the silver medallist," *The Globe and Mail*, June 29, 1999, p. B12; Kathryn Leger, "Hockey catches on at Nike," *The National Post*, January 21, 1999, p. C5; William McCall, "Nike battles backlash from overseas sweatshops," *Marketing News*, November 14, 1998, p. 14; Eric Reguly, "Nike no longer runaway leader," *The Globe and Mail*, February 18, 1998, p. B4; Gayle MacDonald, "Marketers take shine on bad boys of sport," *The Globe and Mail*, February 12, 1998, p. B1; Bill Richards, "Nike plans swoosh into sports gear," *The Globe and Mail*, January 7, 1997, p. B10.

9. Western Trail Clothing Company

The Western Trail Clothing Company is a large, national manufacturer of quality fashion clothing, located in Calgary, Alberta. Western Trail produces a variety of rugged, outdoor clothing for men and women. Industry sources confirm that Western Trail is a recognized leader in the manufacture of western-style clothing.

Western Trail is in the process of developing plans for the launch of a new line of fashionable jean shirts. These high-quality, stylish shirts are made from a new type of fabric that resists fading even with repeated washing. Company officials are confident that this new line of jean shirts will compare favourably with those offered by other clothing manufacturers.

Western Trail intends to distribute this new clothing line through a variety of retail outlets. This includes their own manufacturer outlets known as "Western Reflections."

Western Trail is also discussing with a number of major retail chains, the possibility of carrying the shirts under their own private labels. To date, Zellers, Target, and Wal-Mart have expressed an interest in doing so. Wal-Mart, however, has indicated that it would demand an exclusive agreement (no other distribution options) prior to placing any order. Sears and The Bay have also expressed an interest and, not having private labels themselves, would prefer to market the shirts under the Western Trail label. Such an option would be on a consignment basis, with Western Trail being responsible for supplying, stocking the shelves allocated, and absorbing the costs of any stock not sold.

Several of Western Trail's competitors have recently begun to market similar shirts. Marketing research has found that the shirts were selling for the following prices:

Retail Selling Price	Number of Competitors Observed
$17.00	2
$20.00	7
$23.00	5
$25.00	3

Western Trail is trying to determine what price it should charge for its shirts and what pricing strategy (penetration or premium pricing) should be implemented with the launch of this new product. They realize that most retailers will apply a 40 to 50 percent mark-up on the price they pay the manufacturer for their product. Western Trail realizes that the final price to the consumer must be competitive with those of other manufacturers.

Western Trail also knows approximately how much it costs to produce the new shirts. The information is provided below:

Shirt Components	Itemized Costs
Fabric	$4.00 per shirt
Buttons	$1.00 per shirt
Thread	$0.50 per shirt
Direct labour	20 minutes per shirt
Shipping weight	2 pounds per packaged shirt

Other costs applicable to the production of this new shirt line are as follows:

Expense Category	Costs
Fixed costs	$2 000 000
Shipping	$0.75 per pound
Direct labour	$12.00 per hour

The maximum manufacturing capacity is 275 000 shirts per year. Western Trail will require a 50 percent markup on the manufacturing costs (manufacturer's selling price). Western Trail Clothing Company senior managers are also looking for a $200 000 profit over a three-year period.

SALES FORECAST—SHIRTS

Company	Year 1	Year 2	Year 3
Western Reflections	50 000	100 000	100 000
Zellers	125 000	100 000	0
Wal-Mart	275 000	275 000	0
Sears	50 000	40 000	10 000
The Bay	50 000	40 000	10 000
Target	125 000	100 000	0

SALES FORCE REPORT

Sales force reports indicate the following with regards to each potential retail distribution outlet.

Western Reflections: This company-owned division is optimistic about the sales potential of the new jean shirt. Western Reflection managers feel that the sales estimates given are conservative throughout the three-year period and a complete sellout is likely in all three years.

Zellers: Zellers will commit to year 1 order and will only commit to year 2 order if year 1 shirts are 90 percent sold. Western Trail's sales force feels that there is an 80 percent chance of a first year sellout.

Target: Target will commit to year 1 order. Target will only commit to year 2 order if year 1 shirts are 70 percent sold. Western Trail's sales force feels that there is a 95 percent chance of meeting first year objectives.

Wal-Mart: Wal-Mart will commit to 275 000 shirts in year 1 and an order of 275 000 additional shirts in year 2 if 75 percent of all shirts are sold in year 1. Our sales force estimates that there is a 75 percent chance of meeting the 1st year Wal-Mart targets, and a 100 percent chance if we discount our price by 10 percent.

Sears: Sears will be providing shelf space only. Western Trail's sales force will handle all stocking and inventory requirements. Sears will only renew in years 2 and 3 if the shirt sells well. Western Trail's sales force is 80 percent confident that the first year will be a sellout.

The Bay: The Bay will be providing shelf space only. Western Trail's sales force will handle all stocking and inventory requirements. The Bay will only renew in years 2 and 3 if the shirt sells well. Western Trail's sales force is 75 percent confident that the first year will be a sellout.

MARK-UP REQUIREMENTS

Company	Mark-Up Required (%)
Western Reflections	50
Zellers and Target	40
Wal-Mart	40
Western Trail sales force mark-up	50 (20 to Sears & The Bay)

As a member of the marketing team for Western Trail Clothing Company, you have been asked to prepare an analysis and a written report on the feasibility of the project, followed by a recommendation as to the pricing strategy and distribution focus that Western Trail should use. Your recommendation should be based on both quantitative and qualitative data. Use the following questions as guidelines for developing your recommendation.

QUESTIONS

1. What would you characterize as the major issue or challenge facing the Western Trail Clothing Company as they launch this new line of clothing?
2. What are the three most critical conditions that must be addressed in order for the company's strategy to succeed?
3. Discuss the pros and cons of the three pricing/distribution opportunities that the company is considering.
4. Which pricing/distribution strategy would you recommend to the senior management? Why? Be sure to provide quantitative and qualitative rationale.
5. What would your positioning strategy be for the new jean shirt being created by the company?

This case was written by Gary Bissonette, CEO of the Kingston Family Y, and is used with his permission.

10. "Fit For Life" Fitness

Congratulations, you have just been selected as a "finalist" for a "Fit For Life" fitness franchise. With a small initial investment, you are on your way to fame and fortune by owing and operating your own business. As a "Fit For Life" franchise operator, you have the ability to attract and retain hundreds of customers, in one of North America's fastest growing markets…the fitness boom.

Why "Fit For Life"? It is a proven turnkey method designed to ensure your success. For a small monthly royalty fee, your franchise and business are backed by one of the most comprehensive marketing and promotional support teams available. In addition, site location assistance, the economies of bulk purchasing, and a state-of-the-art training program, all make "Fit For Life" the premier fitness franchise available today.

Franchise Requirements

Franchise fee	$40 000
Monthly royalties	3% of gross sales (all sources)
Initial investment	$300 000 ($90 000 down (franchise fee and down payment), with $250 000 debt financing

Initial 1st year Revenue Assumptions

Estimated number of members	2000
Membership price options	$175, $200, or $225 per year
Net vending sales	$1 per month, per member
Net "Fit Shop" sales	$10 per year, per member
Desired profit in year 1	$60 000
Facility size	4000 square ft
Cost of benefits to employees	13% of salaries paid

Franchise Operating Requirements

Hours of operation	Monday through Friday – 6:00 am to 10:00 pm 305 days in year 1 Saturday and Sunday – 8:00 am to 6:00 pm 50 days in year 1

Anticipated Staffing Formula – Variable Costs

Staff Position	Requirements	Wage
Facility manager	1	$30 000 per year
Assistant manager	1	$24 000 per year
Membership manager	1	$24 000 per year
Information desk	2 per hour	$8.50 per hour
Personal trainer (Mon–Fri)	1 per 8-hour shift	$15 per hour

Other Operating Costs – Fixed Costs

Category	Amount
Franchise royalties	3% of gross sales
Insurance	$1000 per month
Utilities	$1500 per month
Facility lease	$12 per square ft., per year
Equipment service contracts	$300 per month
Computerized network lease	$1200 per month
Office supplies	$500 per month
Facility cleaning contract	$2500 per month
Administration costs	$500 per month
Maintenance costs	$250 per month
Loan repayment – principal	$2700 per month
Loan repayment – interest	$1800 per month
Advertising & Promotion	$15 000 per year

QUESTIONS

1. On the basis of the assumed membership estimate and a base membership price of $200 per year, prepare the first-year operating statement for your “Fit For Life” franchise (do not forget vending and “Fit Shop” revenues).
2. Given the information developed in question 1 above, what is the breakeven point for your franchise (excluding desired profit) in year 1, in both number of members and dollars?
3. Re-compute the financial statements and breakeven points requested in question 2 above, using base membership prices of $175 and $225, respectively.
4. Using a base membership price of $200, what is the required breakeven point not only to cover all costs but also to allow for the $60 000 profit?
5. Using the alternative prices of $175 and $225, what is the required breakeven point for each price level, not only to cover all costs, but to allow for the $60 000 profit as well?

