

CHAPTER ONE

Introduction

At this writing, *Marketing Mistakes* is nearing its thirtieth anniversary. The first edition, back in 1976, was 147 pages and included such long-forgotten cases as Korvette, W. T. Grant, Edsel, Corfam, Gilbert, and the Midi.

In this tenth edition, seven cases from the ninth edition have been dropped, and seven were added, several of these being modified from earlier editions. Other cases have been updated and, in some instances, reclassified. The popular section on “Marketing Wars,” which was introduced in the eighth edition, is again included and follows major competitors in their furious struggles. Two new parts are introduced: Part III Competitive Uncertainties, and Part VI Entrepreneurial Adventures, brought back by popular demand. Some cases are as recent as today’s headlines; several still have not come to complete resolution. In response to your feedback, the section on notable successes has also been continued.

We continue to seek what can be learned—insights that are transferable to other firms, other times, other situations. What key factors brought monumental mistakes to some firms and resounding successes for others? Through such evaluations and studies of contrasts, we may learn to improve batting averages in the intriguing, ever-challenging art of decision making.

We will encounter organizational life cycles, with an organization growing and prospering, then failing (just as humans do), but occasionally resurging. Success rarely lasts forever, but even the most serious mistakes can be (but are not always) overcome.

As in previous editions, a variety of firms, industries, mistakes, and successes are presented. You will be familiar with most of the organizations, although probably not with the details of their situations.

We are always on the lookout for cases that can bring out certain points or caveats in the art of marketing decision making, and that give a balanced view of the spectrum of marketing problems. The goal is to present examples that provide somewhat different learning experiences, where at least some aspect of the mistake or success is unique. Still, we see similar mistakes occurring time and again. From the prevalence of such mistakes, it is hard to say how much decision making has really improved over the decades.

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Let us then consider what learning insights we can gain, with the benefit of hindsight, from examining these examples of successful and unsuccessful marketing practices.

LEARNING INSIGHTS

Analyzing Mistakes

In looking at sick companies, or even healthy ones that have experienced difficulties with certain parts of their operations, it is tempting to be overly critical. It is easy to criticize with the benefit of hindsight. Mistakes are inevitable, given the present state of decision making, and the dynamic environment facing organizations.

Mistakes can be categorized as errors of omission and of commission. *Mistakes of omission* are those in which no action was taken and the status quo was contentedly embraced amid a changing environment. Such errors, often characteristic of conservative or stodgy management, are not as obvious as the other category of mistakes. They seldom involve tumultuous upheaval; rather, the company's competitive position slowly fades, until management finally realizes that mistakes having monumental impact have been allowed to happen. The firm's fortunes often never regain their former luster.

Mistakes of commission are more spectacular. They involve hasty decisions, poor support and follow-up, misdirected expansion, and the like. Although the costs of eroding competitive position due to errors of omission are difficult to calculate precisely, the costs of errors of commission are often fully evident. For example, with Euro Disney, in 1993 alone the loss was \$960 million from a poorly planned venture; it improved in 1994 with only a \$366 million loss. With Maytag's overseas Hoover Division, the costs of an incredibly bungled sales promotion were more than \$200 million, and still counting. Then there was the reckless purchase of Snapple by Quaker Oats' CEO, William Smithburg, for \$1.7 billion; Quaker sold the product less than three years later for \$300 million.

Although they may make mistakes, organizations with sharp managements follow certain patterns when confronting difficult situations:

1. Looming problems or present mistakes are quickly recognized.
2. The causes of the problem(s) are carefully determined.
3. Alternative corrective actions are evaluated in view of the company's resources and constraints.
4. Corrective action is prompt. Sometimes this requires a ruthless axing of the product, the division, or whatever is at fault.
5. Mistakes provide learning experiences. The same mistakes are not repeated, and future operations are consequently strengthened.

