University of La Verne

碩士修業報告
送審講師資格

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日期: 98 年 7 月
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ECBU 525

The effects of china yuan

Professor Gonyung Park

Date: 02/23/2006

By Chun-Chen Lin
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Yu-Ling Liang
**Introduction**

The exchange rate of China’s currency has been the hot issue in the recent years – China Yuan should be re-evaluated or not. Many countries asked China to raise its currency value especially U.S.A. to balance their trade. They think China took more advantage of their output when China underestimated its currency value. On July 2005, China government raised its currency value from 8.21 to the dollar to around 8.04. And the China’s central bank announced that they will keep the exchange rate “basically stable” in the coming year.

This report will explore the advantages and disadvantages of re-evaluating the China’s Yuan for China and U.S.A and the effect on Taiwan.

**Background**

Before to explore the advantages and disadvantages of re-evaluating the China’s Yuan for China and U.S.A and the effect on Taiwan, we will describe the China’s monetary policy and the exchange rate from 1952 to 2006.

**The currency system of China**

1. China implemented the centralized management of the foreign currency from 1949 to 1952.
3. The foreign exchange transaction center was established in March of 1988.
5. The Chinese foreign currency trade center established in Shanghai in April 4 of 1994 to let the foreign exchange market among the national banks.
6. The China’s Yuan under the current account become exchangeable in December of 1996,
although the capital account remained interchangeable.

Exchange rate of China’s currency to U.S. dollar

From the following information, we can know the exchange rate between China’s Yuan and U.S. dollar was set at 2.46 from 1955 to 1971. The exchange rate from 1981 to 1996 kept rising to 8.30. After 1996, the exchange rate between China’s Yuan to U.S. dollar was pegged on 8.28. On July 2005, the exchange rate was new issued around 8.04 between China’s Yuan and U.S. dollar. On February 21, the People's Bank of China made the pledge ”we will keep the China’s Yuan basically stable at a reasonable and balanced level, allowing the market forces to exercise their basic functions in forming the exchange rate."
• China

Since 1994, the China government decided to peg its currency at 8.28 to the U.S. dollar to provided stability between the country and the partner to which it is linked and protected its domestic industries. Also, Chinese officials feared an appreciating currency could reduce foreign investment, cause deflation, reduced employment and lower wages in several situations. However, in the past few years, economic environment have been changing a lot, so the China’s Yuan would likely have appreciated if it had been floating especially U.S. have charged the China’s currency was undervalued 40%. Therefore, this was a primary reason why the China’s officials were willing to abandon it currency peg. This big change accompanied with several benefits and costs for the China’s government as followings:

❖ Advantages

First, profit on China economy. Productivity and quality improvements in China may have increased the relative demand for Chinese goods and foreign direct investment in China. Second, profit on import-competitors. The policy will benefit the Chinese consumers and Chinese firms that import parts, machinery, and raw materials; this may improve the allocation of resources in the Chinese economy.

❖ Disadvantages

First, effect on China economy. After China cease its currency peg could stimulate an economic crisis in China and would especially be damaging to its export industries at a prior time of painful economic reforms. In addition, domestic price in China which is now finely balanced between inflation and deflation will begin to move. The interest rates will be pushed down to zero, making it impossible for the People’s Bank of China to stop the deflation. Second, effect on the allocation of Asia’s market. Because other Asian countries wanted to intervene in currency markets to take advantage of remaining competitive with their cheaper
goods, China may lose foreign investments.

**United States**

On September 5, 2003, the President of United States, Bush, criticized that China should accepted a market-based currency system, flexible exchange rates, because the exchange rate should determined by market force. Also, the U.S. government pointed China’s peg leaded to the large and growing U.S. trade deficit with China that is harmful to the U.S. economy.

Therefore, the China government was forced to abandon its currency peg on 8.28 to raise the tiny 2.1% on its exchange rate. After that, the international market had some changes especially United States, which had 23% of the sum of total US bilateral trade deficits in 2004. Thus, after the China’s Yuan revalued, there are be both advantages and disadvantages to the U.S. economy.

- **Advantage**

  First, benefit on U.S. export-competitors. The export firms can save gain more profit than before. Higher priced goods form China may help U.S. industries that compete with those products, raising the production and employment.

- **Disadvantage**

  First, effect on U.S. consumers. The prices of import from China will be increased, so it may cause the inflation pressures. Second, effect on U.S import-firms. The policy will
increase U.S. investment spending to China.

- **Taiwan**

  Because of politics, Taiwan government didn’t allow Taiwan industries to invest in China. However, the cost of labors and materials are so cheap that many Taiwanese businesses eagerly wanted to move their production to China. At the same time, due to the transformation of the society, China government wanted to encourage foreign business to enter their country to help boost their economy. Finally, under conditional agreement among Taiwanese and Chinese governments, Taiwanese companies started to heavily invest in China in recent years. Last year, China government suddenly decided to revalue its currency up to 2%. This no doubt will raise concern of the Taiwanese business owners because exchange rate plays an important role in this kind of multi-national businesses. It is also worth to discuss because the economics relationship between Taiwan and China are very close and complementary, especially for those Taiwanese business who have operations in China.

  To roughly categorize the business types that Taiwanese companies invest in China, we can break down to two types. One is manufacturers who mainly invest in their production lines in China and export back to Taiwan or other countries. These companies usually take orders in Taiwan, manufacture their products in China, and then export to other countries directly from China. Well-known examples for those manufacturers who move most of their production line to China to save cost are those high-tech component manufactures. These kinds of companies manufacture their products in China and export to other countries such as the United States. In this case, the revaluation of the China yuan will cause negative impact to their sales since the cost for their clients in the US to purchase their products will rise. The other one is business that focuses on doing business within the mainland. The impact of the
The revaluation of China yuan will have comparably lower impact. If they also have production line in China but do not focus on exporting those goods, they will have not be as affected due to the rise of China yuan value. On the contrary, these kinds of Taiwanese business may enjoy some advantage if they need to import materials to China for their business operations. This is because after China yuan value lifts, the cost for them to import materials into China may drop. However, these Taiwanese businesses may also face stronger competition since importing cost for their competitors also decrease.

**Conclusion**

It is important for the china government to revalue its China yuan. It also will have significant impact on the overall Chinese economy development. The recent revaluation of China yuan is short term and only caused subtle changes to its export. The expectation may cause foreign investors to hold more China yuan and invest more in China. However, if China yuan's value will continue to increase over a long period of time is what we need to take into consideration and watch closely.
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Group Project

Boeing 777 Analysis

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INTRODUCTION

Boeing is the biggest manufacturer of commercial-jet aircraft in the world and it has two principal business segments: commercial aircraft and defense program. The defense division provides valuable supports to the commercial-aircraft directly through the technology. By 1990, Boeing has dominated the commercial aircraft industry with the market share of 53% over its competitors, Airbus Industry (18%) and McDonnell (19%). Under this condition, the new CEO Frank Shrontz would like to accomplish more for the company—maximizing Boeing’s return of equity by launching a new airplane, the 777.

The project’s preliminary development has been initiated and undertaken two years ago. Boeing has many new innovations on this 777 plane in terms of design and production. These innovations are Up-front involvement of the airlines and the use of current engineering. Besides, the company uses a new computer aided design system (CAD) to design the 777. However, behind these new innovations, there are high R&D expenses (4-5 billions) and capital expenditures (2.5 billions) are involved in this project. The company is asking us to analyze the project based on financial theories and some other factors to see if the project should be launched.

We will examine the advantages of Boeing 777 plane, and then consider the environment factors which could possibly affect the demand of the market. Next, we will adjust the cash flow and calculate the necessary financial figures to evaluate the return of the project against the investment. Finally, we will group everything together in a sensitivity analysis, and we will give the conclusion and recommendations base on the analysis.
THE BOEING 777

Since 1988, Boeing has begun building a modern and more sophisticated aircraft, the Boeing 777. To achieve this goal, Boeing brings in specialties from different fields to work jointly on building the airplane’s airframe and systems.

Unique design process for the 777

1. Up-front involvement of the airlines: Boeing asks six of its major customers to play active roles in designing the new aircraft to see if the new aircraft would fit the customer’s needs. After designers work independently, they send their plans over to the project engineers and then continue to make improvements. Therefore, they can improve accuracy in parts, design, and assembly.