This case was written by Gary Bissonette, Chief Executive Officer of the Kingston Family Y, and is used with his permission.

11. QuikBlade®

Sparks fly from a grinding wheel as practised hands puts metal to stone in search of the perfect edge—an image that’s as Canadian as pond hockey. But, a new invention could end this tradition by doing for skate sharpening what the disposable razor has done for shaving: making it easier, faster, and perhaps better, if a touch less romantic.

The new invention is called QuikBlade. QuikBlade is the world’s first replaceable-blade system. It is designed to give frazzled hockey parents one less errand to run on hectic weekends and the world’s best players higher-performance skates.

The product is not yet widely available but is attracting some fans. It was recently awarded a silver medal at the 1999 Design Engineering Awards, a gathering in Toronto to honour the work of Canada’s top engineers and designers.

The system includes a replacement blade and replacement rockers that are kept in place by a high-performance holder. The pricing structure for the system is as follows:

Starter Kit: $189.95 CDN

- 1 matched set of carbon fibre composite holders
- 1 set of rockers, pre-installed (rocker radius is specified when ordering)
- 1 set of blades mounted. The blades included in the kit are standard ground radius. 3/8”and 5/8”radii grounds are also available
- 1 set of white toe and heel caps

Replacement Blade Strip:	$39.95
Replacement Rockers:	$49.95
	(available in 3 radii, 7”, 9”and 11”)
Toe and Heel Caps:	$9.95
Replacement Torque Wrench:	$9.95

The replacement blades are sold in packages of 10. They can be attached in minutes. According the product's developers, QuikBlade gives the player performance equal to what is available on the market today, with the added advantage of not having to worry about sharpening. The big obstacle will be convincing people to change over.

Because edges no longer need to be manually ground and sharpened, players no longer have to worry about changes to the skates rocker, which determines the blade's lengthwise curve and how much of it makes contact with the ice. Some players prefer flat blades for power, while others like a more curved blade for manoeuvrability.

This cutting edge of change is courtesy of the fertile mind and unusual background of former National Hockey League player Rick Hampton. Rick invented the device and nursed it through its infancy. Now he and Markham-based Multimatic Inc. hope to see it become standard equipment for all hockey players.

QuikBlade has been the passion of Hampton's for quite some time. "Seeing this get to market and being a success will be like winning the Stanley Cup." Hampton wrapped up his NHL career in 1993. Despite having signed contracts worth more than $1 million, his career ended on a rather sour note, mainly due to his misfortune of being represented by the once-powerful player agent Alan Eagleson. Hampton's money which was in the hands of Eagleson was gone—due mainly to the tangled financial web that was not unravelled until Eagleson was convicted of fraud in 1998.

During his playing days, Hampton dabbled with other product ideas. He devised and patented a portable skate sharpener. He also developed a tool to help rink attendants solve one of their trickier problems when putting in new ice: laying the paper that marks the lines and circles. Finally, he invented an escape system for basement apartments. Hampton is a hands-on kind of a guy who spends lots of spare time in his workshop.

Hampton describes professional hockey players as a fussy lot, and he was one of them. In designing QuikBlade, he was searching for something that offered consistency. He came up with the idea of a disposable strip, something like a hacksaw blade, attached to the skate with a high-tension screw. He created something that worked, but it was not reliable. The blade strip broke under heavy use.

The next step was to find a partner that could solve the engineering flaws and then get the product to market. He contacted Larry Holt, the vice-president of engineering at Multimatic Inc. Multimatic is a privately held Canadian company supplying components, systems, and services to the global automotive industry.

According to Holt, "Hampton's product was fairly well developed—he had it farther along than 85 per cent of my engineers would have. The problem was that he had no clue about what was involved in getting something to market." As well, sporting goods marketing was well outside the realm of auto parts marketing. Multimatic's business expertise would also be challenged.

With Multimatic, Hampton found an ally in Peter Czapka, the president of the company. Czapka was an enthusiastic recreational hockey player, who was no fan of getting his skates sharpened. So struck by Hampton's perseverance, Czpaka decided to invest $500 000 of Multimatic's money to get the kinks out of the original design. The return on the investment was uncertain, but the company established a short-term goal of selling 5000 units to people who already had skates. The key targets would be competitive players and adult hockey enthusiasts.

Jim Reeves, and athletic therapist for the Belleville Bulls Junior "A" team in the OHL, likes what he sees in QuikBlade. "It's not so much the ease of switching blades that's nice, it's just that it's a better blade." Reeves tested the blade system with the Belleville players, and the results were quite positive. He does suggest some caution, however. "It's not something you can push because hockey players are superstitious people. They are very fussy about the equipment they use, whether it's skates, sticks, or helmets. It's going to have to be a word-of-mouth kind of thing."

There has been some discussion with a few manufacturers about having the blade system included as part of a new line of high-end skates—but nothing has been finalized.

To establish awareness for QuikBlade, an investment in marketing is required. As indicated in the case, word of mouth will play a role, but that is a form of communication that a company cannot control. What marketing strategies should QuikBlade be implementing to build a distribution network, and how should it inform customers and potential dealers about the merits of the product? To understand the workings of the sports equipment and supply market, some additional secondary research will be necessary.

Use the following questions as a guideline for developing your strategies. It is also suggested that you visit the following web sites to get more information about the product:

www.quikblade.com
www.multiinc.com/pp_skate

QUESTIONS

1. What obstacles among consumers and distributors will QuikBlade and Multimatic have to overcome in order to get the product concept accepted?
2. What should the primary target market be? Should the focus be on the top-end professional or the grassroots beginner?
3. Will QuikBlade and Multimatic Inc. have the expertise to market the product? Should they look at including other partners in the venture? If so, who should the partners be, and why would they be interested in the venture?
4. What kind of distribution strategy should QuikBlade employ? What stores are best suited for this type of product? Is it a product suited for specialty stores, mass merchandisers, or both?
5. What role will the Internet play in the marketing strategy for QuikBlade? Are there other forms of marketing communications that may be necessary?
6. Develop a positioning strategy statement for the QuikBlade concept.

Adapted from Michael Grange, "A cutting-edge idea: disposable skate blades," *The Globe and Mail*, September 15, 1999, pp. A1, A9; and information obtained from **quikblade.com**.

12. Sears: The New Eaton's

Timothy Eaton must be spinning in his grave. The business he so diligently built has tumbled so far that the four Eaton brothers who were managing the show have had to file for bankruptcy protection. During 130 years of operation, Eaton's became part of the country's cultural memory, as central to the Canadian consciousness as hockey and maple syrup.

Many critics point to the Eaton brothers as the primary culprits in the demise of Eaton's. Their indifference towards the business while the brothers pursued other social and professional interests played a key role in the downfall. Both critics and customers point the finger at the four brothers—George, Fredrik, Thor, and John Craig, the sons of John David Eaton. "These guys weren't paying attention. It's as simple as that. Wal-Mart came along and the world changed, and they were off on their yachts. They ran the stores by remote control."

Timothy Eaton, a workaholic Methodist, opened his first store in 1869, and he dominated the retail scene with smart marketing and a keen eye for an emerging trend. Among his innovations were cash-only payment, no-haggle pricing, and a no-arguments return policy summarized in his famous slogan: "Goods Satisfactory or Money Refunded."

Eaton's was, for generations, a retailing force to be reckoned with. It had hordes of fiercely loyal customers. Eaton's was a Canadian icon, solidly profitable, even in the depths of the Depression. The company was built on a simple premise: provide a wide selection of quality merchandise to average middle-class folks at reasonable prices and with good customer service. This fail-safe strategy served Eaton's and its customers for decades. But somewhere along the way, the wheels fell off the cart. The news of the demise was a shock to generations of Canadians who had grown up with the store.

Under Timothy's guidance, the company would become a giant, controlling half of the Canadian department store market. A catalogue operation (another innovation) connected with virtually every household in Canada. It offered wider choice to Canadians in small communities and became a bible of middle-class style. The catalogue division faced some rough times in the 1970s, and in 1976, Eaton's decided to close that division of the company. Now, Sears is, by far, the most dominant catalogue retailer in Canada, and Wal-Mart leads the department store parade. Market share details are included in Figure 1.