Slowness to recognize emerging problems leads us to think that management is incompetent or that controls have not been established to provide prompt feedback at strategic control points. For example, a declining competitive position in one or a few geographical areas should be a red flag that something is amiss. To wait months

before investigating or taking action may mean a permanent loss of business. Admittedly, signals sometimes get mixed, and complete information may be lacking, but procrastination is not easily defended.

Just as problems should be quickly recognized, the causes of these problems—the “why” of the unexpected results—must be determined as quickly as possible. It is premature, and rash, to take action before knowing where the problems really lie. Returning to the previous example, the loss of competitive position in one or a few markets may reflect circumstances beyond the firm’s immediate control, such as an aggressive new competitor who is drastically cutting prices to “buy sales.” In this situation, all competing firms will likely lose market share, and little can be done except to stay as competitive as possible with prices and servicing. However, closer investigation may reveal that the erosion of business was due to unreliable deliveries, poor quality control, uncompetitive prices, or incompetent sales staff.

With the cause(s) of the problem defined, various alternatives for dealing with it should be identified and evaluated. This may require further research, such as obtaining feedback from customers and from field personnel. Finally, the decision to correct the situation should be made as objectively as possible. If drastic action is needed, there usually is little rationale for delaying. Serious problems do not go away by themselves: They tend to fester and become worse.

Finally, some learning experience should result from the misadventure. A vice president of one successful firm told me,

I try to give my subordinates as much decision-making experience as possible. Perhaps I err on the side of delegating too much. In any case, I expect some mistakes to be made, some decisions that were not for the best. I don’t come down too hard usually. This is part of the learning experience. But God help them if they make the same mistake again. There has been no learning experience, and I question their competence for higher executive positions.

Analyzing Successes

Successes deserve as much analysis as mistakes, although admittedly the urgency is less than with an emerging problem that requires quick remedial action. Any analysis of success should seek answers to at least the following questions:

Why Were Such Actions Successful?

- Was it because of the nature of the environment, and if so, how?
- Was it because of particular research, and if so, what and how?
- Was it because of particular engineering and/or production efforts, and if so, can these be adapted to other operations?
- Was it because of any particular element of the strategy—such as service, promotional activities, or distribution methods—and if so, how?
- Was it because of the specific elements of the strategy meshing well together, and if so, how was this achieved?

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Was the Situation Unique and Unlikely to be Encountered Again?

- If the situation was not unique, how can these successful techniques be used in the future or in other operations at the present time?

ORGANIZATION OF THIS BOOK

In this tenth edition we have modified the classification of cases somewhat from earlier editions. As mentioned before, Part I on Marketing Wars examines the actions and countermoves of archrivals in a hotly competitive arena. In Part II, we study three firms that faced major changes and crises and mishandled them. Part III, Competitive Uncertainties, a new section, considers four firms that face an uncertain future and how they are trying to cope. Next are grouped cases of traditional marketing mistakes and then cases of notable marketing successes. Finally, we have brought back Entrepreneurial Adventures and follow the progress of two entrepreneurs we first encountered in an earlier edition. Let us briefly describe the cases that follow.

Marketing Wars

McDonald's had long dominated the fast food restaurant market. Then it began to falter, and hungry competitors, such as Burger King, Wendy's, and more recently Yum, made inroads into its competitive position. As it fought to regain its momentum, it explored diversifications and ever more store openings, while profitability plummeted. Then it found a new formula for profitable growth.

Pepsi and Coca-Cola for decades competed in the lucrative international arena. Usually Coca-Cola won out, but it could never let its guard down, and it recently did so in Europe. Now a trend toward noncarbonated beverages along with Pepsi's non-drink diversifications is swinging the momentum to Pepsi.

Boeing long dominated the worldwide commercial aircraft market, with the European Airbus only a minor player. A series of Boeing blunders, however, coupled with an aggressive Airbus, brought market shares close to parity, but now the momentum was with Airbus, and it finally wrested the number one position from Boeing.

Reebok and Nike are major competitors in the athletic footwear and apparel market. Nike was overtaken by Reebok in the late 1980s, but then Nike surged far ahead. How did this happen?

