The Indian Institute of Business Management & Studies

SUBJECT: Marketing Management Marks: 100

Note: Solve any 4 Cases Study's

[20 Marks Each Case Study)

CASE: I Playing to a new beat: marketing in the music industry

Good old fashioned rock 'n' roll could be dead. If a mobile phone ringtone in the shape of the vocalizations of the animated Crazy Frog dominates the billboard charts for months on end, then it could well signal the death knell for the industry, and how it operates. If this ubiquitous amphibian's aurally annoying song, converted from a mobile phone ringtone, outsold even mainstay acts such as Oasis and Coldplay, why should music companies invest millions in cultivating fresh musical talent, hoping for them to be the next big thing, when their efforts can be beaten by basic synthesizer music? The industry is facing a number of challenges that it has to address, such as strong competition, piracy, changing delivery formats, increasing cost pressures, demanding pri-madonnas and changing customer needs. Gone are the days when music moguls were reliant on sales from albums alone, now the industry trawls for revenue from a variety of sources, such as ringtones, merchandising, concerts, and music DVDs, leveraging extensive back catalogues, and music rights from advertising, movies and TV programming.

The music industry is in a state of flux at the moment. The cornerstone of the industry—the singles chart—has been facing terminal decline since the mid-1990s. Some retailers are now not even stocking singles due to this marked freefall. Some industry commentators blame the Internet as the sole cause, while others point to value differences between the price of an album and the price of a single as too much. Likewise, some commentators criticize the heavy pre-release promotion of new songs, the targeting of ever-younger markets by pop acts, and the explosion of digital television music channels as root causes of the single's demise. The day when the typical record buyer browses through rows of shelves for a much sought-after band or song on a Saturday afternoon may be thing of the past.

Long-term success stories for the music industry are increasingly difficult to develop. The old tradition of A&R (which stands for 'Artists & Repertoire') was to sign, nurture and develop musical talent over a period of years. The industry relied on continually feeding the system with fresh talent that could prove to be the next big thing and capture the public imagination. Now corporate short-term thinking has enveloped business strategies. If an act fails to be an immediate hit, the record label drops them. The industry is now characterized by an endless succession of one-hit wonders and videogenic artist churning out classic cover songs, before vanishing off the celebrity radar. Four large music labels now dominate the industry (see Table 1), and have emerged through years of consolidation.

Table 1 The 'big four' music labels

Universal Music	**Sony BMG**
The largest music label, with 26 per cent of global music market share; artists on its roster include U2, Limp Bizkit, Mariah Carey and No Doubt	Merger consolidated its position; artists on its roster include Michael Jackson, Lauryn Hill, Westlife, Dido, Outkast and Christina Aguilera
Warner Music	**EMI**
Third biggest music group; artists on its roster include Madonna, Red Hot Chili Peppers and REM	Artists on its roster include the Rolling Stones, Coldplay, Norah Jones, Radiohead, and Robbie Williams

The 'big four' labels have the marketing clout and resources to invest heavily in their acts, providing them with expensive videos, publicity tours and PR coverage. This clout allows their acts to get vital airplay and video rotation on dedicated TV music channels. Major record labels have been accused of offering cash inducements of gifts to radio stations and DJs in an effort to get their songs on playlists. This activity is known in the industry as 'radio payola'.

Consumer have flocked to the Internet, to download, to stream, to 'rip and burn' copyrighted music material. The digital music revolution has changed the way people listen, use and obtain their favourite music. The very business model that has worked for decades, buying a single or album from a high-street store, may not survive. Music executives are left questioning whether the Internet will kill the music business model has been fundamentally altered. According to the British Phonographic Industry (BPI), it estimated that 8 million people in the UK are downloading music from the Internet—92 per cent of them doing so illegally. In 2005 alone, sales of CD singles fell by a colossal 23 per cent. To put the change into context, the sales of digital singles increased by 746.6 per cent in 2005. Consumers are buying their music through different channels and also listening to their favourate songs through digital media rather than through standard CD, cassette or vinyl. The emergence of

MP3 players, particularly the immensely popular Apple iPod, has transformed the music landscape even further. Consumers are now downloading songs electronically from the Internet, and storing them on these digital devices or burning them onto rewritable CDs.

Glossary of online music jargon

Streaming: Allows the user to listen to or watch a file as it is being simultaneously downloaded. Radio channels utilize this technology to transmit their programming on the Internet.

'Rip n burn': Means downloading a song or audio file from the Internet and then burning them onto rewritable CDs or DVD.

MP3 format: MP3 is a popular digital music file format. The sound quality is similar to that of a CD. The format reduces the size of a song to one-tenth of its original size allowing for it to be transmitted quickly over computer networks.

Apple iPod: The 'digital jukebox' that has transformed the fortunes of the pioneer PC maker. By the end of 2004 Apple is expected to have sold 5 million units of this ultra-hip gadget. It was the 'must-have item' for 2003. The standard 20 GB iPod player can hold around 5000 songs. Other hardware companies, such as Dell & Creative Labs, have launched competing devices. These competing brands can retail for less than £75.

Peer-to-peer networks (P2P): These networks allow users to share their music libraries with other net users. There is no central server, rather individual computers on the Internet communicating with one another. A P2P program allows users to search for material, such as music files, on other computers. The program lets users find their desired music files through the use of a central computer server. The system works lime this; a user sends in a request for a song; the system checks where on the Internet that song is located; that song is downloaded directly onto the computer of the user who made the request. The P2P server never actually holds the physical music files—it just facilitates the process.

The Internet offers a number of benefits to music shoppers, such as instant delivery, access to huge music catalogues and provision of other rich multi-media material like concerts or videos, access to samples of tracks, cheaper pricing (buying songs for 99p rather than an expensive single) and, above all, convenience. On the positive side, labels now have access to a wider global audience, possibilities of new revenue streams and leveraging their vast back catalogues. It has diminished the bargaining power of large retailers, it is a cheaper distribution medium than traditional forms and labels can now create value-laden multimedia material for consumers. However, the biggest problem is that of piracy and copyright theft. Millions of songs are being downloaded from the Internet illegally with no payment to the copyright holder. The Internet allows surfers to download songs using a format called 'MP3', which doesn't have inbuilt copyright protection, thus allowing the user to copy and share with other surfers with ease. Peer to peer (P2P) networks such as Kazaa and Grokster have emerged and pose an even deadlier threat to the music industry—they are enemies that are even harder to track and contain. Consumers can easily source and download illegal copyrighted material with considerable ease using P2P networks (see accompanying box).

P2P Networks used for file sharing

Kazaa
Gnutella
Grokster
Morpheus
eDonkey
Imesh
Bearshare
WinMX

A large number of legal download sites have now been launched, where surfers can either stream their favourite music or download it for future use in their digital libraries. This has been due to the rapid success of small digital medial players such the Apple iPod. The legal downloading of songs has grown exponentially. A la carte download services and subscription-based services are the two main business models. Independent research reveals that the Apple's iTunes service has over 70 per cent of the market. Highlighting this growing phenomenon of the Internet as an official channel of distribution, new music charts are now being created, such as the 'Official Download Chart'. Industry sources suggest that out of a typical 99p download, the music label get 65p, while credit card companies get 4p, leaving the online music store with 30p per song download. These services may fundamentally eradicate the concept of an album, with customers selecting only a handful of their favourite songs rather than entire standard 12 tracks. These prices are having knock-on consequences for the pricing of physical formats. Consumers are now looking for a more value-laden music product rather than simply 12 songs with an album cover. Now they are expecting behind the scenes access to their favourite group, live concert footage and other content-rich material.

Big Noise Music is an example of one of the legitimate downloading sites running the OD2 system. The site is different in that for every £1 download, 10p of the revenue goes to the charity Oxfam.

The music industry is ferociously fighting back by issuing lawsuits for breach of copyright to people who are illegally downloading songs from the Internet using P2P software. The recording industry has started to sue thousands of people who illegally share music using P2P. They are issuing warnings to net surfers who are P2P software that their activities are being watched and monitored. Instant Internet messages are being sent to those who are suspected of offering songs illegally. In addition, they have been awarded court orders so that Internet providers must identify people who are heavily involved in such activity. The music industry is also involved heavily in issue advertising campaigns, by promoting anti-piracy websites such as www.pro-music.org to educate people on the industry and the impact of piracy on artists. These types of public awareness campaigns are designed to illustrate the implications of illegal downloading.

Small independent music labels view P2P networks differently, seeing them as vital in achieving publicity and distribution for their acts. These firms simply do not have the promotional resources or distribution clout of the 'big four' record labels. They see P2P networks as an excellent viral marketing tool, creating buzz about a song or artist that will ultimately lead to wider mainstream and commercial appeal. The Internet is used to create communities of fans who are interested in their music, providing them access to free videos and other material. It allows independent acts the opportunity to distribute their music to a wider audience, building up their fan base through word of mouth. Savvy unsigned bands have sophisticated websites showcasing their work, and offering free downloads as well as opportunities for audio-philes to purchase their tunes. Alternatively major labels still see that to gain success one has to get a video on rotation on MTV and that this in turn encourages greater airplay on radio stations, ultimately leading to increased purchases.