Eaton's had made a series of strategic errors, such as building stores in downtown locations, when it was clear that the future of mass market retailing lay in the suburbs. Relative newcomers, such as Wal-Mart, were experimenting with new methods of operating. They were shaving margins to the bone to attract new customers. Wal-Mart was offering a wide selection of brand name and private label merchandise at prices that traditional retailers could not compete with. With this going on, Eaton's stuck with the same old formula, and as a result, the company lost its edge, and the business drifted. In 1930, Eaton's controlled 58 per cent of the department store market. By 1998, its market share slipped to under 10 per cent. In the 1960s, 70 000 people worked for Eaton's. By 1999, the number had fallen to 12 000.

Eaton's was sinking in a sea of red ink for several years—piling up losses of more than $100 million since 1997. By August 1999, Eaton's owed more than $300 million to a group of secured creditors, including its major lender GE Capital Corp. and Norwest Corp., which owns the retailer's credit card operation. Eaton's owed another

Figure 1

Market Share Report – Department Stores

Store	1999	1998	1997
Wal-Mart	32.1	29.3	26.0
Zellers	27.3	26.1	23.5
Sears	20.5	19.2	17.6
The Bay	14.8	14.4	15.6
Eaton's	5.3	9.3	10.4
Kmart	0.0	1.7	6.8
Total Sales ($B)	$17.9	$16.9	$16.2

Source: Estimates by Statistics Canada, Ottawa; and Kubas Consultants, Toronto

$50 million to unsecured creditors (clothing and cosmetic suppliers), many of whom had been helping Eaton's survive over the past few years. Tommy Hilfiger, for example, was owed about $500 000.

At the time of the bankruptcy announcement, Eaton's was operating 64 stores: 12 in British Columbia, 9 in Alberta, 2 in Saskatchewan, 3 in Manitoba, 26 in Ontario, 10 in Quebec, and 2 in the Maritimes. The three flagship stores were located in downtown malls in Toronto, Montreal, and Vancouver.

RECENT MARKETING STRATEGIES

Prior to entering into bankruptcy proceedings, Eaton's did implement a new marketing strategy in a desperate attempt to recover. Product lines were trimmed, and the company tried to reposition itself as a supplier of high-end fashion to young people. Eaton's would transform itself from a department store to an upscale fashion destination. In the process, Eaton's would turn its back on its most loyal customer segment—women aged 35+ years and families. In the wake of all of this change, loyal and older-aged customers were exiting Eaton's in droves.

Eaton's started to renovate its stores, but in the end, only the big urban stores were completely redesigned with the new concept in mind. While renovations were in progress, Eaton's launched a new advertising campaign to reposition itself in the market. The campaign, called "Diversity," included lots of youthful faces, sexy bodies, and the latest fashions. There was no shortage of cool wit and hip attitude.

By May of 1999, Eaton's realized its new marketing and merchandising strategies were not working. With no buyer in sight, there was no choice but to liquidate the company.

ASSESSMENT OF MARKETING STRATEGIES

Why couldn't Eaton's come back from the brink? In recent decades, many a corporate basket case, from New York developer Donald Trump to Chrysler Corp. to Apple Computer Inc., has managed to come back from the dead by reorganizing its debt with creditors.

The advertising campaign failed to capture the imagination of younger consumers, who were more intent on buying clothing from upscale boutiques rather than from a department store. Why shop at a Gap Inc. impersonator when you can have the real thing? Eaton's could not shake its 130-year past. It had clung to the outdated strategy of being all things to all people for far too long. The fling with the upper-end fashion business was too little too late.

While Eaton's was focusing on fashion and its own financial problems, its competitors were moving in new directions. Sears was offering a broader range of goods in its stores and had opened separate stores in power malls to sell furniture and appliances. Sears was also busy advertising the "Softer Side of Sears." Retail analysts believe that this strategy helped win a broad range of middle-income customers over to Sears—many of whom used to shop at Eaton's.

Geoffrey Roche, of Roche Macauley & Partners, the advertising executive hired to build a new image for Eaton's, offers some perspectives on the Eaton's transformation. He says the decision to enter high-end fashion was "gutsy, but absolutely critical to the company's hopes of long-term survival." His view was that The Bay's relentless discount tactics on one side and Sears' mid-level pricing and broad product range on the other were squeezing Eaton's. It needed to define itself as a brand that was relevant to modern-day consumers and, in choosing to reinvent itself as a fashion centre, was following in the footsteps of successful American retail chains, such as Bloomingdale's. Roche admits that Eaton's did estrange itself from its core customers by closing down departments and getting out of white goods, but the move had to be made. "Those 55- to 65-year-old customers may have felt alienated, but they were not going to save the store. Eaton's needed to attract a fashion-conscious customer as well."

Eaton's noticed that customer perceptions were beginning to turn around, and it appeared as if they were making the right moves—the advertising did recast the chain's personality and was attracting the attention of young shoppers. Sales of fashion goods were trending upwards. On what went wrong, Roche offered the following: "Eaton's did not make the tough decisions to close enough stores." Eaton's as a fashion centre was viable in major markets, but not in smaller cities. "They should have gone down to about 35 to 40 stores." Eaton's only closed 21 stores going from 85 to 64 stores.

To make matters worse, the planned chainwide store renovations and service improvements did not keep pace with expectations. Most of the corporate makeover was in flagship stores. Thus, while the advertising was saying one thing, the in-store experience, for most shoppers across the country, was quite another. There was too much disparity between image and reality.

Roche concludes by saying, "A lot of people are saying that, strategically, it was the wrong thing to do. I don't necessarily agree that strategically it was wrong. I think that, strategically, it was the right thing to do. I think it was executed in the wrong way."

There is one lesson that can be reinforced by the failure of Eaton's. Companies in difficulty with basic business issues cannot rely on glitzy advertising to save the day. Says John Lee, president of Toronto ad agency Holmes & Lee Inc., "Advertising that creates unrealistic expectations for the consumer can backfire on a company. Advertising is one thing, but putting words and images into action is quite another."

SEARS ENTERS THE PICTURE

When Eaton's went out of business, Sears stepped in and purchased 19 of its best locations and the bulk of its assets—including the Eaton name—for an estimated $162

million. Now, in a bold attempt to resurrect Eaton's, Sears' marketing executives are busy plotting the rebirth of a new, seven-store Eatons chain (the other 12 stores are being converted to Sears stores). The plan is to relaunch Eatons as a ritzy, upscale retailer in the style of Bloomingdales, a prominent retailer in the United States.

Sears is a very successful operation. The company has increased sales revenue by $1.7 billion over the past three years (1998 to 2000) to $6.1 billion. The huge increase in sales is attributed to a significant investment in store renovations, the addition of more fashionable apparel, and the new chain of furniture outlets. Sears' marketing and merchandising strategies are well suited to middle-income shoppers who are looking for good value.

Being successful in the mid-range market does not guarantee success in the upper-end of the market. Sears sees an opportunity, however, and they are not about to make the same mistakes that the old Eaton's did. The Sears plan is to only operate in urban markets best suited to a high-end strategy. And instead of just concentrating on fashion, they plan to bring back furniture and electronics and add services, such as beauty spas.

Paul Walters, the CEO of Sears, puts it another way. He points to research that shows 23 percent of consumer spending is done by "moderate" suburban shoppers that is the mainstay of Sears business, but the "upscale" segment represents 18 percent of total spending. Sears is going for a piece of this spending.

Seven locations may not seem like a lot, but they happen to be some of the finest anchor locations in Canada. The locations include: Toronto's Eaton Centre (52 million visitors per year) and Yorkdale Shopping Centre (23 million), Calgary Eaton Centre (26 million), Vancouver's Pacific Centre (22 million), and the Rideau Centre in Ottawa (21 million). The other locations are Winnipeg and Victoria. These stores accounted for 30 percent of Eaton's $1.6 billion in sales in 1998 and had, on average, 35 percent more revenue per square foot than the other 57 pre-bankruptcy Eaton's stores.

The new Eatons stores will be distinct, ritzy, stand-alone destinations befitting their preferred locations. Internally, Eatons will enjoy the benefits of Sears' highly efficient infrastructure and buying power, but, in the public eye, it will keep its distance from Sears. It will offer pricier, more fashionable brands and have a separate catalogue, web site, and charge card to serve its distinct set of customers. The new Eatons is not going to be hip, it is going to be sophisticated. The stores' interior will combine a classic appeal with a contemporary look. Exteriors will make a bold statement with a giant Eatons logo (a small "e" in a circle) over the main entrance.

