Cases in Marketing

edited by

Hanne Hartvig Larsen

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Introduction

Hanne Hartvig Larsen

A profound need of up-to-date relevant European cases to support courses in marketing is a fitting description of the origin of this case book. At every CEMS school, teachers in marketing felt that it became increasingly unacceptable to rely upon American cases with which few students can identify. The principal aim of the project undertaken by the CEMS Interfaculty Group on Marketing was to produce a comprehensive collection of high-quality cases sufficiently diverse to support a wide range of marketing courses.

The book aims to show a 'European' marketing dimension. While it is impossible to define completely what we mean by 'European' marketing, we think it is typified by the idea of diverse markets and consumers. Our examples are also many and varied. They range from luxury chocolates and jewellery to heating systems and mobile telephone networks. They span a local base – shopping centres and the infiltration of Italian coffee to the German market – and the international base, illustrated by the Saatchi & Saatchi case. From students' and teacher's point of view, the skills required are also various and indicative of those needed in the life of a creative researcher and practitioner in the area. Questions of strategy are debated and elaborated in five cases: MediaMarkt, WILO, Illycaffè, Norsk Hydro Fertilizers and Mobile Telephone Network Operators. The need for data to inform decisions is illustrated and focused on (although within a theoretical framework) in the cases of Honeywell in St Petersburg, Collective de l'Or, Guardian Properties and International Tourism Marketing. The tourism case study offers computer software to enable teachers and students to develop their information systems skills in a marketing framework. Finally, two case studies focus particularly on the issue of globalization: Saatchi & Saatchi Worldwide and Godiva Europe.

The case book, in conjunction with Jordi Montaña (ed.), *Marketing in Europe: Case Studies*, hopefully provides a complete picture of European marketing. The book is targeted on or aimed at graduate or third level students working individually or in teams. A separate *Teaching Guide* is available from the publisher on request.

Distribution channel decisions are among the most important strategic issues for most companies. Taking full advantage of market potentials over time often requires reconsideration of the distribution structure used according to altered competitive positions. The **Illy in Germany** case, written by Pamela Adams (Bocconi), focuses on the aspects of the decision process on whether or not to renew the distribution agreement with the present distributor in Germany. Illycaffè is a small family-owned Italian company producing a line of high quality espresso coffee which it sells primarily in cafes and restaurants. In the 1990s the company began to enter the home consumer segment (through the food distribution channel) and the office segment (supplying pods for coffee machines). Since 1978 a major player in the German coffee industry, Hag, have had the responsibility for the distribution of Illy's espresso coffee to bars and restaurants throughout Germany. Questions posed are: Would it be possible to export the company's domestic strategy for market penetration into the German context? Would it be possible for Illy to develop a strategic position in Germany through an agreement with Hag or with another distributor? The questions are of general interest whenever renewal of distribution agreements is focused on.

In entering highly competitive markets, small and medium-sized enterprises (SME) in particular might benefit from a strategy of cautious, long-term and stepwise approach instead of challenging established operators head-on. **Norsk Hydro Fertilizers in the United States**, written by Bjarne Bakka (Norwegian School of Economics and Business Administration), provides a basis for evaluating pros and cons of such an approach. Thus the case – separated in two parts – focuses on the strategic essence of a firm's long-term internationalization. In the first part case-specific problems are raised, in the second part the students receive information on how the problems were actually solved by the company and are asked to develop alternatives and evaluate the choices made against these alternatives.

Category killers, retailers who concentrate on one or very few product categories, experience success in many countries. The challenges from this new market entrant faced by the competitors and market participants in a country are analysed in **MediaMarkt: the price-active market entry into Switzerland**, written by Christian Belz, Thomas Rudolph and Hermann Schindler (Universität St Gallen). MediaMarkt is Europe's largest electronic retailer. The case deals with European marketing as seen from the perspective of the competitors and market participants in a country. International marketing means more than internationalization or expansion into new markets abroad, but also implies successfully asserting oneself in one's own market *vis-à-vis* new international competitors. The case provides the background for discussing questions such as: How successful will the new market entrant be in Switzerland? How will the market structure and the rules of competition change? Should suppliers of consumer electronics supply this new customer? How can the existing retailers react against this new competitor?

Rapidly changing industries often require alteration of strategic choices made by the market participants. In **Mobile Telephone Network Operators**, written by Per Andersson, Staffan Hultén and Bengt G. Mölleryd (Stockholm School of Economics), the focus is on several strategic issues faced by Telia Mobitel, a subsidiary of Telia, the former state monopolist of telecommunications operations in Sweden. The questions of choice of new/divestment of old technologies, of strategic decisions concerning network technologies and problems concerning decisions about vertical integration in distribution are raised. Although dealing with a Swedish company in Sweden, the case illustrates how the rapid changes in the technology, in the regulatory structure and in the market structure characteristic for all European markets require important strategic decisions.