2. Current Engineering: through an advanced CAD/CAM (computer-aided design and computer-aided manufacturing) technology, Boeing engineers can fully simulate production of the aircraft, and the bugs can be found and eliminated in the program, before the aircraft ever gets produced.

3. Finance: designers make hundreds of changes and each change costs upward of $10,000 to advance the quality of airplane designs. The original estimated R&D cost is $4 to $5 billions. However, Boeing estimates that they can decrease the cost of re-work problems by digitally pre-assembling the airplane on the computer (CAD/CAM system). The estimated saving could be as much as 20 percent of the $ 4 billion to $ 5 billion development cost on the design/production.

4. Adoption: the new digital instantaneous communication system can efficiently reduces the time that is required for introducing new airplanes into the marketplace, especially its capability.
The special features for the 777

1. It is the largest and longest twin-bodied jet and it is the most flexible and cost-efficient plane to Boeing.
2. A folding wing tip – this will enable it to fit into smaller slots in the airport terminals.
3. Use fly-by-wire technology – an advanced flying system (already used on Airbus turbo-prop planes)

The advantages of the 777

1. Boeing 777 has a big advantage in the medium- and long-range markets.
2. Carries 350-390 passengers up to 7,600 nautical miles (14,000 kilometers)
3. The managers estimate that it has a life cycle of 30-40 years.

ENVIRONMENTS ANALYSIS

We will attempt to examine the current environment to better assist the decision whether the project-Boeing777 is acceptable or not.

Petroleum Price

Vasquez, Manolito, and Davidson, Melenee (1989) collected the data of the price of the each gallon of oil from 1981 to 1988 and claimed that the oil price will keep increasing in the future years. The data of oil price for each gallon is showed in following list. (p1)
The oil price once dropped down to $1.05 per gallon, but it slightly raise in the following years, so we believe the price of the oil will gradually increase over the years. In addition, the gulf war will probably result in a more significant increase on oil price in 1990. Thus, we assume the fuel cost for airline industry is going to increase. Many airline companies are likely to take two alternatives to react with this oil crisis- cost reduction and replace old fleets to fuel efficient airplanes.

**Economic conditions**

The CPI AND PPI are higher than past 8 years. Rober A. Kuemmerling and Craig Howell (1990) address that for the 12-month period ended December 1989, the CPI rose 4.6 percent. This compares with increases of 4.4 percent in both 1987 and 1988 and was the largest annual change since an 8.9 percent rise in 1981. (p.11) Besides, Prices received by domestic producers of finished goods rose 4.8 percent in 1989, the fastest pace since 1981’s climb of 7.1 percent. (p14) Rober A. Kuemmerling and Craig Howell (1990) explained that the energy price accelerated in the first half, driving the CPI higher by 4.6 percent and the PPI higher by 4.8 percent. (p.11)

According the article –American Culture History (p.1), we can know the average salary of each decade are increasing. The data is as following list.
From above information, the average income from 1980 is much higher than the last decade. People will be able to afford more traveling in terms of financial condition. Furthermore, the air traffic between China and Europe is predicted to increase three times much. Concluded all these evidences, it is reasonable to expect a rapidly increase on the travel market.

CALCULATIONS OF FINANCIAL FIGURES

In this section, we try to calculate the best financial figures according to the case and our justifications, so we can use the figures to analyze the net present value of the project. The details of the calculations are included in the appendixes.

Beta-(Appendix A)

Boeing Co. has business in two segments, Commercial and Defense, so the beta that is in the financial data can not provide accurate measurement for the Boeing 777 commercial project. Our team has to calculate the correct beta to better analyze this project. First of all, we get Boeing’s beta of defense segment by averaging Grumman, Northrop, and Lockheed’s beta. The averaged beta is 0.42. These three companies heavily depend on the defense programs (85% and up) in terms of revenues, so the beta of these three companies can properly reflect the risk of the defense segment. Also, we use S&P 500 index as our base because it is one of three major financial indexes in the United State. Next, we use two formulas to calculate the correct beta for Boeing. The formulas are as follow:

\[
B_{\text{firm}} \text{ Formula}= B_{\text{segment 1}} + B_{\text{segment 2}}
\]
Beta Formula: \[ Bu[1+(1-Tax)\frac{D}{E}] \]

After we plug the numbers into these two formulas, we got the beta for Boeing Co. The beta is equal to 0.96.

**Capital-Asset-Pricing-Model (CAPM)-(Appendix B)**

We have a proper beta for Boeing Co. We can then calculate the Required Rate of Return (R.R.R) for the equity. The formula of R.R.R is follow:

\[ R.R.R \text{ formula} = R_s = R_f + \beta(k_m - R_f) \]

Rf stands for risk-free rate. We use long-term U.S Treasury bonds at 1990 as our risk-free rate. It was 8.82%. Km stands for expected return for common stocks in the market, and it is 5.4% (market risk-premium) + 8.82% (risk-free rate) = 14.22%. Finally, we will use our own beta which is 0.96 for the formula. The Rs is equal to 14%

**Capital-Structure Weights (W.A.C.C)-(Appendix B)**

The third ratio that we are going to calculate is the Weighted Average Cost of Capital (W.A.C.C). The formula is follow:

\[ W.A.C.C \text{ formula} = W_d R_d(1-Tax) + W_s R_s \]

Wd is the weighted of debt, and Rd is the return rate of the debt. Ws is the weighted of equity, and Rs is the return rate of equity. For the Wd and Ws, we use the market value that case indicates. The Rd is 9.73% which is included flotation cost. Rs is 14% which is based on
our calculation. The result for W.A.C.C is 13.86%.

**Forecast Free Cash Flows (FCF)-(Appendix C)**

After we get the cost of capital ratio, we adjust the free cash flows that are given in the case. The cash flows in the case are relatively over-optimistic, so we have to make adjustment to better evaluate the value of the project. First of all, we adjust the plane price to 115 million per plane, and we also decrease the plane deliver to 800 planes for first 10 years and 850 for second 10 years. Next, we decrease the R&D expense for 1990-1995 by 20% to 3.67 billion because of using current engineering. The last minor adjustment is the capital expenditure 1990-1994, we increases it to total 2.5 billion as the case states. The investments, such as R&D expense and buildings purchase, are included in the cash flows. Other than these adjustments, we use the exact same assumptions from the Boeing Co. The available cash and its present value for 25 years are shown at appendix C.

**Net Present Value (NPV)-(Appendix D)**

The NPV is a very important index that determines the implementation of a project. We just simply add all present values of the cash flows from year 1990-2014, plus the present salvage value of the facilities. The result of the calculation is 2.45 million which is greater than 0. It is a strong evidence to support Boeing Co. to launch the project.
SENSITIVITY ANALYSIS

The future cash flows of the Boeing 777 project can be affected by many factors. A sensitivity analysis is one of the ways to discover the key variables and potential consequences for the project by considering some factors. The key variables of this project are unit sold, price per unit, R&D expense, and GS&A expense. These variables have significant effects on Internal Rate of Return when they are changed. In addition, they also affect the future cash flows dramatically. In another word, these four variables determine the result of NPV as well as the decision of the project.

The W.A.C.C (Appendix B) is 13.86% which is lower than every I.R.R that case provides. It indicates that Boeing will have a very good return on a low cost unless the company raises the debt or equity level dramatically. Since Boeing has the order backlog for the next three years and the Boeing 777 expenses can be spread through several years, it is unlikely that Boeing will need to issue a large amount of debt. Therefore, the CEO’s goal of increasing ROE is possible to be reached if Boeing launches the project. It also indicates that Boeing Co. is taking a profitable gamble on the project. The NPV of the project (Appendix D) is another important figure, and it is slightly greater than 0, which means the project will exceed the expectation of the company. Based on our calculations of the W.A.C.C and NPV of the project, we can conclude that Boeing should be in-favor of The Boeing 777 project.