The repositioning of Eatons and the direction the marketing and merchandising strategies are taking are largely based on consumer research. The Sears research team presented 40 concept boards to the toughest crowd they could find: loyal female Eaton's shoppers between the ages of 25 and 50 years, each of whom spent more than $1000 on clothing in the past year. Feedback obtained from seven different focus groups from all across Canada was positive: the Eaton name still carried an air of prestige and grandeur, and consumers indicated there was a pent up demand for the kind of retail experience that Eaton's once offered. The new store concept seemed to be a hit with the focus groups. It helped them see Eatons as a current, energetic, stylish, and inviting place to shop—somewhere they can call a destination.

With the repositioning of Eatons, CEO Paul Walters is leading the company into unfamiliar high-fashion territory. The company has made a huge financial commitment: $276 million for renovations and working capital in one year to get the new Eatons up and running. Walter's has set an ambitious goal for the seven-store Eatons chain: profitability in the first year of operation, and $1 billion in sales by 2002. It

remains to be seen what impact the presence of Eatons will have on the overall performance of Sears. Clearly, Walters' goal is to build market share in a very competitive market while not cannibalizing sales from Sears. To be judged a successful venture, market share, revenues, and profit will have to increase significantly.

THE CHALLENGE

Your task is to analyze the present department store market in Canada to determine if the direction Sears is taking with the new Eatons is appropriate. Are the external influences that today's retailers are facing conducive to a venture into the upper-end of the market? If you were in charge of reintroducing Eatons, what marketing and merchandising strategies would you recommend? Use the following questions as guidelines for developing your opinions and strategies.

Note: The Eaton name originally included an apostrophe. Since the takeover by Sears, the apostrophe has been eliminated. Both forms of the name were used in this case.

QUESTIONS

1. Can the management of one company (Sears) effectively position and manage two different chain stores in distinct segments of the retail market?
2. Are Canadian demographic and economic trends attractive enough to support a significant investment in upscale retailing?
3. Define the primary target market for the new Eatons. Include all relevant demographic, psychographic, and geographic characteristics in your description.
4. What is your opinion of the new positioning strategy for Eatons? Devise a clearly worded positioning strategy statement before recommending any new marketing strategies.
5. Considering the locations of the new Eatons stores, is it wise to bring back such product lines as furniture, appliances, and electronics? Should Eatons simply focus on clothing and be a Canadian version of Bloomingdales'?
6. What marketing and merchandising strategies would you recommend to achieve the goals mentioned in the case? If you are recommending a different positioning strategy and marketing direction, provide appropriate justification.

Adapted from Sean Silcoff, "2nd time trendy," *Canadian Business*, May 29, 2000, pp. 34–38; Zena Olijnyk, "Sears predicts $1B sales for Eatons," *The Financial Post*, April 18, 2000, p. 6; Sean Silcoff, "Raising the dead," *Canadian Business*, November 26, 1999, pp. 20–22; Derek Zeisman, "Eaton's didn't learn from Woodwards," *The Globe and Mail*, September 10, 1999, p. B2; John Heinzl, "Advertising has limits—ask Eaton's, Canadian," *The Globe and Mail*, August 29, 1999, p. M1; Jackie McNish, "Chain's rescue plan failed to flower," **www.GlobeandMail.CA/gam/ROB19990823/RFAIL**; Peter Cheney, "Eaton empire: rags to riches to rags," **www.GlobeandMail.CA/19990823/UEATON**; Susanne Craig and Jacqui McNish, "Eaton's lenders in talks to sell debt," **www.GlobeandMail.CA/gam/ROB19990823/RCRED**; Casey Mahood, "Eaton's prepares to close for good," **www.GlobeandMail.CA/19990821/UEATOMSB**; Patrick Allossery, "Repositioning went awry at Eaton's," *The Financial Post*, August 20, 1999, p. C4; Fawzia Sheikh, "Rethinking private labels," **www.marketingmag.ca/index**.

13. Lincoln Navigator

In recent years, the automobile market has responded positively to an upsurge in the Canadian economy. One category that has attracted a lot of attention is the sport utility vehicle (SUV) segment. The Jeep Cherokee was a popular vehicle with outdoor enthusiasts long before the phrase SUV was popularized. The SUV market started rolling with the launch of the Ford Explorer in the early 1990s. Now, virtually every manufacturer participates in this segment of the automobile market. Popular brands include the Honda CR-V, Toyota RAV4, Nissan Pathfinder, and Dodge Durango, to name just a few.

The SUV market in Canada represents about 11 percent of all vehicles sold. The market is subdivided into four distinct segments: compact, intermediate, large, and luxury. Across all segments, the Ford Explorer is the dominant leader selling about 27 000 units a year. Two General Motors vehicles, the GMC Jimmy and the Chevy Blazer, follow the Explorer.

In the compact category, the undisputed leader is the Honda CR-V. In the large vehicle segment, the race for supremacy is a close fight among the Dodge Durango, the Ford Expedition, and the Tahoe/Yukon combination of General Motors.

In the luxury segment, the Lincoln Navigator is well behind the brand leaders. Six months into 1999, the Navigator sales had only reached 674 units, a 12 percent drop from the same point in time a year earlier. The leaders in the luxury segment, the Mercedes M-Class and the Lexus RX300, are enjoying significant sales growth. Also, the Cadillac Escalade, a new vehicle in 2000 has had an adverse effect on the Navigator sales. See Figure 1 for the latest sales and market share trends.

All makes and models in the luxury segment are in the same price range, but it seems that certain brands have a certain cachet. The Mercedes M-Class is priced in the $50 000 range. Among the Japanese offerings, the Nissan Infiniti QX4 is priced from $45 000 to $50 000, depending on options, and the Toyota Lexus RX300 is priced at $46 000. At the very top end is the Lexus LS450, which sells for $72 000. Sales of this vehicle remain relatively low. The Lincoln Navigator entered this hotly contested niche market in 1998. The Navigator's present base price is $50 000, expanding to $66 000 for a fully loaded model.

SUVs and luxury SUVs are part of the Canadian truck market. The truck market currently represents about 46 percent (1 200 000 vehicles) of Canadian vehicle sales and is trending upwards each year. Passenger cars represent 54 percent (1 300 000 vehicles) of the market and are trending downwards. In the truck market, all SUVs represent 23 percent of sales. The luxury segment is the smallest segment representing only 1.6 percent of all truck sales, but this segment has been growing rapidly. Six-month year-to-date sales in 1999 were 36 percent ahead of the previous year's. On the basis of the sales figures included in Figure 1, it seems that the intermediate segment and the luxury segment are fuelling the growth in the SUV category. The offshore companies—Honda and Toyota—have also grabbed control of the compact SUV market with such entries as the CR-V and the RAV4, respectively.

The new luxury SUVs are designed to serve affluent customers who like the image of going off-road—even if they never actually do so—as long as they can drive around in complete comfort. Such a phenomenon makes some sense, given that the population is aging. Boomers, for example, have grown tired of the minivans and are looking for something more sporty and upscale now that they do not have to transport their kids around. With SUVs becoming popular with city dwellers, the vehicles are becoming more luxurious.

Figure 1

Sport Utility Vehicle Sales by Segment (6 Months, January to June 1999)

	Sales YTD 1999	Market Share	Sales YTD 1998	Sales Growth (%)
Compact Sport Utility				
Honda CR-V	6394	30.2	6182	3.4
Jeep YJ/TJ	981	14.2	3252	–8.3
Jeep Cherokee	2932	14.0	4166	–29.6
Suzuki Vitara	2789	13.2	0	N.A.
Toyota RAV4	2422	11.5	4084	–40.7
Subaru Forester	2012	9.5	1,801	11.7
Chevrolet Tracker	1441	6.8	947	52.2
Suzuki Sidekick	131	0.6	121	–60.3
Total Compact SUV	21 150	100.0	22 222	–4.8
Intermediate Sport Utility				
Ford Explorer	13 359	33.4	8336	60.3
Chev Blazer/GMC Jimmy	10 149	25.4	8943	13.5
Jeep Grand Cherokee	7860	19.6	6864	14.5
Nissan Pathfinder	4,681	11.7	4033	16.1
Toyota 4Runner	3337	8.3	3004	11.1
Isuzu Rodeo	552	1.4	640	–13.8
Isuzu Trooper	111	0.2	36	208.3
Total Intermediate SUV	40 049	100.0	31 856	25.7
Large Sport Utility				
Chev/GMC/Tahoe/Yukon	3897	27.6	5189	–24.9
Ford Expedition	3643	25.8	2957	23.2
Dodge Durango	3619	25.6	3486	3.8
Chev/GMC Suburban	2952	20.9	2555	15.5
Toyota Land Cruiser	19	0.1	16	18.8
Total Large Sport Utility	14 130	100.0	14 203	-0.5
Luxury Sport Utility				
Mercedes M-Class	1941	33.3	1194	62.6
Lexus RX300	1310	22.5	820	59.8
Infiniti QX4	805	13.8	922	–12.7
Lincoln Navigator	674	11.6	769	–12.4
Land Rover Discovery	452	7.8	331	36.6
Cadillac Escalade	312	5.3	0	N.A.
Lexus LS450/470	187	3.2	126	48.4
Range Rover	144	2.5	113	27.4
Total Luxury Sport Utility	5825	100.0	4275	36.2
Total Sport Utility	**81 154**		**72 556**	**11.8**

Source: "Canadian light vehicle sales by segment and model," *Canadian Auto World*, August 1999, p. 13.