Table 2 The major legitimate online music provider

Name	Details	Pricing
Apple iTunes	Huge catalogue of over 750,000 songs; compatible with Apple's very hip iPod system; offers free single of the week and other exclusive material	79p per track, £7.99 per album
Napster	The now-legitimate website offers over 1,000,000 songs; offers several streaming radio stations too	Subscription based—subscribers pay £9.99 a month to stream any of the catalogue, plus another 99p to download on to a CD
Sony Connect	over 300,000 songs from the major labels; excellent sound quality but compatible only with Sony products due to proprietary file formats	From 80p- £1.20 per track, and £8- £10 per album
Bleep.com	Small catalogue of 15,000 songs with a focus on independent music labels; high-quality downloads due to media files used	99p per track, £6.99 per album
Wippit	UK-based service; 175,000 songs to download; gives a selection of free tracks every month	From 30p to £1 to download; alternatively, users can subscribe to the service for £50 a year to gain access to 60,000 songs
OD2 System, used by:Mycokemusic.com HMV.com MSN.com TowerRecord.co.uk Big Noise Music	These online sites use the OD2 system for music downloads; they look after encryption, hosting, royalty management and the entire e-commerce system; provides access to nearly 350,000 tracks from 12,000 recording artists	Varying product bundles, typically 99p for track download, and 1p for streaming

For traditional music retailers the retailing landscape is getting more competitive, with multiple channels of distribution emerging due to the Internet and large supermarket chains now selling music CDs. Supermarkets are becoming one of the main channels of distribution through which consumers buy music. These supermarkets are stocking only a limited number of the best-selling music titles, limiting the number of distribution outlets for new and independent music. Only charts hits and greatest hits collections will make it on to the shelves of such outlets.

Now consumers can buy albums from traditional Internet retailers such as Amazon.com, and also on websites that utilize access to grey markets such as cdwow.co.uk, as well as through legitimate download retailers. This has left traditional music retail operations with a severe conundrum: how can they entice more shoppers into their stores? The accompanying box highlights where typical shoppers source their music at present.

Where do people buy their music?

Music stores (like HMV, Virgin Megastore)	16 per cent
Chains (like Woolworth, WHSmith)	16 per cent
Supermarkets (like Tesco, Asda)	21.6 per cent
Mail order	3.9 per cent
Internet sales (like Amazon.com)	7 per cent
Downloads	Not yet measured

The issue of online music retailers using parallel importing, such as CDWOW (www.cdwow.co.uk) is a concern. These retailers are taking advantage of worldwide price discrepancies for legitimate music CDs, sourcing them in low-cost countries like Hong Kong and exporting them into European countries. Prices for music in these markets are considerably lower than the market that they are exporting to, and they don't even charge for international delivery. Yet technological improvements have led to revenue opportunities for the industry. Development such as online radio, digital rights management, Internet streaming, tethered downloads (locked to PC), downloads (burnable, portable), in-store kiosks, ring-tones, mobile message clips and games soundtracks are great potential revenue sources. In an effort to unlock this potential the major labels have digitized their entire back catalogues. In the wake of these dramatic environmental changes the industry has had to radically adapt. The 'big four' music labels are consolidating even further, developing a digital music strategy, and re-evaluating their entire traditional business model. Mobile phones are seen as the next primary channel of distribution for digital music. High penetration levels in the market for mobile phones and the inherent mobility advantages make this the next crucial battlefield for the music industry.

The Internet may emerge as the primary channel of distribution for music, and the music industry is going to have to adapt to these changes. The move towards the online distribution of entertainment is still in its infancy, with more investment into the telecommunications infrastructure, such as greater Internet access, increased access to broadband technology, 3G technology and changing the way people shop for music will undoubtedly take time. The digital revolution will fundamentally change the way people purchase and consume their musical preferences. In forthcoming years the digital format will become more mainstream, leading to a proliferation of channels of distribution for music. However, as with most new channels of technology, catalogue shopping, Internet shopping likewise, and 'video never really killed the radio star'… but will the Internet kill the record store?

Questions:

1. Discuss the micro and macro forces that are affecting the music industry.
2. Based on this analysis, what strategic options would you recommend for both music publishers and music retailers in the current marketing environment?
3. Discuss the advantages and disadvantages associated with online distribution from a music label's perspective.

CASE: II The Sudkurier

The Sudkurier is a regional daily newspaper in south-western Germany. On average 310,000 people in the area read the newspaper regularly. The great majority of those readers subscribe to its home delivery service, which puts the paper on their doorsteps early in the morning. On the market for the last 35 years, the Sudkurier contains editorial sections on politics, the economy, sports, local news, entertainment and features, as well as advertising. The newspaper is financially independent and its staff is free of any political affiliation. Management at the Sudkurier would like to bring the paper into line with the current needs of its readers. For this purpose, the management team is considering the use of market research.

Management would like to have information about the following.

1. What newspaper or other media are the Sudkurier's main competitors?
2. Do most readers read the Sudkurier for the local news, sports and classified ads, and should these sections therefore be expanded at the expense of the sections on politics and the economy?
3. Should the Sudkurier's layout be modernized?
4. Do mostly lower levels of society read the Sudkurier?
5. Into what political category do readers and non-readers the Sudkurier?
6. Which suppliers of products and services consider the Sudkurier especially appropriate for their advertising?
7. What advertising or information dot the readers think is missing from the Sudkurier?

You are an employee of the Sudkurier who has been instructed to obtain the requested information and to prepare your findings for the decision-makers. You are in the fortunate position of receiving regular reports about the people's media use from the Arbeitsgemeinschaft Media-Analyse e.V. Relevant excerpts from the most recent survey are shown here as Tables 3 and Table 4

Table 3 Media analysis of readership structure

Range in Circulation Area (1)		Readers per edition of SUDKURIER			National average in %
		RANGE		Total	
		in %	Absolute	in %	
Total		53.5	310,000	100.0	100.0
Gender	Men	55.5	150,000	49.0	47.2
	Women	51.6	160,000	51.0	52.8
Age Groups	14-19 years	51.8	20,000	8.0	7.2
	20-29 years	41.0	50,000	15.0	19.1
	30-39 years	52.1	50,000	16.0	16.4
	40-49 years	61.8	50,000	16.0	15.2
	50-59 years	61.1	60,000	19.0	16.5
	60-69 years	53.6	40,000	13.0	13.5
	70 years and older	57.4	40,000	13.0	12.2
Educational Level	Secondary school without apprenticeship	49.4	60,000	18.0	17.6
	Secondary school with apprenticeship	50.8	100,000	31.0	39.6
	Continuing education without Abitur	60.8	110,000	36.0	27.0
	Abitur, university preparation, university/college	49.7	50,000	15.0	15.8
Occupation	Trainee, pupil, student	44.7	40,000	11.0	11.0
	Full-time employee	54.6	160,000	50.0	51.7
	Retire, pensioner	57.3	70,000	23.0	21.8
	Unemployed	52.4	50,000	16.0	15.5
Occupation of main wage earner	Self-employed, mid- to large business/Freelancer	63.8	20,000	5.0	3.1
	Self-employed, small business,/Farmer	59.9	30,000	10.0	7.1
	Managers and civil servants	58.6	30,000	9.0	8.7
	Other employees and civil servants	49.3	120,000	40.0	42.9
	Skilled staff	57.6	100,000	32.0	32.5
	Unskilled staff	38.7	10,000	4.0	5.6
Net Household Income/month	4500 and more	62.7	100,000	31.0	23.9
	3500-4500	52.7	60,000	19.0	20.8
	2500-3500	54.9	80,000	26.0	25.9
	to 2500	44.1	70,000	23.0	29.3
Number of wage earners	1 earner	45.4	100,000	33.0	40.4
	2 earner	56.5	130,000	41.0	42.6
	3 earner	62.7	80,000	25.0	16.9
Household Size	1 Person	41.8	50,000	14.0	17.9
	2 Persons	55.5	90,000	29.0	31.8
	3 Persons	59.5	70,000	22.0	22.4
	4 Persons and more	54.8	110,000	35.0	27.9
Children in Household	Children less than 2 years of age	52.7	10,000	4.0	3.8
	2 to less than 4 years	38.4	10,000	4.0	5.4
	4 to less than 6 years	45.8	10,000	5.0	5.2
	6 to less than 10 years	43.8	20,000	8.0	8.5
	10 to less than 14 years	54.1	30,000	10.0	9.2
	14 to less than 18 years	57.7	50,000	16.0	13.7

	No children under 14	54.9	250,000	79.0	77.4
	No children under 18	53.6	210,000	67.0	68.1
Driving Licence	yes	55.2	250,000	80.0	73.0
	no	47.3	60,000	20.0	27.0
Private Automobile		55.5	270,000	86.0	80.0
Garden	own garden	60.4	240,000	76.0	57.0
	without garden	39.8	70,000	23.0	43.0
Housing	own house	62.1	180,000	58.0	46.0
	own apartment	45.9	10,000	3.0	3.0
	rent house or apartment	44.7	120,000	38.0	49.0
Electrical Appliances	Freezer/Deep freeze	59.6	200,000	62.0	51.0
Last Holiday Journey	Within the last 12 months	55.1	190,000	62.0	n.a.
	1-2 years ago	51.0	40 ,000	14.0	n.a.
	More than two years ago	48.6	50 ,000	16.0	n.a.
	Never	55.4	30 ,000	9.0	n.a.
Last Holiday Destination	Germany	57.4	70 ,000	23.0	n.a.
	Austria, Switzerland, South Tyrol	48.7	60 ,000	20.0	n.a.
	Elsewhere in Europe	53.4	130,000	42.0	n.a.
	Country outside Europe	51.4	20 ,000	5.0	n.a.
	Did not travel	56.4	30 ,000	9.0	n.a.