The external environments of 1989 also seem to be in favor of the Boeing 777 project. The traveling traffic is expected to increase in the next few years with the new market in Asia. The economic indexes are steady, and the average income is increasing. All these environment changes will increase the demand of airline industry. The airline industry will need more Boeing 777 planes to satisfy the needs of customers. The high oil price might also push the airline companies to replace old aircrafts to Boeing 777 because it can carry more passengers within a longer distance. The Boeing 777 is cable of reaching any destination in
Europe from Asia without a fuel stop in the Middle East, especially during the war in Iraq. These cost saving and oil efficiency will be the attractiveness to the customers of Boeing. After consider the factors from the financial analysis and external environments, we can conclude that Boeing should launch the Boeing 777 project.

The sensitivity analysis is very useful for analyzing this project in our paper. However, there are certain limits to the analysis. For example, the additional variables, political and competitors’ conditions, and the effects of Gulf War are not discussed in the analysis. It is suggested to run the analysis again based on different factors, so the company will have various results to better decide the implementation of the project.
CONCLUSION AND RECOMMENDATIONS

The overall result of this analysis paper support Boeing to launch the 777 project. We also believe it is necessary to launch the project in order for Boeing to maintain its leader position in the industry because the technology innovation is needed for aircraft business. Also, Boeing has to compete with its competitors in the niche market. For Boeing to better evaluate this project, we have the following recommendations:

1. Run the sensitivity analysis on other factors
2. Follow-up to the Gulf War effects on travel and oil price
3. Analyze the competitors’ aircraft projects
4. Study the effects of the technology of Boeing 777 to other products
5. Consider all other possible factors (internal or external)
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Appendix A

Beta Calculation

<table>
<thead>
<tr>
<th>Defense Segment</th>
<th>Boeing</th>
<th>Grumman</th>
<th>Northrop</th>
<th>Lockheed</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Revenues</td>
<td>26%</td>
<td>87%</td>
<td>89%</td>
<td>85%</td>
</tr>
<tr>
<td>D/E</td>
<td>0.018</td>
<td>1.756</td>
<td>1.288</td>
<td>1.182</td>
</tr>
<tr>
<td>S&amp;P (58 months)</td>
<td>0.81</td>
<td>0.8</td>
<td>0.74</td>
<td>0.87</td>
</tr>
</tbody>
</table>

Bu Formula: \( B \div [1+(1-\text{Tax})D/E] \)

B firm Formula: \( B \div \text{segment} 1 + B \div \text{segment} 2 \)

Beta Formula: \( Bu \div [1+(1-\text{Tax})D/E] \)

Grumman Bu = \( \frac{0.8}{1+(1-0.34)1.756} = 0.37 \)

Northrop Bu = \( \frac{0.74}{1+(1-0.34)1.288} = 0.4 \)

Lockheed Bu = \( \frac{0.87}{1+(1-0.34)1.182} = 0.49 \)

Boeing Commercial Beta

Bu Defense = \( 0.37 + 0.4 + 0.49/3 = 0.42 \)

Bu Commercial = \( 0.81 = 26\%(0.42) + 74\%(X) \quad X = 0.95 \)

Boeing Beta = \( 0.95 \div [1+(1-0.34)0.018] = 0.96 \)
Appendix B

**Required Rate of Return**

R.R.R formula = \( R_s = R_f + B(K_m - R_f) \)

- \( R_f = 8.82\% \)
- \( B = 0.96 \)
- \( K_m = 5.4\% + 8.82\% = 14.22\% \)

Project R.R.R = \( 8.82\% + 0.96(14.22\% - 8.82\%) = 14\% \)

**Weighted Average Cost of Capital**

W.A.C.C formula = \( W_d R_d (1-Tax) + W_s R_s \)

- Market value of Debt = 271.5 million
- \( R_d = 9.73\% \)

- Market Value of Stock = 14896.76 million
- \( R_s = 14\% \)

Total = 15168.26 million

\[ WACC = \frac{271.5}{15168.26}(9.73\%)(1-34\%) + \frac{14896.76}{15168.26}(14\%) = 13.86\% \]
**Appendix C**

**Assumptions**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Per Plan</td>
<td>115 M</td>
<td>(Average of Boeing estimate and Analyst estimate)</td>
</tr>
<tr>
<td>WCR (% of sales)</td>
<td>9.80%</td>
<td></td>
</tr>
<tr>
<td>GS&amp;A expense (% of sales)</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>R&amp;D expense (% of sales)</td>
<td>3% (excluding 1990-1995)</td>
<td></td>
</tr>
<tr>
<td>Capital expenditure (% of sales)</td>
<td>0.10% (excluding 1990-1994 and years before introduction of derivatives)</td>
<td></td>
</tr>
</tbody>
</table>

**Depreciation**

- **Total # of planes yrs 1-10**: 800 (Average of our estimate and Boeing estimate)
- **Total # of planes yrs 11-20**: 850 (First 10 yrs estimate X 5.2% growth rate)
- **Inflation**: 3%
- **Tax rate**: 34%
- **R&D expense 1990-1995**: 3.76 B (Estimated) (20% less from original estimated 4.67 B due to use of “current engineering”)
- **Capital expenditure 1990-1994**: 2.5 B (Spread through 5 years 1.5 B for new facilities and 1 B for Engineers training)

**Free Cash Flows**

<table>
<thead>
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<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Planes delivered</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Price per plane</td>
<td>115</td>
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<td></td>
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<tr>
<td>Total revenues</td>
<td>0</td>
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<td>0</td>
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<td>C.O.G.S</td>
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<td>7084</td>
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<tr>
<td>Gross profit</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Depreciation</td>
<td>0</td>
<td>40</td>
<td>96</td>
<td>116.4</td>
<td>124.76</td>
<td>112.28</td>
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### Appendix C (continued)

#### Free Cash Flows

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**Appendix C (continued)**

**Free Cash Flows**

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## Revenues

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Appendix D

Calculation of Boeing 777 Project NPV

Free Cash Flows

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* Boeing invested 1.5 billions on facilities for Boeing 777 and it will be depreciated over 39 years (straight-line method) according MACRS

Salvage Value of facilities after 20 years= 1.5 billion- [1.5 billion/39]X20= 730.8 M
PV of Salvage Value= 730.8/(1.1386)^25 = 24.48 M

NPV of Boeing 777 project= Total annual PV FCF+ Salvage Value

NPV of the project= (504.99)+(727.49)+⋯⋯+ 63.38+24.48= 2.45 M
INTRODUCTION

The Landis Hotels & Resorts is the heart and pride of Taiwan’s hotels. Since the 1990s, The Landis Hotels & Resorts has grown from strength to strength and consists of seven hotels in Taiwan. It has managed to maintain control over its operations by formalizing and standardizing many of its procedures. Doing so the all the hotels in the Landis Hotels & Resorts adhere to the same standards. Especially the business traveler, who can rely on finding the same high quality through the Hotel’s countrywide network, values this consistency. The hallmark’s of the Landis Hotels & Resorts is the concept of a touch of personalized service even better than home, and represent the best service quality for hotels in Taiwan. Superior identification and delivery to the market segment combined with effect, cost-effective execution are the hallmarks of the Landis brand of success. The Landis Hotels & Resorts has realized its appeal to this market and focuses its services to it. (Landis Hotels & Resorts, 2006)

The YoHo Beach Club & Spa is a good example of the Landis Hotels & Resorts’ way of managing one of their hotels. The Landis Hotels & Resorts headquarters gradually implemented their guidelines into the local organization. By now the hotel represents a regular, high-class member of the Landis’ organization (Landis Hotels & Resorts, 2006).

The YoHo Landis Club & Spa opened its doors in 1999 and has already established itself as a very popular hotel in Taiwan. Because of under a affiliate-based organization of Landis family, the Yoho Landis not only has it’s own management company, but also became a charter member of the Asian Hotels Alliance with the aim onto the international stage, expand its market through affiliated marketing and bring its operations to a new level of achievement (Asian Hotels Alliance, 2006).
THE DESIGN OF THE YOHO LANDIS

The YoHo Landis is located in Kenting National Park. The Yoho offers a secluded escape from the surrounding hubbub, which still providing myriad things to do. They arrange a lot of rich assortment of facilities and the many activities. Interesting activities offered rang from games, storytelling, arts and crafts, pottery classes and dancing lessons. Occasionally, the YoHo Landis also arranges short shows highlighting the cultures of the world. They also features cascading, ponds and river-like pools winding around the resort, and has a distinct Venetian feel to its landscape. The 415 rooms are tastefully with Balinese furniture imported from Indonesia, and range from elegant single rooms to two-floor family suits complete with living room and porch. For guests who want to mingle and enjoy the nightlife, facilities include an in-house sports bar, a disco, and a karaoke room (Yoho Landis Beach Club & Spa Structure, 2006).