According to one industry expert, "Not that many Canadians can afford true luxury vehicles." The total sport utility segment in Canada amounts to about 160 000 new vehicles a year. To flood the market with so many luxury SUVs does not make economic sense to most industry analysts. But, there is pressure on Ford Canada to be successful with an upscale SUV. As one Ford marketing executive stated, "You are either in this game, or you're not! Ford Canada can bring in about $15 000 in pre-tax profit for every unit it sells." Certainly, the Lincoln automobile has a tradition that can be built on, but whether or not it can be successfully extended to SUVs is another issue. Furthermore, the Lincoln Continental tends to be popular only among the above-60-years club. Its reputation may mean little to boomers.

The target market for the Lincoln Navigator is described as people 40 to 65 years, with personal incomes of $60 000 or more, probably empty-nesters, and mainly urban dwellers. In terms of psychographics, these people are confident and accomplished. They have been successful in their careers or businesses and are not ready to stop yet. These are people who have their feet firmly planted on the ground but are willing to pay a premium for quality.

In 1998, the Lincoln Navigator was launched with a television commercial and a series of four-colour print advertisements. Messagewise, the ads use the Lincoln reputation for high quality and luxury to carry over to the new SUV. The Lincoln Navigator is promoting itself as "Perfect for a night out on the town or out of town for the night." This creative approach continued in 1999.

The Lincoln Navigator is now moving into its second stage of development, and it must differentiate itself from other luxury SUVs in order for sales to grow. The dilemma that Ford faces revolves around creative strategy and media strategy. Company executives have analyzed a few options and are torn between implementing a broad-stroke mass media campaign that will continue to raise awareness that Lincoln is making an SUV or implementing a highly targeted campaign that will effectively impact on the target market. Regardless of the approach taken, the campaign must open up customers' minds to the prospect that Lincoln makes an SUV. As well, it must get prospects into the showroom for a test drive. Ford has taken an aggressive position. On the basis of half-year sales in 1999, Ford expected to sell about 1300 units by the end of the year. In 2000, Ford's objective is to sell 1600 units, an increase of 23 percent.

THE CHALLENGE

Looking for guidance, Ford has called upon their advertising agency to develop an advertising strategy that embraces both creative and media activities. They want to ensure that the right message is being delivered to the target market as effectively and efficiently as possible. Perhaps there are other strategies that have not been considered. Your goal is to meet the stated marketing objectives for 2000. The plan must cover a one-year period. The budget is $1 500 000. Use the questions below as a guideline for developing your advertising strategy.

QUESTIONS

1. What are the relevant trends (e.g., economic trends, demographic trends, etc.) that will influence the sales of the Lincoln Navigator and other luxury SUVs?
2. What is the target market? Develop a profile on the basis of case details and any other characteristics you think are important. Confine your thinking to the Canadian market only.

3. What should the positioning strategy be for the Lincoln Navigator? Devise a clearly worded positioning strategy statement.
4. What message strategy do you recommend to differentiate the Lincoln Navigator from other luxury SUVs? Identify a key benefit statement and appropriate support claims statements.
5. What target market media strategy will be most effective for the Lincoln navigator? Is it the shotgun, profile match, or rifle strategy? Justify your selection.
6. On the basis of your target market media strategy decision, what media would you recommend to reach the target? Be specific (e.g., if you recommend magazines, what magazines, if you recommend newspapers, what newspapers, and so on). Only Canadian-based media can be considered.
7. Is seasonality a factor in determining how to allocate the budget? Should the Lincoln Navigator be pursuing reach, frequency, or continuity, or are all three variables equally important?

14. Tropic Suncare Canada, Inc.

Tropic Suncare Canada, Inc. is the Canadian arm of Tanning Research Labs, Inc. of the United States. The company is best known for its line of Hawaiian Tropic tanning and skin care products. Hawaiian Tropic is distributed nationally. The retail trade views the company as a solid and dependable supplier. They are easy to deal with and are fair in their negotiations with the trade.

Tropic Suncare has just finished test marketing a new sunscreen product with positive results. The plan now is to launch the product in the Ontario market in 2001 and then add other regions the following year, assuming success in Ontario.

Tanning Research Labs and Hawaiian Tropic have been associated with many firsts in the skin care market. They were the first to:

- Promote rich, natural ingredients for moisturizing the skin
- Use tropical coconut/banana fragrance in lotions and oils
- Place higher than 15 SPF in the North American mass market
- Develop a children's market for sun care, with the introduction of Baby Faces Sunblock and Hawaiian Tropic Just for Kids
- Introduce sunblocks without chemical sunscreens

THE SUNSCREEN MARKET

The sunscreen market is a very active market. There are several popular brands, all of which are manufactured and marketed by leading pharmaceutical and personal care companies. Each major brand tends to launch a new line extension in the spring each year as a means of starting the new sunscreen season. The key months for marketing sunscreens are March through May, along with the summer season itself when the actual buying of the products intensifies. The primary brands, companies, and their respective market shares are summarized in Figure 1.

All the leading brands listed above are marketed in Canada. The American sunscreen market is estimated to be worth $484 million at retail, and it has been growing

Figure 1

Sunscreen Market Shares—1999 (U.S.)

Rank	Brand and Company	Market Share
1	Coppertone (Schering-Plough)	30.4
2	Banana Boat (Playtex)	20.4
3	Nutragena (Johnson & Johnson)	10.7
4	Hawaiian Tropic (Tanning Labs)	8.7
	All Other (incl. Bain de Soleil)	30.3

Source: Mercedes, M. Cardona, "Sunscreens heat up products and pitches," *Advertising Age*, March 20, 2000, p. 32.

at an average annual growth rate of 5.5 percent since 1994. Therefore, on the basis of the population ratio between the United States and Canada, the Canadian market is estimated to be worth $48 million to $50 million in 2000.

Originally, sunscreen products were only available in cream form, but with all kinds of product innovation in recent years, sunscreens are available in many forms, including creams, sprays, foams, and gels. The products are packed in tubes and soft plastic containers. Tubes are growing in popularity, while the plastic containers are becoming less popular.

March 2000 was an active month for sunscreens, as each major brand launched their latest line extensions for the upcoming season. Schering-Plough's Coppertone brand launched three new lines for adults: Coppertone Shade, Coppertone Sport, and Coppertone Go Sprays. For the kids' segment of the market, Coppertone introduced Coppertone Kids Wacky Foam Sunblock, a line of mousse-like scented sunscreens.

Bain de Soleil, another Schering-Plough brand, launched two new products: an orange-scented Tanning Mist and a Sunless for Face, a self-tanning cream. These products are different from regular sunscreens as their SPF levels are below 10. Banana Boat, a Playtex brand, launched a mousse-like product for kids called Cool Colourz Vanishing Foaming Lotion. The product is a rich purple colour, but it disappears when rubbed into the skin. Playtex also launched two new versions of its waterproof Banana Boat sunblock for adults—Sport Sunblock Stick and Sport Sunblock Spray.

The nature of these new line extensions illustrates what features are important to consumers. It is a trendy kind of product category that is subject to novelty. Such characteristics as colour, product form, packaging, and brand image are all important factors that influence buying decisions.

The market is segmented on the basis of age: some products are aimed at adults, while others are aimed at kids. The kids' lines tend to possess more of the novelty product characteristics. When developing new products or line extensions, all brands consider the psychographic characteristics of the target market. Psychographics have influenced the development of sunscreens in numerous forms, as well as the development of different types of packaging. Convenience in carrying the product and applying the product are important to adult consumers. To stay current, it appears essential that a brand introduce something unique each spring.