1) Entire circulation area 310 ,000 readers per edition
Example:
53.5% of people older than 14 years in the circulation of the Sudkurier daily
55.5% of all men older than 14 years and 51.6% of women older than 14 read the Sudkurier daily; that is 150 ,000 men and 160 ,000 women.

Table 4 Reader behavior

What purchasing information is used? Media purchasing information for medium and long-term acquisition (11 product areas; Basis: total population) Daily newspaper 61% Posters on the street 9 % Leaflets 36 % Television 24% Radio 13% Magazines 27 % Free newspapers 49%	Credibility of advertising in the media Advertising in… is generally believable and reliable (Basis: broadest user group in each case) Regional newspaper 49% Television 30% Public radio 20% Privately-owned radio 14 % Magazines 15% Free newspaper 23%
Advertising in… is most informative (Basis: broadest reading group) Regional newspapers (subscription) 62 % Television 47% Public Radio 29% Privately-owned radio 26% Magazines 27 %	Time spent reading daily newspaper (Basis: broadest user group) less than 15 minutes 7 % 15-24 minutes 21 % 25-34 minutes 28 % 35-65 minutes 34 % more than 65 minutes 10 %

Free newspapers 36 %	
I often consult/depend on advertising in… (Basis: broadest user group in each case) Regional newspapers (subscription) 27 % Television 11% Public Radio 89% Privately-owned radio 6% Magazines 7 % Free newspapers 18 %	

Questions:

1. Explain how you will methodically go about compiling the requested information covered in the seven questions for management. Include in your explanation an estimate of the expense involved in obtaining the information.

2. Develop a 10-question questionnaire for the purpose of making a survey.

CASE: III Unilever in Brazil: marketing strategies for low-income customers

After three successful years in the Personal Care division of Unilever in Pakistan, Laercio Cardoso was contemplating attractive leadership positioning China when he received a phone call from Robert Davidson, head of Unilever's Home Care division in Brazil, his home country. Robert was looking for someone to explore growth opportunities in the marketing of detergents to low-income consumers living in the north-east of Brazil and felt that Laercio had the seniority and skills necessary for the project. Though he had not been involved in the traditional Unilever approach to marketing detergents, his experience in Pakistan had made him acutely aware of the threat posed by local detergent brands targeted at low-income consumers.

At the start of the project—dubbed 'Everyman'—Laercio assembled an interdisciplinary team and began by conducting extensive field studies to understand the lifestyle, aspirations and shopping habits of low-income consumers. Increasing detergent use by these consumers was crucial for Unilever given that the company already had 81 per cent of the detergent powder market. But some in the company felt that it should not fight in the lower cost structures struggled to break even. How could Laercio justify diverting money from a best-selling brand like Omo to invest in a lower-margin segment?

Consumer behavior

The 48 million people living in the north-east (NE) of Brazil lag behind their south-eastern (SE) counterparts on just about every development indicator. In the NE, 53 per cent of the population live on less than two minimum wages versus 21 per cent inn the SE. In the NE, only 28 per cent of households own a washing machine versus 67 per cent in the SE. Women in the NE scrub clothes in a washbasin or sink using bars of laundry soap, a process that requires intense and sustained effort. They then add bleach to remove tough stains and only a little detergent powder in the end, primarily to make the clothes smell good. In the SE, the process is similar to European or North American standards. Women mix powder detergent and softener in a washing machine and use laundry soap and bleach only to remove the toughest stains.

The penetration and usage of detergent powder and laundry soap is the same in the NE and the SE (97 per cent). However, north-easterners use a little less detergent (11.4 kg per years versus 12.9 kg) and a lot more soap (20 kg versus 7 kg) than south-easterners. Many women in the NE view washing clothes as one of the pleasurable routine activities of their week. This is because they often do their washing in a public laundry, river or pond where they meet and chat with their friends. In the SE, in contrast, most women wash clothes alone at home. They perceive washing laundry as a chore and are primarily interested in ways to improve the convenience of the process.

People in the NE and SE differ in the symbolic value they attach to cleanliness. Many poor north-easterners are proud of the fact that they keep themselves and their families clean despite their low income. Because it is so labour intensive, many women see the cleanliness of clothes as an indication of the dedication of the mother to her family, and personal and home cleanliness is a main subject of gossip. In the SE, where most women own a washing machine, it has much lower relevance for self-esteem and social status. Along with price, the primarily low-income consumers of the NE evaluate detergents on six key attributes (Figure 1 provides importance ratings, the range of consumer expectations, and the perceived positioning of key detergent brands on each attribute).

Competition

In 1996 Unilever was a clear leader in the detergent powder category in Brazil, with an 81 per cent market share, achieved with three brands: Omo (one of Brazil's favourate brands across all categories) Minerva (the only brand to be sold as both detergent powder and laundry soap with a more hedonistic 'care' positioning) and Campeiro (Unilever's cheapest brand). Proctor & Gamble, which had recently entered the Brazilian market, had 15 per cent of the market with three brands (Ace, Bold and the low-price brand Pop). Other competitors were smaller companies (see Figure 2).

The Brazilian fabric wash market consists of two categories: detergent powder and laundry soap. In 1996 detergent was a US$106 million (42,000 tons) market in the NE. In 1996 the NE market for laundry soap bars was as large as the detergent powder market (US$102 million for 81,250 tons). The NE market for laundry soap is much easier to produce than powdered laundry detergent. Laundry soap is a multi-use product that has many home and personal care uses. Table 5 provides key information on all powder and laundry soap brands (packaging, positioning, key historical facts, and financial and market data).

Table 5

Brand	Packaging	Positioning	Key Data
OMO	Cardboard pack: 1 kg & 500g.	Removes stains with low quantity of product when used in washing machines, thus reducing the need for soap or bleach.	S: 55.20 WP: 3.00 FC: 1.65 PKC: 0.35 PC: 0.35
Minerva	Cardboard pack: 1 kg & 500g.		S: 17.60 WP: 2.40 FC: 1.40 PKC: 0.35 PC: 0.30
Campeiro	Cardboard pack: 1 kg & 500g.		S: 6.05 WP: 1.70 FC: 0.90 PKC: 0.35 PC: 0.20
Ace	Cardboard pack: 1 kg & 500g		
Bold	Cardboard pack: 1 kg & 500g.		
Pop	Cardboard pack: 1 kg & 500g.		
Invicto	Cardboard pack: 1 kg & 500g.		
Minerva	Plastic pack with 5 bars of 200g.		
Bem-te-vi	Plastic pack with 5 bars of 200g or single bar of 200g.		

Figure 1 & 2 Market Share and wholesale Price of Major Brands in the Laundry Soap and Detergent Powder Categories in the Northeast in 1996