Managing Change and Crises

Albert Dunlap had a well-deserved reputation as the premier hatchet man, the one who would come into a sick organization and fire enough people to make it temporarily profitable—he was known as “Chainsaw Al.” Somehow, with Sunbeam this seemingly proven downsizing strategy did not work, and Dunlap himself was fired by the board of directors. Later investigations brought fraud suits for accounting misdeeds.

Product safety lapses that result in injuries and even loss of life are among the worst abuses any company can make. Worse, however, is when such risks are allowed

to continue for years. Ford Explorers equipped with Firestone tires were involved in more than two hundred deaths from tire failures and vehicle rollovers. After news of the accidents began surfacing, Ford and Firestone blamed the other for the deaths. Eventually, inept crisis management brought a host of lawsuits resulting in massive recalls and billions in damages.

Perrier, the bottled water firm, encountered adversity when traces of benzene were found in some of its product. Responsibly, it ordered a sweeping recall of all bottles in North America and, a few days later, in the rest of the world while it tried to correct the problem. For five months, Perrier kept the product off the market, thereby allowing competitors an unparalleled windfall. Worse was the realization by the public that claims regarding the purity of its product were false.

Competitive Uncertainties

Two faltering retail chains, Kmart and Sears, merged under the auspices of a hedge fund manager. Whether two weaklings can become one strong operation to compete with the likes of Wal-Mart and Target is uncertain at this time, though investors bid both stocks up to extravagant levels in anticipation. The real estate could be worth quite a bit if the retail business does not succeed, though this would hardly warrant the present stock prices. A crap shoot, or a calculated gamble by a very savvy turn-around expert? We will have to see.

In July 1999, Hewlett-Packard (H-P), the world's second biggest computer maker, chose Carly Fiorina to be its CEO. Thus she became the first outsider to take the reins in H-P's sixty-year history. Three years later, she engineered the biggest merger in the high-tech industry, with Compaq Computer. A year later, H-P boasted that this merger had become a model of effectively assimilating two giant organizations. But growth in profitability did not follow, and early in 2005, the board fired Fiorina.

Toys "R" Us for decades had been the category killer of the toy industry. In recent years, Kmart and Target began entering the toy industry and used toys as loss leaders to draw customers into their stores at Christmas time. Soon Wal-Mart was the biggest toy retailer, and Toys "R" Us was faltering. It became so desperate, it even seriously considered getting out of toys altogether and trying to survive in its Kids "R" Us stores. The issue and decision is still in doubt as of this publication date.

Gateway's situation was similar to Toys "R" Us. It was unable to compete with the low prices of Dell Computer, as it desperately sought ways to bring its costs down and still survive in the PC industry. It finally sold all of its Gateway stores and was attempting to develop relationships with hi-tech retailers. Its viability still remains in doubt.

Marketing Management Mistakes

The problems of Maytag's Hoover subsidiary in the United Kingdom almost defy reason. The subsidiary planned a promotional campaign so generous that the company was overwhelmed with takers; it could neither supply the products nor grant the

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prizes. In a miscue of multimillion-dollar consequences, Maytag had to foot the bill while trying to appease irate customers.

Merck, the pharmaceutical giant, learned that its blockbuster arthritis drug, Vioxx, doubled the risk of getting a heart attack or stroke. Over five years and \$500 million in advertising, it had gained 20 million users in the United States, at the time it recalled the drug September 30, 2004. Critics and tort lawyers assailed the company for waiting so long to recall this “dangerous” drug, since research studies, as much as five years before, had raised questions about the safety of Vioxx. Others wondered whether Merck had recalled Vioxx too soon, whether the benefits outweighed the risks. A committee called together by the FDA, on February 18, 2005, by a narrow vote favored reintroduction of Vioxx. Now tort lawyers and their billions in damage suits had a temporary setback. But the situation is still fluid.