THE PRESENT SITUATION

Tropic Suncare is poised to launch a new product called Screen d'Or. Unlike many of the line extensions introduced by competitor brands, Screen d'Or is an innovation that combines sunscreen and skin lotion in one product. Screen d'Or is to target to active men and women between the ages of 30 and 49 years.

After a year in test market, Screen d'Or achieved better-than-average results for a new product in this market. Success was gained in spite of the fact that the brand had relatively low advertising support. Given the test market results, both Tanning Research Labs and Tropic Suncare Canada feel certain that Screen d'Or has great long-term potential.

THE PRODUCT

Screen d'Or has just enough UV protection to ward off dangerous amounts of sun exposure, but not so much that it prevents "light golden" tanning. Made from natural ingredients, the product has skin-softening properties that address concerns over dry skin resulting from exposure to the sun, wind, and extreme temperatures.

Unlike many sunscreen products already on the market, Screen d'Or penetrates the skin, so it does not feel greasy. Also, the product emits a healthy, youthful scent that is not "perfumey." The scent is pleasing and appropriate for both sexes. Screen d'Or is only available in a cream lotion form.

In short, Screen d'Or is perfectly positioned as an answer to the following concerns of the target market of 30- to 49-year-olds, who actively participate in such activities as jogging, walking, cycling, hiking, skiing, and golfing.

- It is based on natural ingredients and, therefore, satisfies concerns about product purity.
- The ingredients and their skin-softening and protection properties satisfy concerns over potential skin damage due to exposure to the elements.
- Its UV protection addresses concerns over hazardous exposure to UV rays, and the UV protection level of 15 is such that users can still attain a "healthy" tanned look.
- The skin moisturizing element makes Screen d'Or comparable with any leading after-sun moisturizer.
- Its non-greasy quality appeals to highly active men and women.

The success of Screen d'Or will depend on the company's ability to position it as a dual-benefit product: it protects you from the sun, wind, and harsh temperatures naturally so that you do not have to worry about being outdoors; yet, you are able to get a healthy-looking tan. Both these benefits are key issues with the target group.

Screen d'Or is available in three sizes (50 ml, 120 ml, and 240 ml). The 50-ml size is a small squeezable plastic tube with a screw off top. The 100-ml and 200-ml sizes are upright plastic containers with a cap much like that of a shampoo bottle (the consumer presses on one side of the cap to open the other side). In test markets, the 50-ml size proved to be the most popular—it can be easily transported by active people when participating in their recreational activities. It is easily carried in a pocket or in a waistband wallet. Of the larger sizes, the 120-ml size outsold the 200-ml size by a 2:1 ratio.

PRICING

The suggested regular price for the 50-ml container will be in the $5.99 to $6.59 range, depending on the mark-up the retailer decides to take. The suggested retail prices for the 120-ml and the 240-ml sizes are $8.99 and $12.99, respectively. Prices will vary from one retailer to another.

In the sunscreen market, competitive pricing is the norm. All brands are feature priced from time to time, but the regular selling prices for all major brands and all sizes is very close. Refer to Figure 2 for a summary of retail prices.

DISTRIBUTION

Screen d'Or only has distribution in two test markets—Peterborough and Kitchener. With the full-scale launch of the product scheduled for January 2001, the goal is to secure distribution in all key pharmacy and grocery accounts in Ontario to be ready for the March pre-season. The key accounts to focus on are Shoppers Drug Mart, Pharma Plus, and Guardian Drugs; Loblaws and all its subsidiaries, and other major grocery chains; and department stores, such as Wal-Mart and Zellers.

Securing distribution is the responsibility of Tropic Suncare's own sales representatives who deal with the wholesale and retail trade. The product will be located in the sunscreen section of pharmacies, grocery stores, department stores, and discount department stores. On the basis of test market results, pharmacies are the most important distributors accounting for almost 65 percent of volume sold.

Figure 2

Average Retail Prices for Leading Sunscreen Brands

Brand	50 ml	120 ml	240 ml
Coppertone Cream	—	7.99 – 10.99	10.99 – 13.99
Coppertone Sport Lotion	—	8.99	13.39
Coppertone Sport Spray	—	8.99	—
Coppertone Kids Colourblok	—	8.99	13.49
Coppertone Kids Colourblok Spray	—	—	13.49
Coppertone Kids Foam Mousse	—	—	16.99 (175 ml)
Banana Boat Active Sport Spray	—	—	11.99 (180 ml)
Banana Boat Active Sport Lotion	—	—	11.99 (180 ml)
Banana Boat Quick Blok Kids	—	—	11.99
Banana Boat Cool Colourz Foam	—	—	11.99 (222 g)
Banana Boat Goofy Grape Spray	—	—	11.99
Banana Boat Kids Sunblok Stik	5.99	—	—
Nutragena	—	11.99	—
Nutragena Kids	—	11.99	—
Hawaiian Tropic	—	—	9.49 – 10.99
Hawaiian Tropic Sport	—	—	10.99 (180 ml)
Bain de Soleil	—	9.99 (90 ml)	12.99

MARKETING COMMUNICATIONS STRATEGY

In the test markets, marketing efforts were concentrated on print advertising in the local newspapers, point-of-purchase material, and a strong trade promotion program. Some radio spots were also run on local stations. The theme of the ads was "Screen d'Or …for the active tan." Point-of-sale material was also built around the "active tan" theme. Shelf-danglers were used to draw attention to the product and tear-off coupons positioned right by the product in the stores were used to generate trial purchase. Retailers periodically promoted Screen d'Or as a weekly special. An ad for Screen d'Or would appear in the retailer's flier, and the price would be reduced temporarily.

No product changes are being made for the Ontario launch, but the company does have a few concerns about various elements of the marketing communications strategies. First of all, senior executives think a stronger message has to be delivered. It is their opinion that the "active tan" concept does not portray the dual benefits of the product. Second, securing a high degree of trial purchase is essential, so this aspect of the plan must be given priority. In-store coupons worked effectively in test markets, but additional activities will be needed in order to penetrate through the clutter of competitive activity that is anticipated.

The company is looking for an appropriate mix of advertising and sales promotion activities to get Screen d'Or off to a good start. Since the company does not have a significant budget, it must spend the available money wisely. Test market experience shows that once people try Screen d'Or, they like it, and they do return for another purchase. The key, then, is getting the consumers to make a trial purchase.

THE CHALLENGE

Tropic Suncare is looking for an advertising and sales promotion program to build trial purchase over the late spring and early summer months of 2001. The program should build some sense of fun and excitement around the product.

Tropic Suncare is open to any and all suggestions that will create awareness and encourage trial purchase. As their marketing communications consultant, they have called upon you for a set of recommendations. The program you recommend must be consistent with an image of quality and substance that is both inherent in the product and crucial in gaining credibility with the highly educated and mostly urban target audience. The sales promotion aspect of the plan should consider the consumer, the distributors, and the sales force.

The marketing objectives for Screen d'Or in 2001 are as follows:

1. To achieve an awareness level of 60 percent among the adult target market.
2. To generate a trial purchase rate of 25 percent among the adult target market.
3. To secure a 75 percent distribution level in key retail accounts in Ontario.

Tropic Suncare has not established a definitive budget, but a ceiling of $500 000 seems reasonable. The financial outlook for Screen d'Or for the next two years is included in Figure 3. If you recommend adjusting the budget, proper and adequate justification must be provided. Use the questions below as guidelines for developing your marketing communications strategies.

Additional Notes Regarding Financial Summary:

- Retail sales are based on an 8 percent market share in 2001 and a 12 percent market share in 2002.
- Sales revenue in Ontario considers wholesale and retail mark-ups totalling 30 percent.
- The marketing budget expressed as a percentage of sales in 2002 drops to 25 percent of sales.