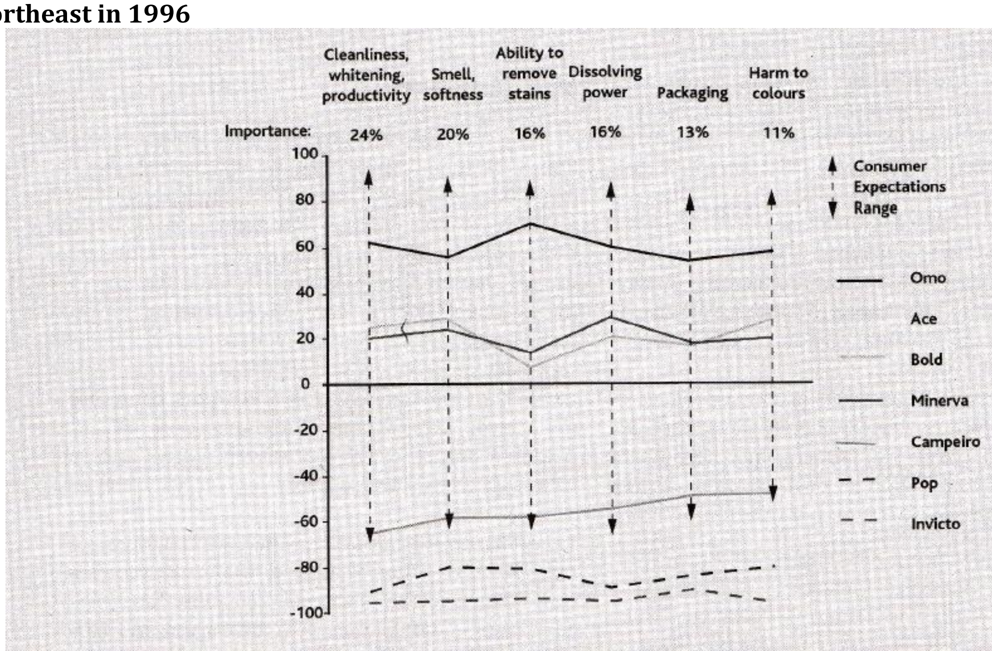
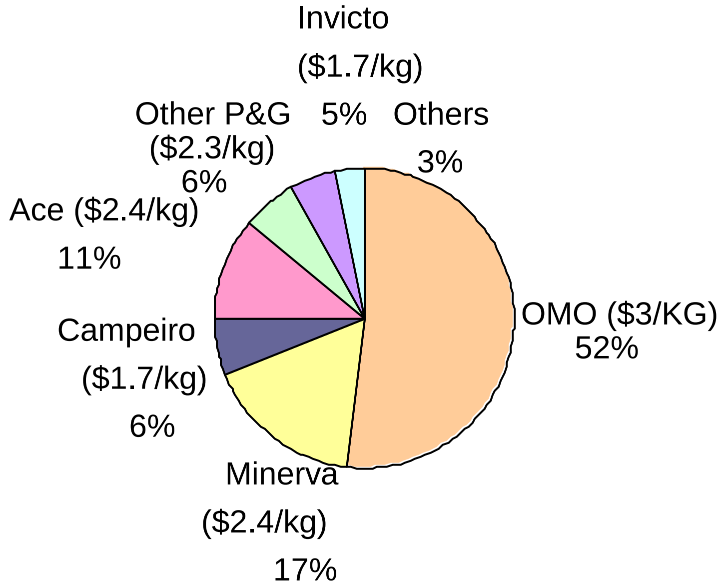
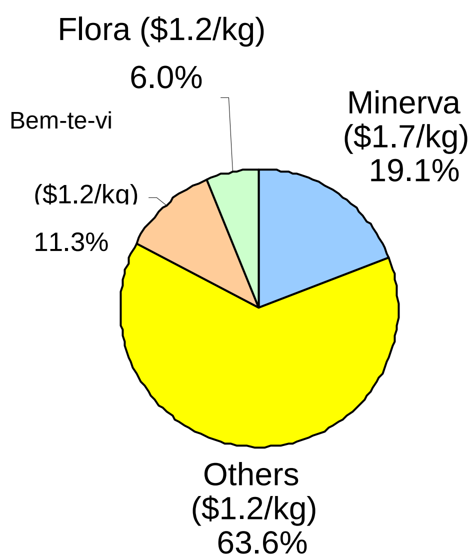


Figure C5.1 Attribute importance, brand positioning and consumer expectations in the north-east





Decisions

Robert Davidson, head of Unilever's Home Care Division in Brazil, and Laercio Cardoso, head of the 'Everyman' research project aided at understanding the low-income consumer segment, must re-examine Unilever's strategy for low-income consumers in the NE region of Brazil and make three important decisions.

1. *Go/no go.* Should Unilever divert money from its premium brands to invest in a lower-margin segment of the market? Does Unilever have the right skills and structure to be profitable in a market in which even small local entrepreneurs struggle to break even? In the long run, what would Unilever gain and what would it risk losing?
2. *Marketing and branding strategy.* Unilever already has three detergent brands with distinct positionings. Does it need to develop a new brand with a new value proposition or can it reposition its existing brands or use a brand extension?
3. *Marketing mix.* What price, product, promotion and distribution strategy would allow Unilever to deliver value to low-income consumers without cannibalizing its own premium brands too heavily? Is it just a matter of price?

Product

Unilever could produce a product comparable to Campeiro, its cheapest product, but would it deliver the benefits that low-income consumers wanted? Alternatively, Unilever could use Minerva's formula but it might be too expensive for low-income consumers. If they could eliminate some ingredients, Unilever's scientists could develop a third formula that would cost about 10 per cent more than Campeiro's formula. The difficulty would be in determining which attributes to eliminate, which to retain and which, if any would actually need to be improved relative to both existing brands.

Larger packages would reduce the cost per kilo but could price the product out of the weekly budget range of the poorest consumers. Unilever could use a plastic sachet, which would cost 30 per cent of the price of traditional cardboard boxes, but market research data had shown that low-income consumers were attached to boxes and regarded anything else as good for only second-rate products. One solution might be to launch multiple types and sizes.

Price

Priced significantly above Campeiro and Minerva soap, the product would be out of reach for the target segment. Priced too low, it would increase the cost of the inevitable cannibalization of existing Unilever brands. Should Unilever use coupons or other means to reduce the cost of the product for low-income consumers? Or should it change the price of Omo, Minerva and Campeiro?

Promotion

In the low-income segment, lower margins meant that volume had to be reached very quickly for the product to break even. It was therefore crucial to find a radical 'story', one that would immediately put the new brand on the map. What would be the objective of the communication? What should be the key message? Low-income consumers might be reluctant to buy a product advertised 'for the low-income people' especially as products with that kind of message are typically of inferior quality. On the other hand, using the classic aspirational communication of most Brazilian brands could confuse consumers and lead to unwanted cannibalization.

In regular detergent markets Unilever had established that the most effective allocation of communication expenditure was 70 cent above-the-line (media advertising) and 30 per cent below-the-line (trade promotions, events, point- of-purchase marketing). The advantages of using primarily media advertising are its low cost per contact and high reach because almost all Brazilians, irrespective of income, are avid television watchers. One alternative would be to use 70 per cent below-the-line communication. At US$0.05 per kg, this plan would require only one-third of the cost of a traditional Unilever communication plan. On the other hand, it would lower the reach of communication, increase the cost of per contact, and make a simultaneous launch in all north-eastern cities more difficult to organize.

Distribution

Unilever did not have the ability to distribute to the approximately 75,000 small outlets spread over the NE, yet access to these stores was key because low-income consumers rarely shopped in large supermarkets like Wal-Mart or Carrefour. Unilever could rely on its existing network of generalist wholesalers who supplied its detergents and a wide variety of products to small stores. These wholesalers had national coverage and economies of scale but did not directly serve the small stores where low-income consumers shopped, necessitating another layer of smaller wholesalers, which increased their cost to US$0.10 per kg. Alternatively, Unilever could contract with dozens of specialize distributors who would get exclusive rights to sell the new Unilever detergent. These specialized distributors would have a better ability to implement point of purchase marketing and would cost less ($0.05 per kg).

Question:

1. Describe the consumer behaviour differences among laundry products' customers in Brazil. What market segment exists?
2. Should Unilever bring out a new brand or use one of its existing brands to target the north-eastern Brazilian market?
3. How should the brand be positioned in the marketplace and within the Unilever family of brands?

Case 4 Ryanair: the low fares airlines

The year 2004 did not begin well for Ryanair. On 28 January, the airline issued its first profits warning and ended a run of 26 quarters of rising profits. On that day, when the markets opened, the company was worth €5 billion. By close of business, its value had shrunk to worth €3.6 billion, as its share price plunged from worth €6.75 to €4.86. Investors were dismayed by the airline's admission that it was facing 'an enormous and sudden reduction of 25 to 30 per cent in yields' (i.e. average fare levels) in the first quarter of 2004 (the last fiscal quarter of 2004). This was on top of an earlier fall of 10 to 15 per cent in the first nine months.

In April 2004, Chief Executive Michael O'Leary forecast a 'bloodbath', an 'awful' 2004/2005 winter for European airlines, amid continuing fare wars, with a shakeout among the many budget airlines. 'We will be helping to make it awful,' warned Mr O'Leary, as he announced an 800,000 free seats giveaway. The most difficult markets were predicted to be Germany and the UK regions where many new carriers, which were 'losing money on an heroic scale', had entered the arena. O'Leary anticipated that the company's 2004 profits would decline by 10 per cent, while 2005 profits would increase by up to 20 per cent with a 5 per cent drop in yields. However, if yields were to fall by as much as 20 per cent, the 2005 outcome would be break-even, at best.

Yet, by 31 May 2005, on Ryanair's 20th birthday, the carrier was able to announce record results for the year ended 31 March 2005. Both passenger volumes and net profits grew year on year by 19 per cent to 27.6 million from 23.1 million and €268.9 from €226.6 million respectively. The all- important passenger yield figure (revenue per passenger) grew by 2 per cent, partially offsetting the 14 per cent yield decline in 2003/2004. Ancillary revenues were 40 per cent higher, rising faster than passenger volumes, which resulted in total revenues rising by 24 per cent to €1.337 billion. Operating costs rose 25 per cent, fractionally more than revenue growth, due principally to higher fuel costs. The 2005 results announcement was followed by a 3.4 per cent jump in the company's share price, to close to €6.46 on the day.