THE STRUCTURE OF THE YOHO LANDIS

The YoHo Landis employs more than 300 staff to give consumers best service. The YoHo Landis wish to provide a consistent, high quality service through its hotel network, while maintaining a competitive price, led to a high degree of standardization and also have corporation with on-line travel industries to create their huge business. The most special is the Yoho is a members-only beach club (EzTravel in Taiwan, 2006).

Communication

In the hotel the organization hierarchy is kept flat to ensure short communication channels and quick decision making ability. The director of operations oversees the functional
department heads, who will, sometimes with the help of junior managers, who supervise up to employees of the daily communication is informal, face-to-face. (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

**Decentralization**

During daily operations employees are encouraged to make their own decisions, but must ask their superior in extra-ordinary situations. The Yoho Landis management may make any operational decision by itself, but receives strategic directions from company headquarters (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

**Standardization**

The need for consistent high quality forced the YoHo Landis to largely standardize and codify its procedures. This enables the Yoho Landis headquarters to maintain control over its widely dispersed, individually autarkic production facilities – its hotel. This, in a way, the Landis chain is comparable to the McDonalds fast food chain, which relies to an even much greater degree on mechanization and standardization. As the YoHo Landis commented on their competitive advantage: to create an environment that guests who come here will feel like it is more comfortable then their homes (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).
ENVIRONMENT

The Yoho Landis, as part of the Landis chain, operates in a complex, but fairly stable environment. Most of the task and general environmental factors affect the organization. The maturity of the hotel industry in general and the Yoho Landis in specific, combined with the high initial capital costs and relatively stable seasonal demand, shield the organization to a large degree from sudden external changes (Landis Hotels & Resorts, 2006).

Internal Environment

The Yoho Landis staff plays the most important role in delivering a consistent high-class service to the hotel’s guests. The organization’s Human Resource department places great emphasis on its selection, training, and motivation of employees. Each applicant’s resume and references are carefully screened, before the person can be interviewed by its prospective department head and by human resources. Each member of the hotel’s team is entitled to eight hours of training per year and will receive an extra week of holiday if the company fails to provide it. The organization’s people-focused culture provides incentive to over-perform and maintains a high standard of morale (Richard H. Hall & Pamela S. Tolbert, 2005 and Yoho Landis Beach Club & Spa Structure, 2006).

Task Environment

The hotel itself has little power to influence its competitive environment. The take-over by the Landis chain though has certainly increased its bargaining power, which it uses to get more favorable terms from its suppliers (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

The fixed capacity and the low marginal cost per guest force the hotel to employ a yield pricing strategy in order to maximize revenues. Prices are set periodically in comparison the
leading local hotel and according to forecasted demand, which is found using past occupancy data. Furthermore the hotel price differentiates by giving discounts for longer terms of stay and by issuing special corporate rates (Richard H. Hall & Pamela S. Tolbert, 2005 and Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

**General Environment**

The general Macroeconomic situation changes slowly, so that the hotel has ample time to adjust itself. Except the SARS event which leaded to a constant decrease of business from this market at 2002 (Richard H. Hall & Pamela S. Tolbert, 2005 and Yoho Landis Beach Club & Spa Structure, 2006).

The Landis chain benefited from the low interest rates of the last few years, and used the “cheap capital” to push its expansions strategy by adding more hotels to its network. This trend is expected to continue in the years to follow (Richard H. Hall & Pamela S. Tolbert, 2005 and Yoho Landis Beach Club & Spa Structure, 2006).

During the off-season from September to April corporate and government business represents 80% of the Yoho Landis market. During the high season the share of Leisure travelers increases. This market niche shields the Yoho Landis from other high-end hotels, which focus more on the leisure tourist (Richard H. Hall & Pamela S. Tolbert, 2005 and Yoho Landis Beach Club & Spa Structure, 2006).

**CULTURE**

**The Big Family**

One Employee described the Yoho Landis community as “one big family” that is fun to work for. The tone is casual, while one maintains a professional respect for his co-workers
and superiors. The hotel shows a low staff turnover in the core positions. Employees are non-unionized, which indicates that they must have a good working relationship with their management. There are no signs of mobbing or backstabbing, which allows the staff to concentrate on their job and provide the high level of service expected from them. The Strategic Focus of the hotel is mostly internal and supports a methodical approach to doing business (Richard H. Hall & Pamela S. Tolbert, 2005 & Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

The buy-out from the Landis chain in September 2001 hardly changed the cultural identification of the hotel’s staff on the operational level; hence their reporting relationships were not affected. The upper management on the other hand, very quickly had to start adjusting to the Landis culture; hence their reporting relationships are now tightly interwoven with the Landis Corporation (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

**Elements to Build Organizational Culture**

The wrought Landis “L” is visible throughout the entire hotel facility. One finds it engraved in the floor, at the door-handle, on stationary, in the ashtray, on the staff’s uniform, everywhere. At all times the employee is reminded where he is and what he is part of: The Landis Organization (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

All members of the organization are continuously reminded about the “Total Quality Journey,” which is Landis spoken for “applied total quality management.” Individual areas of the hotel have their own lingo, such as the “60-second check-in” at the front desk (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

Ceremonies, which involve all of the Yoho Landis staff, are held frequently to weld together the employees’ system of beliefs and to support their “family-feeling”. New entrants to the organization participate in an extensive orientation, which teaches them skills needed
and values shared. At an “End of the Year Banquet” the employee of the year receives an award. Some of the many other ceremonies and events include a Christmas party, a family picnic, and farewell parties if someone leaves the organization (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

The Landis’s dress code takes up a fair chunk of the Employees Operation Manual. The operational staff with customer contact is being provided a standard uniform, which it has to wear at all times. In addition to the uniform a very detailed “grooming standard” regulates the staff’s hairstyle as well as the use of jewelry and perfumes. Non-uniformed staffs have to wear a business suit at all times (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 &Judith R. Gordon, 2002).

**LEADERSHIP**

**The Management Concept**

Stanley Yen, chairman of the Landis Hotel & Resorts, had a goal in his mind that he want to raising tourism’s profile and want to see the tourism in Taiwan can toward the global steps. In an interview, he present that “I believe there are three ways we can view tourism. The first view is that tourism is international promotion, which allows Taiwan to gain recognition, raise international visibility and promote international friendship, and even allows for improving contacts between Taiwan and the mainland. The second view is that tourism needs depth and cultural integration. The third view is what our government hopes: that tourism can save our prosperity.” Therefore, he always teaches his employee the importance of the world outlook. (Butler Waugh, Laura Li /tr. 2004)
Stanley Yen is very kind and Large-minded. He treats his employee like a family and gave them encouragement more than punishment. This concept affects every manager of the Landis chain.

**Employee Participation**

The “employee of the year” award encourages employees to compete with each other and to go the extra mile in order to satisfy the customer. Regular meetings, which are held with the department heads and with the “peoples department”, further facilitate the flow of information from the base to the decision-making levels. There is no specific employee feedback system in place, but everybody is encouraged to bring in his or her ideas to improve the Yoho Landis process and performance. Since the recent take-over by the Landis chain, the emphasis on lower level empowerment has been increased, so that each employee will be able to take up more responsibility and bring in more of his ideas in the future (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

**TYPES OF TEAMS AND GROUPS**

Landis has many distribution channels in the world. YoHo Landis has followed the object “Find you’re another home” and communicates the information to every customer. YoHo Landis uses the type of project teams to distribute their object, and to create a network of bottlers to help its company more successful in order to meet its business goal. In order To underline its commitment to provide a more personalized service, YoHo Landis connects every team by a communication function. The function would lie in implementing the measure for personalization of service. It would act across all project teams and concentrate on the ones which have heavy customer interaction (Taiwe Hospitality Consulting and
YoHo Landis is a compound resort, but its product is very simple. The most important issue for team and group of YoHo Landis is cooperating with everyone in every workplace. In YoHo Landis, its branches could have cooperated with each other in order to take advantage of their operation, services, and efficiency (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

EVALUATION

After we research and collect some information about Yoho Landis hotel, we analyze it. We found some advantages and disadvantages in this hotel.