The challenge related to international marketing ('think global, act local') is addressed in the **WILO** case written by Axel Faix, Susanne Schwamborn-Epple and Richard Köhler (Universität zu Köln). The case study deals with the situation of EMB-Pumpenbau AG in the Swiss market. EMB, a subsidiary of the internationally operating WILO GmbH, offers heating pumps in this market. EMB is confronted with a difficult crisis comprising a rapidly declining market share due to inadequate coordination between WILO and EMB and failure on the part of EMB to adjust to changing market demands. The students are asked to draft a systematic marketing plan for the Swiss market which will enable EMB to overcome the crisis. The plan must make allowances for the fact that EMB is expected to perform a special role as part of an internationally operating company.

Whilst the cases mentioned so far focus on strategic issues, some cases are more focused on the use of marketing data to inform decisions of a more limited or tactical character. The application of traditional analytical tools to real-life-problems offers students the chance to improve their analytical skills.

The difficulties in isolating the effects of a special communication effort from other variables influencing sales and attitudes are highlighted in the **Collective de l'Or** case written by Bernard Dubois (Groupe HEC). The case aims at evaluating a gold jewellery advertising campaign conducted over a three-year period, thus providing an input to the decision of the national jewellers' and goldsmiths' association on whether or not to continue the campaign. The case offers rich opportunities to use several market research tools.

Before setting up a marketing strategy several steps have to be taken. For example, description of the market is needed, as is a description of the potential customers and their needs and attitudes. The **Honeywell in St Petersburg** case, written by Jean-Jacques Lambin (Université Catholique de Louvain) and Inge Vanfraechem, addresses the problems faced by an international company wanting to introduce an existing product in a new market which is in many ways different from the 'known' Western European markets. As very little is known about the actual situation of potential customers in St Petersburg, the importance of segmentation prior to the development of a marketing strategy is one of the issues demonstrated in the case. Students are also asked to perform a traditional SWOT analysis as an input for the strategic consideration of Honeywell.

Multifactor portfolio models represent another analytical tool and the case written by Josef A. Mazanec (Wirtschaftsuniversität Wien) on **International Tourism Marketing** aims to train students in applying this tool to a real-world problem. Taking the viewpoint of the management of a National Tourist Organization (NTO), the case offers a method for the computation of attractiveness of the 'markets' (i.e. the tourism-generating countries) and the competitive position occupied by the respective receiving country. The first CEMS marketing case book (ed. Montaña, 1994) presented a growth-share portfolio model for evaluating the generating countries relevant to a country's inbound tourism. This case is the next step. Having performed the analyses recommended, the students are asked to make policy recommendations for the NTO as to which generating countries should be given priority in allocating promotional funds.

Making students aware of the kinds of data used in a research programme sharpens their ability to decide what information is needed, and to be critical towards the methodology used is an important part of preparing them for problem-solving in practice. The case written by Celia Phillips (London School of Economics) gives these opportunities. **Guardian Properties: the management of a local and an international shopping centre** gives the results of a research programme carried out over a number of years in two shopping centres owned by Guardian Properties. It highlights the different problems faced by these centres, the first being a new centre in a strong local shopping area, and the second a shopping centre in a major tourist area. Special emphasis is given to the question of targeting customers. By comparing data from the two centres students should be able to outline the different strategies at hand for each centre.

Among the cases in this book, two specifically focus on globalization – an issue highly debated among managers and researchers today. The standardization versus customization dilemma is a main topic in the **Godiva Europe** case written by Jean-Jacques Lambin (Université Catholique de Louvain). The president of Godiva Europe has received an outline for an international advertising campaign which seems to fit the United States but not Europe and specifically Belgium – the birthplace of chocolates and Godiva Europe's largest single market. The focus of the case is on Godiva's advertising strategy and message, but important issues related to product policy, pricing strategy and distribution practices are also addressed. Based on information on consumer purchasing behaviour and consumption in the chocolate praline market and the major differences observed among countries, the students are asked, among other issues, to evaluate the idea of a single global advertising campaign.