Ryanair's adjusted after-tax margin for the full year at 20 per cent compared very to figures for Aer Lingus, British Airways, easyJet, Lufthansa, Southwest and Virgin, with margins of 8, 1, 3, minus 5, 7, .1 per cent respectively (2003/2004 results). Despite the dire warnings and the temporary dip in fiscal 2004, Ryanair had arguably come through its crisis with flying colours. How did it manage this?

Overview of Ryanair

Ryanair, Europe's first budget airline, with 229 routes across 20 countries at of May 2005, is one of the world's most profitable, fastest-growing carriers. Founded in 1985 by the Ryan family as an alternative to the then state monopoly carrier Aer Lingus, Ryanair started out as a full-service airline. After accumulating severe financial losses, finally, in 1990/91, the company came up with a survival plan, spearhead by Michael O'Leary and the Ryans, to transform itself into a low-fares no-frills carrier, based on the model pioneered by Southwest Airlines, the Texas-based operator. Ryanair, first floated on the Dublin Stock Exchange in 1997, is quoted on the Dublin and London Stock exchanges and on NASDAQ, where it was admitted to the NASDAQ-100 in 2002. In June 2005, Ryanair's market capitalization stood €5 billion, the second highest carrier in the world, next to Southwest Airlines, and ahead of airlines with vastly greater turnover—such as Lufthansa with capitalization at €4.7 billion, British Airways at €4.3 billion and Air France/KLM at €3.5 billion. Its market capitalization was nearly four times that of easyJet, its UK-based budget airline rival. This was despite easyJet's higher turnover, similar passenger volumes and a slightly larger fleet.

Ryanair's fares strategy

Ryanair's core strategy entails offering the lowest fares, and the airline claims that it generally makes its lowest fares widely available by allocating a majority of seat inventory to its two lowest fare categories. In fact, was Ryanair, originally styled as the 'low-fares airline', actually becoming a 'no-fares airline'? Half of Ryanair's passenger will be flying for free by 2009, pledged Michael O'Leary in an interview with a German newspaper. He said that ticket prices would fall by an average 5 per cent a year over the next five years, as passenger numbers grew by five million annually. One analyst speculated that Ryanair pronouncement on free seats 'is designed to put the wind up potential competitors in the hotly contested German market. Of course, a balance must be struck between low fares to attract customers and a sufficient yield to ensure viability.

An integral part of the low fares strategy is revenue enhancement through ancillary activities, increasingly used to subsidize airfares in order to improve Ryanair margins to compensate for falls in fare yields. These include on-board sales, charter flights, travel reservations and insurance, car rentals, in-flight television advertising, and advertising outside its air-craft, whereby a corporate sponsor pays to paint an aircraft, whereby a corporate sponsor pays to paint an aircraft with its logo. Advertising on Ryanair's popular website also provides ancillary income. Despite the abolition of duty-free sales on intra-EU travel in 1999, Ryanair's revenue from duty-paid sales and ancillary services has continued to rise. In 2005, ancillary revenues comprised 18.3 per cent of total operating revenue, up from 16.1 per cent the year before, and the ambition is to grow at twice the rate of increase in its passenger traffic. The company has outlined plans to continue raising ancillary revenues through further penetration of existing products and the introduction of new ones, especially on-board entertainment and gaming products/services. Ryanair is also considering entering the highly competitive mobile phone market and has been in talks with various UK operators with a view to forming a joint venture.

Its low fares policy notwithstanding, Ryanair was able to realize a 2 per cent growth in yields in fiscal 2005. This is attributable to a number of favourable factors in the competitive landscape. Underlying passenger growth volumes returned in the industry as a whole, reducing the intensity of competition. Mainstream European operators like British Airways, Lufthansa and Air France/KLM were increasingly abandoning the short-haul sector, preferring to concentrate their growth on more lucrative long-run haul routes. Moreover, these airlines reacted to the massive price rise in the cost of aviation fuel by introducing a fuel surcharge on their fares. For example, the surcharge levied by British Airways equated to 22 per cent of an average Ryanair fare.

Another favourable factor was the failure of the threat of new entrants to materialize. Michael O'Leary's prophecy of a 2004/2005 winter bloodbath in the European airline industry had been based on the forecast of many new entrants into the budget airlines sector, thus intensifying overcapacity. While new rivals continued to enter the fray, at any one time large numbers were also dying off. Autumn 2004 saw the demise of a number of budget airlines—for example, Volare, an Italian low-fare and charter operator, and V-Bird, a Dutch-owned carrier. Yet, new entrants were still launching. However, it was agreed that the industry could not sustain the some 47low-fares airlines operating as of the end of November 2004, Michael O'Leary predicted that the anticipated shake-out would be accelerated by rising oil prices. 'Many of our competitor airlines who were losing money heroically when fuel was US$25 a barrel are doomed the longer it stays at US$50. We anticipate there will be further airline casualties as the perfect storm of declining fares and record high oil prices force loss-making carriers out of the industry.

Low fares require cost savings

To quote Michael O'Leary, 'Any fool can sell low air fares and lose money. The difficult bit is to sell the lowest air fares and make profits. If you don't make profits, you can't lower your air fares or reward your people invest in new aircraft or take on the really big airlines like BA and Lufthansa.'

According to the company, its no-frills service allows it to prioritize features important to its clientele, such as frequent departures, advance reservations, baggage handling and consistent on-time services. Simultaneously, it eliminates non-essential extras that interfere with the reliable, low-cost delivery of its basic flights. The eliminated extras include advance seat assignments, in-flight meals, multi-class seating, access to a frequent-flyer programme, complimentary drinks and amenities. In 1997, Ryanair dropped its cargo services, at an estimated annual cost of IR£400,000 in revenue. Without the need to load and upload cargo, the turnaround time of an aircraft was reduced from 30 to 25 minutes, according to the company. It claims that business travellers, attracted by frequency and punctuality, comprise 40 per cent of its passengers, despite often less conveniently located airports and the absence of pampering.

In conjunction with the elimination of non-essential extras, the organization of its operations enables the airline to minimize costs, based on five main sources.

1. *Fleet commonality* (Boeing 737s, like Southwest Airlines): this results in lower maintenance and staff training costs. In 2005, the company negotiated a new Boeing deal that takes down its per-seat costs for all post-January 2005 deliveries to rock-bottom levels. This deal not only establishes a platform for growth; a younger fleet also enables further cost reductions through lower fuel utilization and maintenance costs.
2. *Contracting out* of aircraft cleaning, ticketing, baggage handling and other services, other than at Dublin Airport; this is more economical and flexible, while it entails less aggravation in terms of employee relations.
3. *Airport charges and point-to-point route policy*: Ryanair uses secondary airports that are less congested, motivated to offer better deals and have fewer delays, resulting in increased punctuality and shorter turnaround times.
4. *Staff costs and productivity*: productivity-based pay schemes and non-unionized staff.
5. *Marketing costs*; Ryanair was the first airline to reduce and finally eliminate travel agents' fees. In January 2000, Ryanair launched its www.ryanair.com website. This has had the effect of saving money on staff costs, agents' commissions and computer reservation charges, while significantly contributing to growth. In 2005, Internet sales accounted for 97 per cent of all bookings. Ryanair supplements its advertising with the use of free publicity to highlight its position as the low fares champion, by attacking various constituencies that threaten its cost structure. These include EU regulators, airport authorities, politicians and trade unions. Its per passenger marketing costs of 60c are considered to be the lowest across the European airline sector.

The year 2005 saw enormous volatility in the price of oil, and the global airline industry faced losses of US$6 billion. Ryanair, which had been unhedged with respect to oil prices since September 2004, announced on 1 June that it was hedging 75 per cent of its fuel needs for the October 2005 to March 2006 period, at a price of US$47 a barrel. At times, in previous weeks, the price had stood at US$53-plus per barrel. At the end of June, the price had hit US$60 and analysts were predicting it would rise to US$70-plus in the coming months.

Low costs contribute to a low break-even load factor of 62 per cent, so the airline can make money even if it fills fewer seats than other budget competitors with higher costs and higher break-even load factors. For example, easyJet's break-even load factor is 73 per cent, while that of Virgin Express is 83 per cent. Table 6 shows Ryanair's operating cost structure.