Advantages

(1) Information system: The Yoho Landis Hotel uses its customer loyalty scheme to gather some data about customers’ preferences. If a customer for instance prefers to rest on down pillows and stay in non-smoking rooms, the individual reservation system of any Yoho Landis Hotel will recognize this and help hotel staff to act accordingly. In order to offer a more personalized service though, more personalized data about the customer would have to be collected and entered into the system. This could be a snippet from conversations or observations, which would help the staff at the same or other Yoho Landis hotels to quickly strike a positive tone with the guest. In order to be more prepared before arrival, the hotel’s website reservation form should also give the option to include more information about oneself when making a reservation. By doing so travelers, who care about the special attention, could be recognized and treated according to their desire (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).
(2) **Service**: Yoho Landis Hotel has four main competitors that are Caesar Park, Howard Beach Resort, OK Hill Hotel, and Château Beach Resort. The hotel provides some service that their competitors didn’t provide. First, the hotel provides town house style room. This room of style focuses on family customers. Members of a family can live different floor in same building, so they have their more private space. Next, the hotel has various courses and activities for their customers. They have handicraft courses and painting classes for children. They also have dancing and aerobics courses for adult. Third, the hotel supports hot spring for their customers. This special service is other 5 star hotels didn’t support. There is a spring fountain near the hotel, they deliver hot spring to their pool for their customers. Finally, this hotel supports the most rooms than other 5 star hotels do. It has 415 rooms more than others do (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

(3) **Departmentalize by Customer Group**: the Yoho Landis Hotel could divide its structure into two groups: One for leisure travelers and the other for business travelers. By doing so it could serve each market with a more customized product. The leisure part of the organization could then concentrate less on coherency, but more on personalization of service. In addition the general awareness of the hotel’s employees to the existence of two distinct set of guests would increase, so that they could serve them more appropriately (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).

(4) **Standardization**: The Yoho Landis Hotel success is largely due to its ability to standardize and mechanize its operating procedures and thus achieve an industry leading control of quality and costs throughout its widely dispersed production facilities. That allows them to have consistent high quality and above average margins for all their hotels (Taiwe Hospitality Consulting and Training Ltd. Co., 2006).
Disadvantages

(1) **Human Resources**: The biggest part of the problem of a mechanized service is the rigid procedures, which employees have to follow during their interaction with the customer. If one wants to maintain the same level of service quality with less procedural restrictions, one needs to increase the skill level of ones employees. This doesn’t only mean giving more training to staff, but also to require changing the content of what is being taught. A check in clerk should be made aware that it is not his ultimate goal to check in a guest within the 60 seconds time frame, but rather to ensure that the guests leaves his station with the feeling of having received a superior, customized service (Landis Hotels & Resorts, 2006, & Judith R. Gordon, 2002).

(2) **Information Systems**: In order to offer a more personalized service though, more personalized data about the customer would have to be collected and entered into the system. This could be a snippet from conversations or observations, which would help the staff at the same or other Yoho’s hotels to quickly strike a positive tone with the guest (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

(3) **Goals**: The organization’s mission statement, its organizational and operative goals must be adjusted to accommodate the desire to add a more personalized touch to the services delivered. For the mission statement this could mean simply adding the desired objective in two or three words to the existing mantra (Landis Hotels & Resorts, 2006, & Judith R. Gordon, 2002).

(4) **Culture**: Rules and Procedures help to control the people and processes, which deal with the customers. The staff looses some of its independence; hence it has to follow these rules. The customer, who interacts with such staff, feels how his or her “servant” is mechanized, which in turn makes him or her feel like being part of a machine (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).
SOLUTION SUGGESTION: How to get a “feel” into your operations

Human Resources

Human resources should also alter its selection criteria, when recruiting new staff for the Yoho Landis Hotel, since it is much harder to change somebody’s service attitude than to select the person with the desired attitude. By hiring more senior staff away from prestigious, luxury hotels the Yoho Landis Hotel could bring in a different style to its team (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

Lastly the compensation of employees could be made more dependent on the degree by which someone can deliver a fast, efficient AND personal service.

Information Systems

In order to be more prepared before arrival, the Yoho’s website reservation form should also give the option to include more information about oneself when making a reservation. By doing so travelers, who care about the special attention, could be recognized and treated according to their desire (Landis Hotels & Resorts, 2006, & Judith R. Gordon, 2002).

Goals

In order to state operative goals, which reflect the personalization desire, the Yoho Landis Hotel would first have to find ways of how to measure this intangible service characteristic. To find these measures one can ask Yoho Landis Hotel guests to describe how the present service appears to them and how it could be made more personalized to them. Additionally secret shoppers could visit other hotels, preferably stand-alones with a reputation for a fine ambience, to find out how their service differs from the Yoho Landis
Hotel. The resulting differences could be mapped out into new “feeling-guidelines,” which would be supplementary to the existing efficiency guidelines (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

Culture

So far the Yoho Landis Hotel’s culture has concentrated on giving its employees the feeling of belonging together. Its culturally enhancing activities seem to be taken right from the textbook. When creating strong organization members’ cohesiveness in common values and beliefs, the Yoho Landis Hotel should also try to communicate the belief in delivering a personalized service. Rewards for extraordinary effective AND personal service would send a signal of what is valued in the company (Taiwe Hospitality Consulting and Training Ltd. Co., 2006 & Judith R. Gordon, 2002).

CONCLUSION

The Yoho Landis Hotel as part of the Landis hotel chain is a successful operation with a very good fit between its structure and the contextual variables it faces. It succeeded in growing rapidly without losing control over operations by standardizing and formalizing its processes throughout all its hotels. Similar to the Mc Donald’s fast food chain, customers thus know what to expect. As a result from this extensive formalization though, the operations of the Landis have become somewhat mechanized. This makes the customer feel like being part of a process, rather than being guests in a first class hotel. The hotel should try to include “personal service” in its quality measurements and thus expand its competitive advantage.
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ECBU 561
Consumer Behavior

Macy’s Analysis
December 16, 2006

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Introduction

Nowadays, when people are talking about the retail industry, no one can forget the retail giant, Macy’s. We believe that Macy’s has some unique strategies for its customers that we should learn about. Therefore, we would like to describe its success and some particular business characteristics of Macy’s from various aspects as follows:

Company Background

In 1858, a fancy dry goods store opened by Rowland Hussey Macy was located on the corner of 14th Street and 6th Avenue in New York City. After several years, Rowland Hussey Macy found the R.H. Macy & Co.; he decided to use a “red star,” which guided him home when he lost at sea, to present his symbol of success. At that time, no one knew that it will grow to be one of the largest department store retailers in the world. First day sales total only had $11.06, but by the end of the year, the sales became almost $90,000. Macy’s always love to be an inventor. In 1862, they set a first in-store Santa for Christmas, and designed the window displays, which was retail first. Also, they were also the first to use a woman in an executive position. In addition, Macy’s created the one price system, and they are the first retailer owned in New York City to have a liquor license.

Current Situation

On December 19, 1994, Macy’s joins Federated Department Stores to create the largest department store retailer in America. After that, Federated decided to convert some stores which already owned by him to Macy’s. In 1997, Macy’s launched Macy’s.com. By September 2006, Macy’s will serve their customers with over 800 locations across the nation.

Market Analysis

According to Terry Lundgren who is president and chief merchandising officer of Macy’s in 1997 and chief executive in 2003, distinguish the market shopper into three groups: (1) bargain shoppers, (2) those "who will pay a little more for better quality and service," and (3) those who want "the very best quality and service." Lundgren thought the first segment would be Wal-Mart and Target, so he positioned Macy’s on the second segment. Today, the marketing mix is always referred to the 4-Ps, which is Product, Price, Promotion, and Place. Therefore, we use the 4-Ps to analyze the Macy’s marketing mix development.
Product

After Federated acquired Macy’s, Macy’s became the biggest retail store with 30 million annual sales and no direct competitor. However, they want to increase the sales margin by eliminating the cost of intermediaries but still remain the quality of the merchandise. Thus, Federated started to develop some private brands such as Alfani, American Rag, I•N•C, Style & Co....etc. These private brands are affordable and precise designed to meet the market needs and delivers exceptional value to the customer, so they are exclusive and attractive for the customers.