Figure 3

Screen d'Or Financial Summary

Profit & Loss Statement	**Assumptions**	**2001**	**2002**
Canadian market $	+5% each year	52 500 000	55 125 000
Ontario market $	40% of total market	21 000 000	22 050 000
Market share objective	8% in '01; 12% in '02	1 680 000	2 646 000
Sales revenue	70% of retail sales	1 176 000	1 852 200
Cost of goods sold	60% of gross sales	705 600	1 111 320
Gross profit		470 400	740 880
Expenses:			
Administration expenses	10% of sales	117 600	185 220
Marketing expenses	40% of sales in '01	470 400	463 050
Net profit before tax		(117 600)	(92 610)

QUESTIONS

1. What is the primary target market for Screen d'Or? Should the target market profile be defined more precisely? If so, provide a more complete description.
2. What should the positioning strategy statement be for Screen d'Or? Consider the dual benefits and unique selling points when formulating the statement.
3. Should certain elements of the marketing communications mix be considered more important than others in this case? Consider the stage of the product life cycle and the marketing objectives when arriving at your answer.
4. Is the budget sufficient to accomplish the marketing objectives? Analyze the financial summary and assess the ratio of marketing spending to sales. If you recommend changing the budget, provide appropriate justification for the change.
5. What message about Screen d'Or should be communicated to the target market? Identify the key benefit statement and appropriate support claims statements. What creative strategy do you recommend (e.g., lifestyle, humour, factual)?
6. What media do you recommend to reach the target market? Be as specific as you can. Remember that the product will only be available in Ontario.
7. How would you allocate the budget among the various elements of the marketing communications mix? Be as specific as possible and make sure that any funds allocated to sales promotion are divided between consumer promotion and trade promotion.

15. Naya Inc.

Naya Inc. is a Canadian bottled water company based in Laval, Quebec. The company got its start 13 years ago when it acquired a natural spring water source in Quebec's Laurentian Mountains. It operates two plants: one is in Mirabel, Quebec, and the other is in Revelstoke, British Columbia. Over the past decade, the company has experienced double-digit sales growth annually. In 1997, Naya made a profit of $8.2 million (Canadian) on sales of $121.3 million. In 1998, it was $11.5 million on sales of $165 million. Naya's controlling shareholder is Ahmad Hbouss, who holds 60 percent of the company. The Royal Bank of Canada holds 20 percent, with the remaining 20 percent held by the Quebec Federation of Labour Solidarity Fund.

THE BOTTLED WATER MARKET

In Canada, Naya presently ranks 6th in market share, holding 5.9 percent of the market. Among national brands, Evian is the leader, holding 20 percent market share. The actual market leader is a collection of private label brands that have a market share of 21.8 percent. The latest available market share trends among the leading brands are included in Figure 1.

Considering the size of the market and Naya's present market share, Naya's Canadian sales volume is $4.5 million. Bottled water is now the fastest growing segment in the beverage industry in North America. Each year from 1996, growth has been in the 20 percent range.

Naya relies heavily on the American market for revenues. The United States presently accounts for about 60 percent of volume and generates $99 million in sales. Loss of business in the United States could have a devastating effect on the whole company, and that is the situation that Naya is presently dealing with.

Figure 1

Canadian Market Share Trends—Bottled Water

Rank	Brand	Share 2000	Share 1999	Change
1	Private Label	26.9	21.6	+5.3
2	Evian (G)	20.0	24.9	-4.9
3	Montclair (P)	11.5	9.0	+2.5
4	Aquafina	10.3	9.3	+1.0
5	Danone (G)	9.2	7.9	+1.3
6	Naya (N)	5.9	8.0	-2.1
7	Aberfoyle (A)	3.9	1.1	+2.8
8	Dasani (C)	3.0	0.0	+3.0
9	Volvic (G)	2.7	10.0	-7.3
10	Cristalline (AC)	0.4	0.7	-0.3
	Others	6.2	7.7	-1.3
	Market Size	**$77.2 million**	**$62.8 million**	**+22.9**

(G)=Great Brands of Europe Inc., Toronto; (P)=Perrier Group of Canada Limited; (PC)=Pepsi-Cola Bottling Group; (N)=Naya Inc; (A)=Aberfoyle Springs Water Co.; (C)=Coca-Cola Beverages Ltd.; (AC)=Alex Coulomb Ltd.

THE PRODUCT

Naya is a natural spring water taken from sources deep beneath the Canadian Shield in Quebec and the Selkirk Mountains in British Columbia. The spring water contains a wholesome balance of minerals (e.g., calcium and magnesium) and is free from contaminants, calories, and carbonation. The water is packed in an innovative and environmentally friendly plastic bottle.

THE CUSTOMERS

Consumer research suggests that female consumers between the ages of 14 and 34 years are the primary users of bottled water. The consumers are young singles and couples, but all age groups do consume bottled water. The target is the health-conscious, contemporary, and socially aware person.

Naya appeals to a wide range of people, but the primary users are the young and athletic types who identify with the cool and dynamic image of Naya. Naya is associated with well-known celebrities, sports figures, and events.

NAYA'S AMERICAN MARKET EXPERIENCE

Naya was a classic Canadian success story. It offered a quality and trendy product in the fastest growing beverage segment in the United States, and it had a snappy advertising slogan—"hungry for life, thirsty for Naya." In developing its presence in the American market, Naya's key to success was its distribution agreement with Coca-Cola Enterprises Inc., a company that operates one of the most powerful distribution networks in the world. Coca-Cola Enterprises (CCE) is Coca-Cola's largest bottler in the United States. The working relationship between Naya and CCE had been so good that it was only two years ago that CCE offered to buy Naya. Naya refused the offer but should have foreseen what lay ahead.

In February 1999, a key part of the picture changed. It was then that Coca-Cola U.S. decided to introduce a bottled water brand of its own called Dasani. Naya executives were informed that, as of May 1999, they would have to find a new distributor for their bottled water.

Coca-Cola Enterprises also handles distribution for other products. In fact, contract agreements between CCE and private companies, such as Naya, account for 12 percent of the company's case volume. CCE was also the distributor for Evian bottled water, a brand with much more market share than Naya. Coca-Cola Enterprises could not justify carrying three different lines of bottled water so Naya was shown the door!

Dasani is a different product, but the degree of difference in the minds of consumers is questionable. Dasani is nothing more than purified tap water with minerals added. In contrast, Naya is bottled fresh from a pair of Canadian springs and is priced higher than Dasani. In defending the decision not to distribute Naya, a spokesperson of Coca-Cola Enterprises said, "We believe a purified water such as Dasani provides Coca-Cola Enterprises with a high-growth, high profit product that will capture a significant share of the bottled water category. To consumers who are interested in natural spring water, we will offer Evian."

With both Pepsi and Coke offering their own line of bottled water, bigger marketing plans will be in the works. This will complicate things for a smaller brand like Naya. The funds available for trade support programs in the United States will be nowhere near what marketing giants like Pepsi and Coke can offer. Historically, being

successful in the bottled water business came down to distribution and packaging. Now, the playing field will be changing, and at the end of the day, there is going to be only so much shelf space.

Caught off guard by the news, Naya had to scramble to organize a new distribution system. It switched to a method that uses brokers to take its products to stores. Such a method has its drawbacks, as securing distribution in convenience stores, gas stations, and other smaller accounts is a greater challenge. These are accounts routinely serviced by trucks owned by CCE. Brokers tend to focus on larger key accounts and only cover smaller accounts sporadically. The level of after-sales service provided by brokers is another area of concern for a company like Naya. On the positive side of things, Naya employs a broker distribution system in Canada, so it does have some experience it can call upon. On the negative side, the retail market in the United States (grocery, drug and discount department stores) is not nearly as concentrated (ownership concentration) as it is in Canada. In Canada, a good broker network can provide adequate coverage at both the wholesale and retail levels. The same cannot be said of the American market.

What effect does the decision by CCE have on Naya? According to John Sicher, publisher of Beverage Digest, "They are probably going to lose somewhere in the range of 30 percent of their volume. The reason is, when a product is distributed in the Coke bottling system, it is in every vending machine, nook, and cranny in the United States."

In the wake of Coca-Cola's decision, Naya started the public relations spin in order to protect its image with the trade. Naya placed ads in Beverage World touting its relationship with CCE over the years. The ads made statements like, "It's been a great relationship," and "While you (CCE) supplied the distribution, we supplied the finest quality product and a commitment to invest in marketing and advertising. Together, we made a successful brand even better." Naya wanted the industry to know that it was Naya, not Coca-Cola, that was the promotional force behind the brand.

By December 1999, Naya was in financial trouble. While the company stated it would continue normal operations, it was filing a notice of intention to make a proposal to its creditors under the Bankruptcy and Insolvency Act. At the time, the company owed about $102 million. Naya's goal was to restructure the company while maintaining full daily operations. By the end of 1999, Naya's sales tumbled to about $100 million, compared with $165 million in 1998.

Naya's move to seek court protection came only seven months after Coca-Cola's decision to drop it from its American distribution network. CCE had been responsible for delivering two-thirds of Naya's sales volume ($66 million) in the United States—Naya's major market. Over this period, Naya continued to build relationships with brokers and other distributors in the United States to serve everything from grocery chains to corner stores, but sales results were far less than desirable.