Table 6 Ryanair consolidated profit and loss accounts

		Year ended 31 March 2005 €000		Year ended 31 March 2004 €000
Operating revenues				
Scheduled revenues		1,128,116		924,566
Ancillary revenues		208,470		149,658
Total operating revenues—continuing operations	**1,336,586**		**1,074,224**	
Operating expenses				
Staff costs		140,997		123,624
Depreciation and amortization		98,703		98,130
Other operating expenses				
Fuel and oil		265,276		174,991
Maintenance, materials and repairs	37,934		43,420	
Marketing and distribution costs	19,622		16,141	
Aircraft rentals		33,471		11,541
Route charges		135,672		110,271
Airport and handling charges		178,384		147,221
other		97,038		78,034
Total operating expenses	**1,007,097**		**803,373**	
Operating profit before exceptional costs and goodwill		329,489		270,851
Profit for the year		**266,741**		**206,611**

Customer service

The airline's claims of attention to customer service are encompassed in its Passenger Charter, which embraces a number of doctrines:

- Sell the lowest fares at all times on all routes and match competitors' special offers.
- Allow flight and name changes with requisite fee
- Strive to deliver on-time performance
- Provide information to passengers regarding commercial and operational conditions
- Provide complaint response within seven days
- Provide prompt refunds
- Eliminate overbooking and involuntary denial of boarding
- Publish monthly service statistics
- eliminate lost or delayed luggage
- Ryanair will not provide refreshments or meals or accommodation to passengers facing delays; any passenger who wish to avail themselves of such services will be asked to pay for them directly to the service provider
- Ryanair facilitates wheelchair passengers travelling in their own wheelchair; where passengers require a wheelchair, Ryanair directs those passengers to a third-party wheelchair supplier at the passenger's own expense; Ryanair is lobbying the handful of airports that do not provide a free wheelchair service to do so.

The company has confirmed that it would introduce a number of cost-cutting new features on its flights. For instance, the Ryanair fleet would heretofore be devoid of reclining seats, window blinds, headrests, seat pockets and other 'non-essentials'. Leather seats instead of cloth ones would allow faster turnaround times since leather is quicker and easier to clean. More controversially, Michael O'Leary hoped eventually to wean passengers off checked-in luggage, eliminating the need for baggage handling, suitcase holding areas and lost property. In 2004, Ryanair had one of the lowest baggage allowances of any major airline, at 15 kg a person, and charged up to €7 for every additional kilo, one of the highest surcharges in European aviation.

Successive Annual Reports cite-on-time performance (defined as up to 15 minutes after scheduled time in UK Civil Aviation Authority statistics) and baggage handling as of key importance to customers. On punctuality, Ryanair claims to be the most punctual airline between Dublin and London. On baggage handling, Ryanair claims less than one bag lost per 1000 carried, better than even the best US airline, Alaska Airlines, with 3.48 bags per 1000 lost, and considerably better than its role model Southwest Airlines with 5.00 per 1000 lost.

Tables 7and 8, and Figure 3 provide some independent comparisons of Ryanair with other airlines on punctuality and customer perceptions.

Reporting airport/airline	Origin/ destination	% early to No. of 15minutes		Average delay flights	
		flights	late	(minutes)	unmatched
Birmingham—Ryanair	Dublin	180	88	6	0
Birmingham—Aer Lingus	Dublin	299	89	7	2
Birmingham—MyTravel	Dublin	4	50	20	0
Heathrow—Aer Lingus	Dublin	785	71	16	2
Heathrow—bmi British Midland	Dublin	432	71	14	0
Stansted—Ryanair	Dublin	727	79	11	1
Gatwick—British Airways	Dublin	180	82	9	0
Gatwick—Ryanair	Dublin	298	87	8	2
Heathrow— bmi British Midland	Brussels	354	73	13	1
Heathrow— British Airways	Brussels	452	84	9	2
Heathrow— bmi British Midland	Palermo	8	25	37	0
Heathrow—Alitalia	Milan(Linate)	174	63	15	0
Heathrow— British Airways	Milan(Linate)	178	80	10	0
Heathrow— bmi British Midland	Milan(Linate)	172	68	13	0
Heathrow—Alitalia	Milan (Malpensa)	298	48	24	0
Heathrow— British Airways	Milan (Malpensa)	180	80	10	0
Stansted— Ryanair	Bergamo	172	76	10	0
Stansted— easyJet	Bologna	60	70	14	0
Stansted— easyJet	Milan(Linate)	60	42	39	0
Stansted— easyJet	Rome (Ciampio)	120	76	12	0
Stansted— Ryanair	Rome (Ciampio)	356	79	9	0
Stansted— easyJet	Edinburgh	327	60	20	0
Stansted— easyJet	Nice	120	70	24	0
Stansted— Virgin Express	Nice	1	0	184	0
Stansted— Ryanair	Montpellier	59	76	14	2
Stansted— Ryanair	Prestwick	562	87	6	4
Stansted— easyJet	Glasgow	276	87	8	0
Glasgow—Aer Lingus	Dublin	176	80	9	4
Glasgow—bmi British Midland	Dublin	2	100	0	0

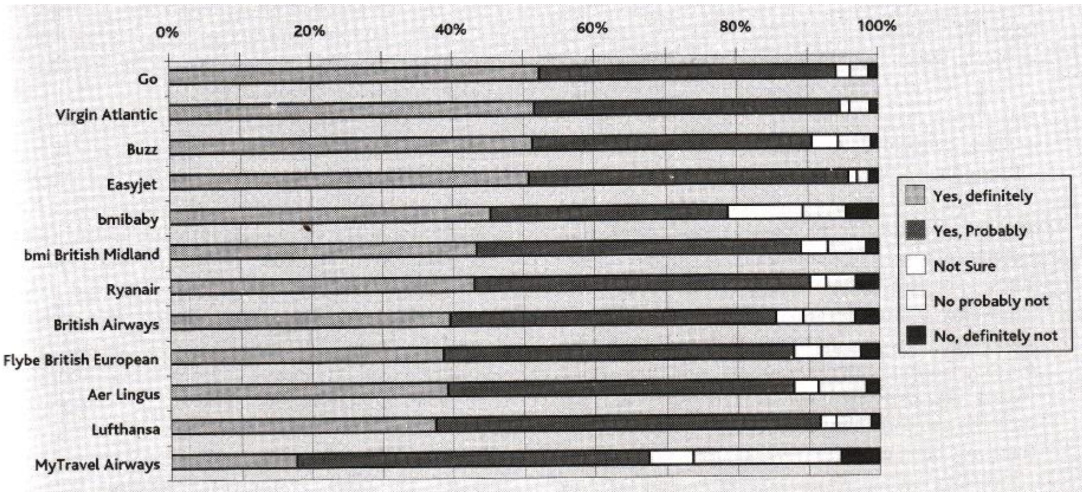


Figure C8.1 Would you recommend the airline to a friend?

On punctuality, it must be borne in mind that one is not necessarily comparing like with like when contrasting figures for congested Heathrow with Stansted or Luton, even if all serve London. Also not counted in the statistics were cancelled flights. Ryanair has been known to 'consolidate' passengers by transferring them from their original flight to later or alternative routing without any notice, if passengers were unfortunate enough to have originally been booked on a low seat occupancy flight. Ryanair has announced that it would ignore European Commission proposals stipulating that passengers whose flight has been cancelled and who have to wait for an alternative flight should be provided with care while waiting, stating 'we do not, and never will offer refreshments'.

Table C8.3 *Which?* magazine holiday survey

Ratings: – ? ☺ ◷ ●
Best ⟷ Worst
1 = Sample size too small

	Cabin Crew	Catering	Check-in Staff	Cleanliness of Interior	Entertainment	Legroom	Seat allocation	Seat Comfort	Toilets	Value for Money
Go	☺	◷	☺	◷	[1]	●	?	◷	◷	–
Virgin Atlantic	?	?	?	?	?	?	?	?	?	?
Buzz	☺	☺	☺	☺	[1]	●	☺	☺	◷	☺
easyJet	☺	◷	☺	☺	[1]	●	◷	◷	☺	–
bmiBaby	?	●	☺	☺	[1]	◷	☺	☺	☺	–
bmi British Midland	☺	☺	☺	☺	?	◷	?	☺	☺	☺
Ryanair	◷	●	◷	●	[1]	●	●	●	●	–
British Airways	☺	☺	☺	☺	?	☺	☺	☺	☺	☺
Flybe British European	☺	☺	?	☺	[1]	☺	?	?	☺	☺
Aer Lingus	☺	◷	☺	☺	[1]	◷	☺	☺	◷	◷
Lufthansa	☺	☺	☺	?	◷	☺	☺	☺	☺	◷
MyTravel Airways	◷	◷	◷	◷	●	●	◷	●	◷	◷

Clouds on the horizon?

Despite its winning performance in its 2005 results, a number of issues faced Ryanair

- While the competitive threat of new budget carriers had not emerged, some of the mainstream carriers were becoming quasi-budget airlines on short-haul routes. An important instance of this was Aer Lingus, the national state-owned airline of Ireland, operating domestic and international services, with a fleet of 30 aircraft. The events of 11 September 2001 were particularly traumatic for Aer Lingus, as the airline teetered on the verge of bankruptcy. In late 2001, the choice was to change, or to be taken over or liquidated. Led by a determined and focused chief executive and senior management team, the company set about cutting costs. By the end of 2002, Aer Lingus had turned a 2001 €125 million loss into a €33 million profit, and it improved still further in 2003 with a net profit of €69.2 million. In essence. Aer Lingus claimed that it had transformed itself into a low-fares airline, and that it matched Ryanair fares on most routes, or that it was only very slightly higher. The airline's chief operating officer said that "Aer Lingus no longer offers a gold-plated service to customers, but offers a more practical and appropriate service…it clearly differentiates itself from no-frills carriers. We fly to main airports and not 50 miles away. We assign seats for passengers, we beat low fares competitors on punctuality, even though we fly to more congested airports, and we always fulfil our commitment to customers—unlike no frills carrier. While Aer Lingus had been an early adopter, other mainstream airlines like British Airways and Air France/KLM were also converting short-haul intra-European routes to the value model offered by Aer Lingus.