Price

For the pricing strategy, Macy’s adapted the “one price strategy” for very long period time, and they were successful in building some strong fans to support their marketing strategy. However, because the economic and environment have changed, they have begun to use the “High-Low” pricing strategy. That is, Macy’s can briefly have some promotion activities and even cut the price to half in order to attract the bargain shoppers. Recently, Macy’s is concerned that the low margin will force cost cuts and result in influencing the product quality, service, and customer’s shopping experience. According to a study of the University of St. Thomas, Therefore, nearly 40 % of the people polled say they don't shop at Macy's at all. Because they think that Macy’s pricing is too high and needs to change those perceptions of price to match better with the reality in order to get the consumers. Also, some of customers’ perception when they think of Macy’s is that the product variety and quality are quite negative.

Promotion

General speaking, advertising is one component of the promotions or communication section of the marketing mix. Because Macy’s is a nationwide company, the national TV advertisement is the best opportunity for them. Particularly, TV advertisement always leads to greater effectiveness, and also Macy’s management team is able to control the program placement and maximize the exposure to the customers. According to May company’s data information, they figured out that national TV spots have a lower cost but benefits more than other mass media. Therefore, they decided to have a 1.2 billion marketing budget for TV advertisement, and more promotional activities on Macy’s.com to benefit their customers. In addition, Macy’s always rewards the customers with the most coupons for using their charge
Place

Macy’s is a service organization, so we regard place as channel of distribution for the company. Place strategy is critical in the marketing environment which can affect where and how the customer comes into contact with their service. Since Federated realized that some virtual store sales declined, he focused on balancing "national branding and local implementation." After that, Macy's virtual store allowed for changes in department layout but also staffing in different departments.

People

As we know, the best marketing value is a combination of product, promotion, place and price. In the retail industry, however, “People” is one of the critical elements needed to add to the worth described in the marketing mix for Macy’s. Because Macy’s is doing business with the public customers, so they need to focus on how to preserve the relationship with people who may become their customers. For example, Macy’s traditional Thanksgiving Day Parade is a consequential event for the community every year since 1924. Thanksgiving Day Parade may be a very successful activity to Macy’s for approaching society responsibility. However, penetrating into the communities in depth and going deep into customers’ lifestyles is still a critical issue for Macy’s.

Customer analysis

Most survey involving store customers have been developed by interviewing customers on the street, stopping customers as they leave the store, or when only one question is asked, by having store clerks ask it of each customer who makes a purchase.

4P’s

Product/Service

-Slogan: way to shop
(Select the right campaigns for each customer is important to any retailers.)
-The newest advertisement: shop for him, for her, for children
-The first store in New York, now women shopping for intimates at Bloomingdale's don't
have to leave the fitting room as they hunt for the right size bra or lingerie. Since this fall, the retailer has employed a cell-phone size call system where fitting room specialists can alert sales associates of a customer's needs.

**Place/Location**
Macy’s owned over 800 locations across the nation, for customers easy to shop. In 1997, Macy’s hits the World Wide Web with the launch of macys.com. to expand Macy’s business for convenience.

**Price/Market Segmentation**
- High-class: Nordstrom, Saks Fifth Avenue
- Middle-class: Macy’s, Bloomingdale’s
- Low-class: JC Penney, Sears

**Promotion**
Even if you haven’t seen "A Miracle on 34th Street," you’ve surely heard of the Macy’s Thanksgiving Day Parade. Attracting 2.5 million attendees and more than 60 million television viewers every year, the annual celebration has helped ensure brand recognition for the popular department store since 1924.

The world’s largest multichannel department store will implement on-site ratings and reviews to help shoppers make better purchase decisions.
In keeping with Macy’s tradition of innovation and leadership, it is the first multichannel department store to introduce on-site customer ratings and reviews for online shoppers they really understand what they are buying so that they are completely satisfied with their purchase.”

“Macy's is known for several firsts that changed the retail industry,” said Kent Anderson, president of macys.com.

**Motivation**
- holiday season (Thanksgiving and X’mas)
- Big sale after merge/acquisition
- semi annual sale
Consumer Behavior→Purchasing Power

Consumer buying habits are changing every day and Macy’s also considers the retail environment competition. In addition, they target for specific merchandise categories or understanding which customers are likely to travel out of town for a big sale.

- Analyze customer demographic (includes visitors and business men) and lifestyle (located near attraction and hotels)

Population and Households

Population and household data allow you to quantify the current market size and examine future growth. Macy’s usually operated their stores at prosperous cities like NYC and LA. Typically, demand is generated by individual or household purchases. Households can be categorized by size, composition, or their stage in the family life cycle. Members of the family influence a household purchase, such as a new computer. Individual purchases are personal to the consumer. Anticipated household or population growth may indicate future opportunities for a Macy’s.

Income

Household income is a good indicator of spending power of residents. Household income positively correlates with retail expenditures in many product categories. Retailers may consider the median or average household income in a trade area or seek a minimum number of households within a certain income range. Another common practice is to analyze the distribution of household incomes. Discount stores may avoid extremely high or low-income areas. Traditional department stores focus on markets with incomes over $35,000, while some specialty fashion stores target incomes above $75,000. A few store categories including auto parts are more commonly found in areas with lower household incomes. Using income as the sole measure of a market's taste preference, however, can be deceptive.

Age

Age is an important factor to consider because personal expenditures change as an individual ages. Department stores flourish in areas with a large population. Accordingly, malls often do well in communities with a larger number of people. Additionally, realizing and catering to the needs of an aging population can be beneficial to Macy’s, for instance, selling popular jeans to teenagers; providing cooking utensils to housewives and something
special for men or women. Take others examples, Toy stores, day care centers, and stores with baby care items are successful in areas with many children and infants. Clothing stores and fast food establishments thrive in retail areas that contain a large concentration of adolescents. Theatres serve a broad section of the population; however, specialized entertainment and recreation options can target certain age segments.

**Education**

Education is another way to determine the socio-economic status of an area. Because income increases with advancing educational attainment, many retailers focus on income level rather than education. One exception is bookstores which are often sited by developers based on the number of college educated individuals in the trade area. Similarly, computer and software stores are often located in areas with high levels of education.

**Occupation**

Many retailers use the concentration of white or blue-collar workers as another gauge of a market's taste preferences. Specialty apparel stores thrive on middle to upper income areas and above average white-collar employment. Second hand clothing stores and used car dealerships are successful in areas with a higher concentration of blue-collar workers. Office supply stores and large music and video stores are especially sensitive to the occupational profile. Macy’s will target growth areas with a majority of white-collar workers.

**Satisfaction**

-Macy’s knows what customers want
They have “Star Rewards” to promote their activities and good return/refund policy. Any purchases can complete with their own credit card system.
In 1994, Macy’s joins Federated Department Stores to create the largest department store retailer in America.
Macy’s knows how to use marketing strategy well to let customers shop happily and improve their profit.

**Customer loyalty**

Federated can identify its most loyal customers and predict which customers will respond to the company's direct-mail advertising. According to Paul Coleman, director of marketing
statistics, the results of his team's regression models are used to boost results for nearly 400 regional marketing campaigns throughout the United States every year. In addition, we can send fewer flyers and redirect those savings to other forms of advertising – like radio or television. With the right mix of advertising, Federated is focused on reaching its core customers – a segment of shoppers who represent the majority of the company's business. It's important to realize the incremental benefits of a loyal customer who shops frequently for gifts and apparel, for example, versus the one-time consumer who recently bought a high-ticket item such as a sofa or diamond bracelet, explains Coleman. His regression model, focus on targeting and increasing the loyalty of those consumers whose first choice for fashion and value is likely to be the department store.

**Saving time, improving creativity**

According to Federated's senior vice president of corporate marketing, Robin Creen, Federated is a company eager to embrace change. She says, "We are committed to becoming even more aggressive and creative in identifying and serving the needs of our fashion-oriented target customers."