Also the **Saatchi & Saatchi Worldwide** case, written by Ron J.H. Meyer and Ad Th. Pruyn (Erasmus Universiteit, Rotterdam), provides a platform to discuss globalization. Saatchi & Saatchi Advertising Worldwide, the second largest advertising group in the world, was highly successful until it faced near bankruptcy in 1990. The history of the company from 1970 to 1991 is reconstructed, so that the reader can form an opinion on the company's globalization. The case ends in 1991 with two key strategic questions that need to be answered. First, does Saatchi & Saatchi's 'one-stop communication shopping' concept make sense, or is there little added value to having a wide range of communication services within one corporation? Second, does Saatchi & Saatchi's 'global marketing' concept make sense, or are there too few customers who are really in need of global campaigns?

It can be seen that some of the cases deal with global marketing strategies while others examine the use of different strategies for different markets. Together and in combination with the cases in the first volume (ed. Montaña), they give a good idea of the kind of marketing taking place in Europe.

It is worth discussing whether there is such a thing as European marketing. The members of CEMS Interfaculty Group in Marketing have debated this for years without reaching a clear conclusion to date. We hope that the cases presented here, as well as the cases in the first volume, offer a basis for the reader to draw his or her own conclusion on the issue of European marketing versus marketing in Europe. Our aim is that students and teachers will find they can use this book constructively both inside and outside a class and seminar framework, and at different levels of detail. In many cases, of course, we expect that students will approach these cases as group projects, where they replicate a marketing team. However, sufficient guidelines have been given for individual study and work where conditions suit this approach more readily.

1

Illy in Germany

Renewal of distribution agreements

Pamela Adams

A central theme in international marketing concerns the choice of entry mode in foreign markets. This issue is particularly relevant for small and medium size companies in the initial phases of the internationalization process and when restructuring and rationalization is required. The choice of entry mode for each country must be coherent with a company's strategy, objectives and resources. As resources become increasingly scarce, interest is growing in entry modes based on strategic alliances with other partners.

Illycaffè is a family-owned company in Italy seeking to export its premium quality espresso coffee to sophisticated consumers around the world. The case questions whether a distribution alliance with another coffee company is more efficient and more coherent with the marketing strategy than the development of its own salesforce in the German market.

In 1990, Riccardo Illy, grandson of the founder of Illycaffè and Marketing Manager of the company for the home market of Italy, was given responsibility for sales and marketing in Illy's foreign markets. Since joining the family company in 1977 at age 21, Riccardo Illy had successfully implemented a strong marketing programme in Italy for Illycaffè's line of espresso coffee; between 1983 and 1990, in fact, company sales had increased from 21 billion lire to 67 billion lire.

One of the first items on his agenda for the international division in November of 1990 was to renegotiate the distribution agreement that the company had established in Germany with Hag, a major player in the German coffee industry. This cooperative agreement, which dated back to 1978, gave responsibility to Hag for the distribution of Illy's espresso coffee to bars and restaurants throughout Germany. Although this agreement had produced a steady growth of sales over the years, the competitive position of both companies had changed quite significantly since the original signing of the contract: Illycaffè had grown while Hag had come under the wing of the Philip Morris group, which also controlled one of Illy's international competitors, Jacobs Suchard. Riccardo Illy, therefore, had to decide whether or not to renew the distribution agreement and, if so, under what conditions.

Company background

Illycaffè was founded in Trieste, a large city in the northeast of Italy, by Francesco Illy in 1933. Francesco Illy was a true gourmet who sought to provide his customers with the highest quality espresso coffee. He developed advanced systems to select and roast the coffee beans, but he soon discovered that he also needed to find a way to protect his product from long exposure to oxygen and humidity as it was being transported from Trieste to other parts of Italy and the world. His solution was an airtight can and a pressurization system that utilized nitrogen and inert gas for closure. To his surprise, the pressurization system he developed to protect the packaged coffee and maintain freshness actually worked to improve the taste and aroma of the coffee during the first few weeks as well. This packaging concept, along with Francesco Illy's dedication to the pursuit of excellence, formed the foundations of the corporate culture and company strategy of Illycaffè.

By 1990 Illycaffè had a total of 150 employees. It was a family-owned company whose shares were divided between Ernesto Illy, his wife, and their four children, all of whom occupied various management positions within the company.

While other Italian coffee producers eventually added espresso coffee to their product lines of mocha and filter coffee, Illycaffè distinguished itself by producing only espresso coffee. Although the espresso market in Italy was smaller in absolute terms than the market for mocha coffee, it had grown steadily in the 1970s and 1980s. The other coffee segments had suffered slight declines during the same period. In 1990 Illy sold 1,750 tons of espresso to the CHR segment, 750 tons to the home segment and 50 tons to the office segment.[1]

What is espresso?

Italy is well known for its history, art and culture, but Italian wine and cuisine are also part of the country's attraction for people from around the world. Espresso coffee is an essential element of that cuisine; it is for many a symbol of the Italian culture.