- Further source of pressure came from the EU. A decision from the EU Commission in February 2004 ruled that had been receiving illegal state subsidies for its base airport at publicly owned Charleroi Airport (styled 'Brussels South' by Ryanair). Of course, it was not only the Charleroi decision but also the precedent it could set that was of concern. Other deals with public airports would come under scrutiny, although the vast majority of the airline's slots were at private airports. Also, it was estimated that Ryanair would have to repay €2.5 million and €7 million to Charleroi's regional government. Ryanair appealed the decision, but also threatened to initiate state aid cases and complaints against every other airline flying into any state airports offering concessions and discounts. Airport fees comprised 19 per cent of Ryanair's operating costs and were deemed to be an inherent part of the airline's low-cost model. Thus, Ryanair warned that there was no mid-cost alternative model. Nevertheless, two months after the Charleroi verdict, Ryanair confirmed that it had agreed a new deal there. It would keep flying all its 11 routes from Charleroi, continuing existing airports and handling charges until the airport, which accommodated 1.8 million passengers a year at the time, reached two million passengers a year. The EU Commission was not readily convinced and initiated an investigation of the new settlement.
- On another regulatory matter, the EU had devised fresh rules to cover overbooking that results in boarding denials to passengers by air-lines. Air travellers bumped off overbooked flights by EU airlines would receive automatic compensation of between €250 and €600. Compensation might also be claimed when flights are cancelled for reasons that are the carrier's responsibility, provided the passengers have not been given two weeks' notice or offered alternative flights. Ryanair declared that the new rules would not impact its operations, as it did not overlook its flights, and had the fewest number of cancellations and the best punctuality record in Europe. It suggested that, it the EU is serious, it should just outlaw the practice of over-booking entirely.
- A few days prior to the EU decision on Charleroi, on 30 January 2004, at the Central London County Court, a disabled man won a landmark case against Ryanair after it charged him £18 (€25) for a wheelchair he needed at Stansted to get from the check-in desk to the aircraft. The passenger was awarded £1336 (€2400) in compensation from Ryanair, as the UK-based Disability Commission said it may launch a class action against the airline on behalf of 35 other passengers. Ryanair's immediate reaction was to levy 70c a flight on all customers using the affected airports. In December 2004, the decision against Ryanair was upheld on appeal, although it was somewhat mitigated when the Court of Appeal decided that Stansted Airport was also answerable and had to pay half of Ryanair's liability for damages, with interest. In response, Ryanair's lawyer suggested that the 50:50 split in liability was unclear and unexplained, and 'could well have been delivered by King Solomon'.
- Also in 2004, a disgruntled Ryanair passenger set up a website inviting complaints about the airline. Ryanair moved to have the website shut down in early 2005, on the grounds that it contained material that is 'untrue, unfounded, malicious and deeply damaging to the good name and trading reputation of Ryanair', and that the name and appearance of the site, which resembled that of Ryanair's home website could be construed as 'abusive registration'. However, the site has reappeared under an ISP provider in Canada, and its number of hits has increased since the incident was reported in the British satirical magazine *Private Eye.*
- On another front, Ryanair was in dispute against the British Airports Authority (BAA), as it filed a writ at the High Court in London for alleged 'monopoly abuse' at Stansted. Michael O'Leary warned that the action was only the first skirmish in what would become 'the mother and father of a war'. The Chief Executive of the BAA announced that he did not intend to negotiate further reductions to Ryanair's deeply discounted deal on landing charges at Stansted, due to finish in March 2007. The average charge per passenger would rise form £3 to £5 at the airport, whose capacity utilization was now so high that it was running out of slots at peak times. Meanwhile, Michael O'Leary was scathing about 'grandiose plans' to build a second runway at Stansted at cost of £4 billion, 'when the cost of a runway and even a terminal should run no more than £400 million.
- As if these issues were not enough, a number of Dublin-based Ryanair pilots were planning to establish their own association, the Ryanair European Pilots Association with links to the British Airline Pilots Association (BALPA), the Irish Airline Pilots Association (IALPA) and the European Cockpit Association. In November 2004, these pilots, supported by IALPA, took a complaint about victimization against Ryanair to the Irish Labour Court. Ryanair could potentially face a compensation bill of £44 million if 170 victimization claims brought by its Dublin-based pilots were to be upheld. The company had out-lined

various consequences to pilots if they joined a trades union: possible redundancy when the existing 737-200 fleet was phased out, no share options or pay increases, non promotions and no payment for future recurrent training. The airline declared its determination to keep out trades unions and to take a case to the High Court to prove that legislation attempting to force companies to negotiate with unions was unconstitutional. A ruling favourable to the pilots in February 2005 by the Irish Labour Relations Commission, ordering that Ryanair had to attend a hearing dealing with the pilot' complaints, was dismissed by Michael O'Leary: 'It is no surprise that the brothers have found in favour of the brothers. We will fight them on the beaches, in the fields, and in the valleys,' he said. Meanwhile, the airline is also fighting a number of legal challenges, including proceedings against IALPA, accusing it of conducting an organized campaign of harassment and intimidation of Ryanair pilots through a website, warning them off flying the airline's new aircraft. Indeed, the carrier claims that specific threats issued on the website are being investigated by the Irish police. In April 2005, Ryanair abandoned an experiment in paid-for in flight entertainment, after passengers were reluctant to rent the consoles at the £5 required to receive the service. Apparently, market research discovered passengers are unwilling to invest on such short flights, with the ideal being six-hour flights to longer-haul holiday destinations. When the experiment was launched in November 2004, Michael O'Leary hailed the move as 'the next revolution of the low-fares industry…we expect to make enormous sums of money'.

Questions:

1. How does Ryanair's pricing strategy account for its successful performance to date? Would you suggest any changes to Ryanair' pricing approach? Why/why not?
2. Is the 'no-fares' strategy a useful approach for Ryanair in the short term? In the long term?
3. Do the issues facing Ryanair threaten its low-fares model?

Case V LEGO: the toy industry changes

How times have changed for LEGO. The iconic Danish toy maker, best known for its LEGO brick, was once the must-have toy for every child. However, LEGO has been facing a number of difficulties since the late 1990: falling sales, falling market share, job losses and management reshuffles. Once vote 'Toy of the Century' and with a history of uninterrupted sales growth, it appears LEGO has fallen victim to changing market trends. Today's young clued-up consume is far more likely to be seen surfing the web, texting on their mobile phone, listening to their MP3 player or playing on their Game Boy than enjoying a LEGO set. With intensifying competition in the toy market, the challenge for LEGO is to create aspirational, sophisticated, innovative toys that are relevant to today's tweens.

History

In 1932 Ole Kirk Christiansen, a Danish carpenter, established a business making wooden toys. He named the company 'LEGO' in 1934, which comes from Danish words 'leg godt', meaning 'play well'. Later, coincidentally, it was discovered that in Latin it means, 'I put together'. The LEGO name was chosen to represent company philosophy, where play is seen as integral to a child's successful growth and development. In 1947 the company began to make plastic products and in 1949 it launched its world-famous automatic building brick. Ole Kirk Christiansen was succeeded by his son Godtfred in 1950, and under this new leadership the LEGO group introduced the revolutionary 'LEGO System of Play', which focused on the importance of learning through play. The company began exporting in 1953 and soon developed a strong international reputation.

The LEGO brick, with its new interlocking system, was launched in 1958. During the 1960s LEGO began to use wheels, small motors and gears to give its products the power of motion. LEGOLAND was established in Billund in 1968, as a symbol of LEGO creativity and imagination. Later, in the 1990s, two new parks were opened in Britain and California. LEGO figures were introduced in 1974, giving the LEGO brand a personality. The 1980s saw the beginning of digital development, with LEGO forming a partnership with Media Laboratory at the Massachusetts Institute of Technology in the USA. This resulted in the launch of LEGO TECHNIC Computer and paved the way for LEGO robots. LEGO introduced a constant flow of new products in the 1990s, and placed greater focus on intelligence and behaviour. The new millennium saw LEGO crowned the 'Toy of the Century' by *Fortune* magazine and the British Association of Toy Retailers. LEGO is currently the fourth largest toy manufacturer in the world after Mattel, Hasbro and Bandai, with a presence in over 130 countries.

Challenges for the traditional toy market

A number of environmental shifts have been affecting the toy market over the past decade. Some of these are described below.