**Issues/Problems**

**Fur Demonstration**

Being in the fashion industry and the biggest department store, Macy’s no doubt can easily be the target of activists groups. In fact, Macy’s has long been facing pressures from anti-fur activist group. Constant protesting is believed to, to a certain extent, harm Macy’s corporate image. For example, some of the very aggressive protesters burned mock Macy's credit card, stuffed anti-fur literature into the pockets of coats, picketed within 10 feet of store entrances, and entered stores with bullhorns and signs. These actions were seen by store patrons and may even be seen by millions of audiences via TV broadcast and can implant a negative image toward Macy’s. This issue has become so big that the department store has had to stop selling furs and has once outsourced their fur department to a smaller independent boutique, in the effort to sustain their corporate image among the public. Issue management then has become a major subject on Macy’s marketing agenda. Therefore, although they started to sell fur products again, they have adapted several approaches to try to dilute the negative image selling fur may bring.
**Conservative consumers**

In fashion industry, most companies would accept and have demands of homosexual activists who are organizing homosexual employees. Sometimes, they also would support many activities held for homosexuals. For Macy’s, they not only have a project to increase social awareness of HIV/AIDS related issues, and raise nearly $22 million to benefit HIV/AIDS research, care, prevention and education program, but also alter a window display marking Boston's gay pride week to support homosexual marriage. The project about HIV/AIDS related issues is good and accepted for everyone but the project about gay pride is offended by anti-homosexual groups. The anti-homosexual groups score of their supporters complained to Macy's by phone and e-mail and then Macy’s removed the mannequins but left the list of pride week events. Macy’s issued a statement that the original window display is a ‘’miscommunication’’. Boston is a more homosexual-friendly city but still face this kind of issues, not to mention other cities.

**Consumer relationship**

The customer relationships evolved around the Macy’s brand was not that satisfying. Our own friends confronted unpleasant experience with their credit card and further canceled it. This partially reflected the overall customer relationship building strategy and execution was not effective. Apparently they initiated a project trying to solidify their customer relationships however, the implementation and execution did not meet customers’ expectation and resulted in ineffectiveness and low ROI. Being the biggest department store, Macy’s will need to find a way to integrated their store staff, credit card operation, and other aspects of their business, to make sure their customers enjoy a satisfying shopping experience.
Q1. What customer is Macy’s targeting?
Answer: Today that consumer is shopping in multiple locations, and we've got to make sure that she feels very comfortable that Macy's is America's department store and the place where she spends most of her time and most of her discretionary income. So we're defining our positioning as a fashion store that sells affordable luxury.

Q2. You keep saying “she”, because most your customers are female?
Answer: According to database from our company, 70% of our transactions are decided by the female in the household. We certainly have an important men's business, and that is also influenced by women. We have a kids' business; that, obviously, is driven by women. And, of course, purchases for her are important. And even for home furnishings, women are more and more making the purchases in stores like ours.

Q3. What do you do to build relationships with customers and why is this important to you?
Answer: I try to be a friend of the customer. I also pay attention to the customer and what they are saying. For example, if I am a bilingual person, I will talk to my customers in their familiar language. When I do these things, they often become my loyal customer and come back to do business with me. I try to make a connection with them; this makes them feel more comfortable. I also find out if they have any future suit requirements and will call them if something arrives that meets their needs. I've made a lot of friends in my work.

Q4. Providing consistent customer service is an ongoing challenge. How does your personal contribution and passion for the customer make your store the best it can be every day?
Answer: I try to provide the best customer service and solve problems for my customers. I do as much as a can for them. For example, I have had a couple of customers who came in very late in the day and needed a suit the next day. Because our suit pants are unfinished, they have to be hemmed. It was late and the tailor was not there, but I know how to sew, so I was able to help the customer. That kind of service makes the customer happy. They come back and they send their friends to me. I just do my best to make the customer happy, so then I have customers and the store has business.

Q5. Holiday season is coming. It seems the high end is doing well and the low end not so well. Is that what you see?
Answer: The best business we've had in our portfolio has been the Bloomingdale's brand, and that, of course, is running at similar rates to some of the other high-end stores. So it's certainly true that the high-end consumer is back and has been spending. But the main
business, which represents close to 85% of our total, is what now will be known as the Macy's brand. We have relaunched the name brand across the country by changing the name of Rich's-Macy's to just Macy's starting early next year. We've done the same thing for all of our other brands other than Bloomingdale's.

Q6. As we know, Macy's has tried to build good relationship with community and held some activities such as annual fashion HIV/AIDS fundraiser, an annual fundraiser for breast cancer research and the American Heart Associations for heart disease. Do you think the result has met your expectations, in terms of delivering the desired message to your customers?

Answer: We do our best to support every activity good for our consumers. For example: We are happy that passport programs reach thousands of men, women, youth and children living with or at risk for HIV to ensure that they live their lives with dignity.

Q7. As mentioned activities, your Thanksgiving Day Parade is very popular. Would you want to talk about how important is the Thanksgiving Day Parade now that the Macy’s brand is national?

Answer: The parade is an important investment. It's the second-most-watched TV program after the Super Bowl, so how better to maximize your brand than having your own parade on Thanksgiving? You know, many people refer to it not as the Thanksgiving parade but as the Macy's Day Parade.

Q8. What do you see in the future for Federated and the department store industry and Macy’s.com?

Answer: We are taking stock of what our customers want and need and are then trying to meet those needs. Macys.com has huge potential to fill a key part of that. We are a national face for the brand. Anyone who has a computer can get onto macys.com and if we stay true to the ideals of the Macy's brands, we can only grow. If we listen to our customers, their experiences and want to meet their needs, we can only succeed.
Recommendations

From the information and conservation, we can know that Macy’s understand very much about their marketing and target. However, they still need to follow their marketing strategy step by step and improve relationship between them and consumers. For example, Macy’s have took over billing problem for a consumer and as this consumer want to contact them each time, the consumer service representative was able to pull up her file on the computer and reference her previous calls. These situations happened on our friends. One of our friends meets over billing problem and another one friend meet no answer call even he left message.

As we mentioned in issue section, Macy’s would face some issues that would affect consumers’ reactions and even result in huge profit loss. Although homosexual market is very huge, if Macy’s want to operate this huge market, they had better to learn how to get a balance and keep those conservative consumers. Also, Macy’s should pay attention to the fur-demonstration. Macy’s didn’t decline the sales of fur product because of the fur-demonstration, but they still need to be afraid of image damage and do something to let consumers feel they have social responsibility. Maybe, they have some activities such as annual fashion HIV/AIDS fundraiser, an annual fundraiser for breast cancer research and the American Heart Associations for heart disease fix their bad image. They even held an activity to invite pets and their owner eat breakfast in Macy’s department store. At least, they do their best to build community communication and give consumers good memory, especially in Thanksgiving Day Parade. Thanksgiving Day Parade is successful becoming Macy’s brand and history.
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Team Final Project

Marketing Dr Pepper in France
ECBU 566
Professor Zerovnik

03-17-2007

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Executive Summary

First created and sold in 1885, Dr Pepper is the oldest major soft drink brand in America. Though its beginnings are humble (having been created by a pharmacist in a Texas corner drug store), its widespread success is not. With a 7.0% market share, and over $850 million in annual sales, Dr Pepper is second only to Coca-Cola and Pepsi. Currently, Dr Pepper is primarily found in the U.S., Canada, and Mexico. To gain economies of scale, and to become a more formidable contender in the carbonated soft drinks (CSD) market, parent company Cadbury Schweppes is answering the call of Global Logic. It will introduce its unique beverage in France, where the company believes the product will thrive.

After much research, Cadbury Schweppes has decided to employ the double extension strategy to introduce Dr Pepper to the French. That is, the company will not change its product, or the means by which it communicates the product. This decision was based on the nature of Dr Pepper to 1) have universal function, 2) satisfy universal needs, and 3) be universally affordable. The extension strategy will save the London-based company millions in research and development.