It must be appreciated that espresso is very different from other types of coffee. Essentially there are two ways to extract flavour and aroma from the ground coffee bean: steeping and percolating. In the first case, the ground coffee is mixed directly with boiling water and is allowed to steep for several minutes. A filter is then used to remove the grinds from the liquid beverage. In the second case (percolation), boiling water is passed rapidly through fine ground coffee powder. There are several methods to percolate coffee: the 'filter' or 'napoletana' method lets the weight of the water itself (gravity) pull it through the coffee powder; the 'mocha' method creates steam pressure to push the water through the coffee; the 'espresso' method uses water at 194 degrees fahrenheit and 9–10 atmospheres of pressure. The higher the pressure, the less time it takes for the coffee to percolate: the filter method requires several minutes, while the mocha method requires one minute and the espresso method only 30 seconds. The different methods also result in different levels of caffeine in the cup of coffee: the filter method (largely diffused across the USA and in Northern Europe) results in 90–125 mg of caffeine per cup, while the espresso method produces a cup with only 60–120 mg of caffeine.

Coffee consumption around the world

Coffee is probably the leading beverage in the world. Coffee drinking has been adapted over the years to the culinary traditions of different countries, with variations not only according to the blends, but also according to preparation methods and drinking habits. Where coffee was made through

Exhibit 1 ***Threats and opportunities in the world market for espresso coffee, 1990***

Opportunities

1 An increase in per capita income
2 A consumer orientation towards quality products that are not harmful to one's health
3 An increase in the number of meals eaten outside the home
4 More request for 'personalized' products
5 Mobile youth, with higher incomes and more concern for health
6 Growth of food boutiques
7 Diffusion of food products as status symbols
8 Growing consumer interest in caffeine content of coffee brands
9 Development of bar and restaurant chains and franchising
10 Growing consumer information

Threats

1 Increase in size of older age groups that drink less coffee and go out to eat less often
2 Coffee not yet regarded as healthy part of diet
3 New competitors enter the market with production of pods for espresso systems
4 Producers using colorants may provoke anti-coffee campaigns by consumer groups
5 Growing strength of consumer groups claiming caffeine is bad for health
6 According to Article 85 of the Treaty of Rome, Illycaffè cannot control the selling price of Illy espresso coffee in a distribution channel. Nor can Illy limit the distribution activities of its distributors in third countries, except in cases in which these distributors were to establish permanent sales subsidiaries in these third countries

Source: Illycaffè

the filter method using considerable amounts of water (particularly in Scandinavia), it functioned as a thirst quencher, even during meals; this accounts for the high consumption rates in these countries. In other countries coffee was consumed more for its stimulating properties. Those who drank espresso normally coupled it with food only at breakfast.

Exhibit 1 lists a number of threats and opportunities in the world coffee industry identified by Riccardo Illy as factors that might have affected world demand for espresso coffee.

The Illy way

Company culture at Illycaffè was based on two basic elements: the desire to maintain Illycaffè as a family-owned and -run business and the conviction that the company produced an absolutely superior product. The company invested considerable energy into consolidating a high level of identification with the company and its dedication to quality throughout all levels of the organization. As one sales agent remarked, 'the company image and strategy was clearly defined and was reflected in all aspects of the business. The employees of Illy understood the focus on quality, felt a part of it, and therefore worked hard to make it a success.'

The basis of Illycaffè's strategy of differentiation from its competitors was precisely the dedication to producing a quality product. In order to maintain high standards, the management focused not only on the packaging system, but also on the careful selection and control of the coffee beans used in production.[2] Illycaffè employed only 100% Arabic beans in production and had contributed to the invention of sophisticated machinery that was able to eliminate any defective beans from each batch used in production.[3] The company also dedicated 3% of sales annually to research and quality control.

The advertising and promotion policies of Illycaffè in Italy also focused on the quality of the product, linking it to the brand name in order to increase brand loyalty. It was difficult for producers to ensure that coffee served in cafes was identified by brand. However, because most consumers believed coffee made in bars and restaurants was better than that made at home, a strong presence in the CHR segment could help a brand's retail image in the home segment. Illy reinforced its brand name in cafes by asking the owners to display Illy signs and logos both outside the bars to attract customers and inside the bars to recall the brand name. The marketing policies adopted by the management helped Illy to get a premium price for its coffee, often even double the price of the next highest competitor in this market.

But Illy's premium price policy presented specific problems in the CHR segment. In Italy consumer prices for coffee in bars and public places were fixed by the industry association and all bars abided by this agreement. Therefore, the higher the price that bar operators had to pay for coffee, the