Some industry analysts suggest that Naya executives have only themselves to blame for the current predicament. Should Naya have depended so heavily on one distributor? "They were riding the tiger," said one analyst, adding that the possibility always existed that Coke might get into the water business.

GROUPE DANONE ENTERS THE PICTURE

In June 2000, Groupe Danone of France, the world's second largest seller of mineral water acquired most of the assets of Naya Inc. The purchase included the Naya trademark and the production plant in Mirabel, Quebec. As a result of the acquisition, Danone will be marketing four different brands of water: Evian, Danone, Volvic, and Naya. The company will take command of the Canadian market as the collective market share for all brands is 37.1 percent. Naya will be marketed by Great Brands of Europe Inc., the North American subsidiary of Groupe Danone.

Prior to the acquisition, Group Danone already owned the two largest regional distributors of water in Quebec: Patrimoine des Eaux du Quebec (35 percent market share) and Labrador Laurentienne Inc. (25 percent market share). Naya is the third-ranked brand in Quebec (15 percent market share).

Danone is a global company that has a lot of marketing clout. Worldwide, it is the market leader in fresh dairy products and sweet biscuits, and it is the second largest bottled water company. Danone is a relatively new company that has grown very quickly (the company was formed in 1966). As of 1999, sales revenues were 13.293 billion euros ($C18.335 billion) and operating income was 1.381 billion euros ($C1.905 billion). The company employs 75 000 people in 150 countries. It has an excellent reputation for quality food and beverage products.

Geographically, France accounts for 34 percent of revenues, the rest of Europe 37 percent, and other markets 29 percent. Danone is not nearly as prominent in North America as it is in Europe. Presently, bottled waters account for 28 percent of sales volume, dairy products 47 percent, biscuits 22 percent, and other products 2 percent.

THE CHALLENGE

Naya has a major problem to solve in the United States, and securing new channel partners is a priority. Your objective is to devise a new distribution strategy for the American market. Also, Naya's market share position is not all that satisfactory in Canada. Now that Danone will be responsible for marketing the brand, perhaps some new marketing initiatives should be undertaken to build the Canadian business. Your objective is to devise a plan that will build market share in Canada. Use the questions below as guidelines for developing appropriate marketing strategies.

QUESTIONS

1. Will Danone and Great Brands of Europe Inc. have too many brands for the Canadian market? Is it practical for the company to coordinate the marketing activities for so many brands in one market?
2. In terms of distribution strategy, particularly in a foreign market, what lessons has Naya Inc. learned?
3. Assume that Naya was not taken over by Danone. What new distribution strategies would you recommend to Naya in order to recover its position in the American market? In responding to the question, consider the various distribution alternatives available to companies who want to enter a foreign market. Will things be different for Naya now that Danone owns the brand?

4. Should other elements of the marketing mix be considered in order to rebuild Naya's business in the United States? If so, what specific recommendations can you provide?
5. Should Naya be concentrating more on building market share in Canada? What marketing strategies do you recommend to improve the Canadian situation? Consider all the elements of the marketing mix in arriving at a new set of strategies.

Adapted from **www.naya.com**, **www.bottledwater.org**, **www.danonegroup.com**; Theresa Ebden, "Danone acquires Naya's trademark, Quebec plant," *The Globe and Mail*, June 17, 2000, p. B4; Casey Mahood, "Naya getting ready to uncap creditor proposals," *The Globe and Mail*, December 18, 1999, p. B3; Jan Ravensbergen, "Water bottler Naya files for protection," *The Financial Post,* December 18, 1999, p. D7; **marketingmag.ca/ index**, "Report on market shares," June 5, 2000; and Constance Hays, "Naya set adrift after Coke sinks distribution deal," *The Globe and Mail*, May 28, 1999, p. B6.

16. Waterloo Life Insurance Company

INTRODUCTION

You work for an advertising agency. Your company responded to a questionnaire by Waterloo Life Insurance Company. After making the short list, your agency has been asked to prepare a communications strategy for review by the client. Several other agencies will be making a similar presentation. What is at stake is the Waterloo Life Insurance account. Do a good job on this assignment, and the entire account will be yours.

THE CLIENT

Waterloo Life Insurance Company is a mid-sized company with its headquarters in southwestern Ontario.

While not considered a major player in the insurance business, the company is a respected and venerable member of the Canadian financial services establishment, having opened its doors in Waterloo, Ontario, in the early 1900s.

The company has maintained a strong and loyal franchise through several generations of solid and conservative business management.

THE SITUATION

Up until the past decade, the company has experienced steady, but certainly not spectacular, growth. Since the mid-1980s, however, things have changed.

The bulk of its business, life insurance premiums, has been in a slow and gradual decline.

Not only has the company found it hard to attract new clients, but for the first time, it has seen a significant migration of its existing policyholders to other insurance companies.

The basis of the company's success, the foundation upon which it has flourished for almost a century, is its reputation as a solid and dependable institution. This image and the close customer relationships the company has managed to maintain have been the company's core equity.

Results of a recent research study showed that the company's image of conservatism and reliability remains a distinct asset among its existing clientele and potential new customers.

The company's target market, which skews towards the 35-years-plus Canadian men and women, who still like to think of their insurance company as a sober and cautious institution.

The problem is that policyholders are being lured away by other insurers, who are offering all kinds of "added-value" products. The losses are not due to dissatisfaction with Waterloo's products or services but because its competitors are perceived to be going a little bit further. The company senses it must do something to revitalize its image without detracting from it.

THE IDEA

A new marketing director has come on board and decided to shake things up a little. After studying the problem, the director has created a new added-value service to be called Travel Guard or TravAlert.

It is aimed at many of the company's customers who travel to the southern United States during the winter. The product addresses their growing concern with personal safety, especially in the Florida area.

Here is how it works:

The company is positioning the service as a special added-value program that is provided free of charge to policyholders. If you are planning a holiday in the United States, you simply call into the company, ask for Travel Guard or TravAlert, and then punch in your policy number.

Your call is then forwarded to the Travel Guard (TravAlert) Centre, and an interactive dialogue is established between you and the service. You can select any location in the United States by pressing a series of telephone keyboard commands. Once you have selected a destination, you will be automatically mailed a dossier on the location from a perspective of personal safety. The dossier includes such items as:

1. An overall personal safety rating for the location
2. Warnings on specific areas to avoid
3. Personal safety do's and don'ts for the destination
4. Local environmental conditions
5. Entertainment and local attractions

In addition, Travel Guard (TravAlert) has set up a service arrangement with all car-rental agencies that guarantees that any car rented by a member of Travel Guard (TravAlert) will automatically have any car-rental identification removed from the vehicle. Rental agencies will also provide members with a "survival kit," which includes a mace-like defence spray and a high-pitched aerosol-based alarm canister.

Environmental conditions that may present a risk will be identified. Updates on sun exposure and air and water quality as well as tips on how to deal with them will be provided. The location and cost of various local attractions will also be available. In short, the package provides a complete, customized service aimed at minimizing personal safety fears. A theme-line that would be used to promote Travel Guard (TravAlert) has not yet been developed.

THE CHALLENGE

The marketing director has a strong media bias. The director's point of view is summed up this way: find the consumer first, identify the most efficient and effective means of reaching that consumer, and then develop the appropriate message. The director is particularly interested in hearing about new ideas on how to use the media outside the conventional magazines, television, radio, and newspapers.

The objective is to get the message out to current and potential clients of the existence of Travel Guard (TravAlert). The tone of the message should suggest dependability and innovativeness and be strong on customer orientation. A recommendation on which name to use should be part and parcel of the overall plan.

The target market is widespread but concentrated mostly along the Windsor-to-Montreal corridor. The male:female ratio is 1:1, and the market tends to be equally divided between large urban centres and smaller cities and towns. They are mainly conservative, traditional, and *English-speaking* people. At least half are retired, but they represent a huge asset base.

The client's mind is wide open. The director wants to see some innovative communications concepts (message and media). The budget for the plan is $750 000 for time and space. Your agency need not concern itself with production expenses at this time.

All objectives, strategies, and execution detail should be documented in a plan format. The plan must meet the general objectives stated in this document. In terms of the communications plan, the document must, at the very least, include allocation of funds by medium, by market, and by time of year. Some secondary research on markets in the target marker area may be necessary. For the purposes of the plan, consider the calendar year to be January to December. Support your recommendations with a convincing rationale.