Snapple, a marketer of noncarbonated fruit-flavored and iced tea drinks, was acquired by Quaker Oats in late 1994 for \$1.7 billion. As sales declined and losses mounted, it soon became apparent to all but the president of Quaker that far too much had been paid for this acquisition. No strategy changes could turn Snapple around. In 1997, Quaker sold Snapple for \$300 million, a loss of \$1.4 billion in less than three years.

Newell, a consumer-products firm, had successfully geared its operations to meeting the demands of giant retailers, particularly Wal-Mart. Rubbermaid had in recent years been unable to meet those stringent requirements. In 1999, Newell acquired Rubbermaid, confident of turning its operation around, only to find that Rubbermaid’s problems were not easily corrected and had a negative impact on the fortunes of Newell as well.

In April 1992, just outside Paris, Disney opened its first theme park in Europe. It had high expectations and supreme self-confidence (critics later called it arrogance). The earlier Disney parks in California, Florida, and more recently Japan, were all spectacular successes. But rosy expectations became a delusion as marketing miscues finally showed Disney that Europeans, and particularly the French, were not carbon copies of visitors elsewhere.

Notable Marketing Successes

In the early 1960s, Harley-Davidson dominated a static motorcycle industry. Suddenly, Honda burst on the scene, and Harley’s market share dropped from 70 percent to 5 percent in only a few years. It took Harley nearly three decades to revive, but now it had created a mystique for its heavy motorcycles and gained a cult following almost unique in American business.

Vanguard, the second largest mutual fund company, is rapidly closing on Fidelity, the largest. Vanguard’s strategy is to downplay marketing, shunning the heavy advertising and overhead of its competitors. It provides investors with better returns through far lower expense ratios and relies mostly on word of mouth and unpaid publicity to gain new customers, while old customers continue to pour money in.

In somewhat similar fashion, Southwest Airlines found a strategic window of opportunity as the lowest cost and lowest price carrier between certain cities. And

how it milked this opportunity! Now it threatened major airlines in many of their domestic routes.

Our last success in this section is also about a firm that dominates its industry through offering customers lowest prices. Wal-Mart is by far the largest retailer in the world and reflects the genius of its founder, Sam Walton, who did this in his lifetime. But size can bring coercive power, especially of smaller suppliers. It can also destroy business competitors and even change the social structure of small towns. Some are questioning whether Wal-Mart has gotten too big.

Entrepreneurial Adventures

Boston Beer burst on the microbrewery scene with Samuel Adams beers, higher priced even than most imports. Notwithstanding this—or maybe because of it—Boston Beer became the largest microbrewer. It showed that a small entrepreneur can compete successfully against the giants in the industry, and do this on a national scale.

OfficeMax, an office-supply category-killer chain, grew to \$2.5 billion in sales in only a few years. The dedication and creative efforts of its founder serve as a model for any world-be entrepreneur who aspires to make it big. Yet it was number three in its industry with the heady years of profitable growth seemingly over. In October 2003, Michael Feuer, the founder, agreed for his firm to be acquired by Boise Cascade, a giant lumber firm.

GENERAL WRAP-UP

Where possible, the text depicts major personalities involved in these cases. Imagine yourself in their positions, confronting the problems and facing choices at their points of crisis or just-recognized opportunities. What would you have done differently, and why? We invite you to participate in the discussion questions, the hands-on exercises, the debates appearing at the ends of chapters, and the occasional Devil's Advocate invitation (a Devil's Advocate is one who argues an opposing position for the sake of testing the decision). There are also discussion questions for the various boxes within chapters.

While doing these activities, you may feel the excitement and challenge of decision making under conditions of uncertainty. Perhaps you may even become a better future executive and decision maker.

QUESTIONS

1. Do you agree that it is impossible for a firm to avoid mistakes? Why or why not?
2. How can a firm speed up its awareness of emerging problems so that it can take corrective action? Be as specific as you can.

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3. Large firms tend to err on the side of conservatism and are slower to take corrective action than smaller ones. Why do you suppose this is?
4. Which do you think is likely to be more costly to a firm, errors of omission or errors of commission? Why?
5. So often we see the successful firm eventually losing its pattern of success. Why is success not more enduring?