- *Kids getting older younger.* By the time most kids reach the age of eight they have outgrown the offerings of the traditional toy market. A central factor in children abandoning toys earlier in their lack of free time to play. Children today have a lot more scheduled activities and, with greater emphasis on academic achievement, a lot more time is spent studying. Faced with more media and entertainment choices these sophisticated and technologically savvy consumers are favouring electronic, fashion, make-up and lifestyle products. The most susceptible group to this age compression are 'tweens'—children between the ages of 8 and 12—a US$5 billion market, accounting for 20 per cent of the US$20.7 billion traditional toy industry.
- *Intensifying competition from the electronic and games market.* As noted above, today's young consumer is far more likely to be seen surfing the web, texting on their mobile phone, listening to their MP3 player or playing on their Game Boy than enjoying a LEGO set. A survey by NPD Funworld, in 2003, found that tween boys who played video game spent approximately 40 per cent less time playing with action figures when compared with the previous year. Handheld toys with a video and gaming element suit the mobile lifestyle of today's tween. As demand for these more sophisticated toys increases, traditional toy makers are facing more direct competition with the electronic and video games market.
- *Fickleness of young consumers.* The toy market today is very fashion-driven, leading to shorter product life cycles. Toy manufacturers are facing increasing pressure to develop a competency in forecasting market changes and improving their speed of response to those changes. In an effort to get a share of the huge revenues generated by the latest hot toy, many toy manufacturers have left themselves more vulnerable to greater earnings volatility.
- *Power of the retail sector.* Consolidation in the retail sector and the expansion of many retail chains has placed enormous pressure on the profit margins of traditional toy makers. Major retailers can exert tremendous power over their suppliers because of the vast quantities they buy. Many retailers insert a clause in their supplier contracts that gives them a certain percentage of profit regardless of the retail price.

Traditional toy makers are struggling to keep up with these environmental changes. It appears no one is safe, when even the world-renowned LEGO brand can fall victim to changing market trends. The cracks first began to show in 1998, when LEGO made a loss for the first time in its history. This began a major reversal in the fortunes of a company that had become accustomed to decades of uninterrupted sales growth (see Table 9). Ironically, it is the success of LEGO that may ultimately have paved the way for its downfall.

Table 9 : LEGO financial information

LEGO financial information (Mdkk)	2004	2003	2002	2001	2000
Income statement					
Revenue	6704	7196	10006	9475	8379
Expenses	(6601)	(8257)	(9248)	(8554)	(9000)
Profit/(loss) before special items, financial income and expenses and tax	103	(1061)	868	921	(621)
Impairment of fixed assets	(723)	(172)	-	-	-
Restructuring expenses	(502	(283)	-	(122)	(191)
Operating profit/(loss)	(1122)	(1516)	868	799	(812)
Financial income and expenses	(115)	18	(251)	(278)	(280)
Profit/(loss) before tax	(1237)	(1498)	617	521	(1092)
Profit/(loss) on continuing activities	(1473)	(953)	348	420	(788)
Profit/(loss) discontinuing activities	(458)	18	(22)	(54)	(75)
Net profit/(loss) for the year	(1931)	(935)	326	366	(863)
Employees: Average number of employees (full-time), continuing activities	5569	6542	6659	6474	6570
Average number of employees (full-time), discontinuing activities	1725	1756	1657	1184	1328

What went wrong for LEGO

According to Kjeld Kirk Kristiansen, owner of the business and grandson of its founder, following many years of success the LEGO culture had become 'inward looking' and 'complacent' and had failed to keep pace with the changes taking place in the toy market. This lack of environmental sensitivity was evident in the US market in 2003, where LEGO failed to predict demand for its Bionicle figures, resulting in two of its best-selling products from this range being out of stock in the run-up to Christmas. It appeared nothing had been learned from the previous year, when also in the run-up to Christmas the much sought-after Hogwarts Castle sets were out of stock across the UK.

LEGO had also become over-dependent on licences in the 1990s, for products such as Star Wars and Harry Potter, as its main source of growth. This left LEGO vulnerable to the faddishness of these products: the years in which Star Wars and Harry Potter films were released coincided with profitable years for LEGO, while losses were reported in the intervening years.

The diversification of the brand into the manufacture of items such as clothing, bags and accessories was another mistake for LEGO. The company over-complicated its product portfolio and it ran close to over-stretching the LEGO brand. Kristiansen, resumed leadership in 2004 to guide the company out of crisis, is quoted as saying 'LEGO was so busy chasing the fashion of the day it took its eye off its core brand.'

He phasing-out of its long-established pre-school Duplo brand, to be replaced by LEGO Explore, was another error. Parents were left confused, with many believing the larger-size Duplo brick had been discontinued. This error resulted in a loss of revenues from the pre-school market in 2003. Adult fans of LEGO (AFOLs) were also left disgruntled when LEGO changed the colour of its new building bricks so that they no longer matched the colour of the old bricks.

While other toy manufacturers have moved production to low-cost destinations such as China, LEGO has been reluctant to follow suit. Today it still manufactures the bulk of its product in Billund and Switzerland. The reasons posited for the company's reluctance to move include a strong sense of loyalty to Billund, where one-quarter of the residents work at the LEGO factory, and concerns that a move would affect its brand image. While its loyalty to these sites is admirable, and brand image worries understandable, the question is whether its long-term future is viable without such a move.

A new direction for LEGO

In an attempt to turn around its fortunes LEGO has developed a number of new marketing strategies. These include the following.

- A back-to-basics strategy is seeing LEGO refocus on its core brick-based product range and place more emphasis on its key target group—younger children. In 2003, LEGO relaunched its classic range of brick-based products and many new product lines have centred on eternal themes such as Town, Castle, Pirates and Vikings. LEGO has reinstated the Duplo brand and introduced the Quarto brand, which consists of larger bricks for children under two. Other new lines include LEGO Sports, born from strategic alliances with the National Hockey League and US National Basketball Association. While the traditional audience of LEGO has always been young boys it has introduced a new range, 'Clikits', a social toy developed specifically for a female audience. Clikits consists of pretty pastel-coloured bricks, which provide numerous options to create jewellery and fashion accessories.
- LEGO has admitted to over-diversifying its brand. In response to this, LEGO has withdrawn many of its manufacturing lines, instead opting to outsource these to third parties via licensing deals. LEGO is also selling its LEGOLAND parks in a bid to refocus efforts on its core product and improve its financial situation.
- In an attempt to create a story-based, multi-channel, LEGO has engaged in a number of licensing deals, with varying degrees of success, but more importantly it is now developing its own intellectual property. The Bionicle range, launched in 2001, was the first time LEGO has created a story from the start as the basis for a new product range. The Bionicles combine physical snap-together kits with an online virtual world. This toy brand has also been extended into entertainment in the form of comics, books and a Miramax movie: *Bionicle: Mask of light.* The range has proved a major success for LEGO and, building on this success, it has developed Knights Kingdom.
- Sub-brands that LEGO has neglected, including Mindstorms and LEGO TECHNIC, both aimed at older children and enjoyed by some adults, are being given more attention. With so many adult fans of LEGO, efforts are also being made to further engage the adult market. The company is currently considering whether to market its management training tool, entitled LEGO Serious Play, to a wider adult audience.
- LEGO has overhauled its packaging, and the style and tone of its advertising. The emphasis is now being placed on the LEGO play an educational experience as opposed to product detail. The strap-line 'play on' was introduced in January 2003 to accompany the change. The slogan draws its inspiration from the company's five core values: creativity, imagination, learning, fun and quality. LEGO is also making greater use of more interactive communication tools to promote its products, which it is believed will encourage consumers to interact more with the brand. 2005 has seen LEGO invite fans on a tour of the company. Here they are given the opportunity to meet new product developers, designers and toolmakers, and learn about the company's history, culture and values.
- LEGO is also taking steps to reverse its insular culture. In an attempt to build a more market-driven organization, it is spending more time consulting children, parents, retailers and AFOLs. The company established the LEGO Vision Lab in 2002 to examine how the future will look to children and their families. A variety of sources are being used to make assessments of future worldwide family patterns, including anthropology, architecture, consumer patterns and awareness, culture, philosophy, sociology and technology.
- Plagued by supply-chain inefficiencies LEGO has improved production time from concept to the retailer's shelf. An example of this is the Duplo Castle, which was developed in nine months.

Conclusion

Having taken its eye off the ball, LEGO is fighting back with a new customer-focused strategic approach. Continuous improvement, in response to changing market trends, is now key if LEGO is to ward off the many challenges it still faces. It is still involved in many licence agreements, making it vulnerable to this cyclical market. Its back-to-basics strategy has been widely praised but it remains to be seen if LEGO can balance this with its increasing activity in software. With children's growing appetite for video games with a more violent content, can LEGO satisfy this target group while still remaining true to its wholesome 'play well' brand values? Will LEGO succeed in its attempts to target young girls and its desire to target a more adult audience? Will it succeed in its attempts to reduce costs and improve efficiencies? Will CEO Jorgen Vig Knudstorp succeed where his predecessors have failed? Only in the fullness of time will these questions be answered but one thing is for sure: no brand, no matter how powerful, can afford to become complacent in an increasingly competitive business environment.

Questions:

1. Why did LEGO encounter serious economic difficulties in the late 1990s?
2. Conduct a SWOT analysis of LEGO and identify the company's main sources of advantage.
3. Critically evaluate the LEGO turnaround strategy.