Cadbury Schweppes currently dominates the gum and confectionary markets in France with a 55% market share, and a 17% market share, respectively. Through its vision and expertise, Cadbury Schweppes is committed to making Dr Pepper as successful in France as it is in the U.S. The marketing plan that follows will serve as a guideline to that end. It starts with an assessment of the market and competitors, followed by strategies in budget and pricing, finally ending with contingency planning and controls.
Situation Analysis

Today, Dr Pepper branded soft drinks are primarily sold in the U.S., Canada, and Mexico, with the U.S. enjoying the largest overall success. Even as “America’s third most popular soft drink”, controlling 7.0% of the market, Dr Pepper is still a far cry from the success of Coke and Pepsi, who control 27.8% and 22.9% of the market, respectively. If Cadbury Schweppes wants to grow the brand, it is clear that it needs to pursue opportunities outside of the U.S., Canada, and Mexico.

France is an excellent country in which to expand due to its rich economy and population. According to the CIA World Factbook, France is currently home to close to 63,000,000 people, with 65% between the target market ages of 15-64. As compared to the rest of Western Europe, soft drink consumption is lower in France. The growth potential in this country is very attractive to Cadbury Schweppes. The manufacturer has already gained a foothold with its acquired brand of Orangina, and Orangina Rouge.

A) Market Needs

The French public today is health-conscious. The demand for non-alcoholic beverages is at an all-time high. With 90% of the country consuming soft drinks, the need for variety is pressing. On store shelves today, in terms of carbonated soft drinks, one can find Coke, Pepsi, Fanta, Sprite, and Lorina (lemonade). Dr Pepper, with its 23 ingredients, offers the French a unique and flavorsome alternative to the status quo. A regular 8 fl. oz can of Dr Pepper contains 35mg of sodium and 100 calories. By way of comparison, the market leader, Coke, contains 50mg of sodium and 105 calories (French version). The health-conscious French will appreciate the better nutritional value in Dr Pepper.
B) Target Market

The New York Times reported that soft drink sales are down for the first time in 20 years, and sales of bottled water, juices and energy drinks were continuing to eat into the soda market (New York Times). Therefore, if Dr Pepper wants to enter the soft drink market in France, Cadbury Schweppes has to carefully examine its target market in France. Since 2003, French consumers are becoming increasingly health-conscious, and opt for non-alcoholic beverages. However, younger French consumers are more likely to eat a hamburger washed down with a super-sized cola than prepare their own food at home. With more than 90% of the French drinking soft drinks, manufacturers have to work hard to keep their attention and innovation in the soft drink sector. With respect to the above-mentioned information, Dr Pepper’s target market is as follow:

- **Age**: 65.3% of French are 15-64 years old. Cadbury will target males and females between the ages of 15-30, because these people have mature thinking and are more likely to accept innovation. If the French accept Dr Pepper during this period, the company believes they will keep brand loyalty beyond age 30.

- **Profession**: Cadbury believes students and young society workers drink more soft drinks than other profession groups because they “hook up” with their friends, families, and coworkers more often.

- **Income Level**: One soft drink will not cost people too much; therefore, Cadbury believes income level will have little bearing on the decision to purchase Dr Pepper.
- **Educational Level:** This will also have little bearing on the decision to purchase and drink Dr Pepper.

- **Residence:** People who live in France can drink soft drinks anytime.

At present, about 190,000 international students (10% of French postsecondary enrollments) have chosen France for all or part of their higher education. It seems Cadbury can not ignore U.S., Canada, and Mexico students in France because they have had the experience of drinking Dr Pepper in their home country. The company assumes these students have loyalty for Dr Pepper. When they study in France, they will want to drink Dr Pepper.

### Competition

#### Market data

Although France is best known as a wine consuming country, the fruit juice and soft drink market is growing. The estimation of the French soft drink market is 23.4 million hl. Market data shows that the annual per capita consumption is 22.5 liters among French consumers. It is also believed that there will be more new products on the market. However, in recent years, sales volume was not as good as in 2003.

#### Demand for Products

As French consumers have become more health conscious, their low-sugar and vitamin-added drinks are becoming very popular. Although 90% of French consumer’s intake soft drink on a daily basis, they are shying away from it, mainly due to health concerns.
and government sponsored educational programs regarding the impact of consuming soft
drinks. French soft drink consumption is, in fact, lower than most other markets in Western
Europe and it is believed that there is a downturn ahead.

**Direct and Indirect Competitors**

Although there are direct and indirect competitors to Dr Pepper in the French market, some
of them have dual presences in both categories. The breakdown is as follows:

- **Direct Competitors** include brands that are in the general “soda” category. Coca-Cola
  is the biggest market share holder in the overall French soft drink market. PepsiCo
  Company is another big player in the soda segment.

- **Indirect Competitors** include brands that are fruit juices, functional drinks, tea, bottle
  water, and other non-soda products. Companies include: DANONE, GROUPE,
  ECKES-GRANINI FRANCE SNC, KARLSBRÄU FRANCE SA, MONIN SA,
  NEPTUNE SA, NESTLÉ WATERS FRANCE SAS, ORANGINA-SCHWEPPES,
  TEISSEIRE FRANCE SA, and UNILEVER BESTFOODS FRANCE SA.

**Assessment of Competitors**

Coca-Cola and PepsiCo are considered to have their advantage of economies of scale over
some of the local soft drink producers, and they are strong in the Cola product segment.
However, Nestlé and Danone are the leading two producers of soft drinks in France. Both
of the companies are strong in the bottled water category. Fruit juice companies such as
ECKES-GRANINI FRANCE SNC and TEISSEIRE FRANCE SA, and MONIN SA are not
as strong in the entire market, mainly due to the weak demand of fruit juice or fruit flavored
Dr Pepper Product Differentiation

Unlike Coca Cola and Pepsi, Dr Pepper offers a taste derived from a mixture of soda fountain flavors. It is not marketed as a cola product. There are 23 ingredients to make Dr Pepper, but it does not contain any prune juice. It offers consumers an alternative with its unique taste that is not available in cola products or any other soft drinks. Dr Pepper also offers consumers a different packing than its two competitors. The look is simpler than Coca Cola and Pepsi with only its name and a red burgundy background. The tilt positioning of the name gives consumers a crisp and fresh feeling.

Product Description

Dr Pepper is the oldest soft drink in the United States. Dr Pepper is very famous for its unique taste ever since it was created by Charles Alderton in 1885. Dr Pepper products include original Dr Pepper, diet Dr Pepper, Cherry Vanilla Dr Pepper, Diet Cherry Vanilla Dr Pepper, Caffeine free Dr Pepper, Caffeine free Diet Dr Pepper, Berries & Cream Dr Pepper, and Diet Berries & Cream Dr Pepper.

The original Dr Pepper product has a very distinct flavor that no other soda can claim. The taste is rich, bold, spicy, fresh, and it has “bite.” It is in fact, made of 23 flavors. Other flavors are enhanced with the splash of cherry/vanilla and the new berries/cream. This character is the most important selling point for Dr Pepper in the United States. Therefore Dr Pepper’s unique flavors are expected to be the selling point in the French market as well.
Marketing Strategy and Channels

Dr Pepper requires a thorough global marketing strategy to be able to penetrate the French market. Attractive and effective advertising and promotion strategies are crucial to success. An integrated marketing channel plan for Dr Pepper includes investments in various advertising mediums, such as local television channels, radio, print ads, Internet, direct mail, coupons, and local event promotions and sponsorship. “The media plays a key and steadily growing role in the life of the French, who spend more than 3 hours and 15 minutes watching television or listening to the radio each day.” (France Diplomatie).
Thus, television and radio advertising should be Cadbury’s top priority, followed by print ads and other mediums.

Dr Pepper should place its commercial in the most watched television channels in France, such as TF1, France 2, France 3 at the right time during the favorite programs watched by the target market. Radio advertising can be placed at RTL and France Inter radio stations. Some print medias, such as Metro (the free newspaper in France), Le Figaro, Le Monde, Ouest France, Sud-Ouest newspaper and magazines targeted for young market, special interest magazines, such as Sport, will be suitable print media for Dr Pepper. The most visited Internet sites such as news, sports, and web mail are appropriate for Dr Pepper web advertisements. Direct mail and coupon insertion in local newspaper are other options in Dr Pepper’s marketing campaign. Free soda giveaway promotions can be conducted in the busiest place in town, major grocery stores, and in schools/colleges. Besides, Dr Pepper’s reward promotion or sweepstakes getaway can be part of the marketing strategy. Sponsorship in various events, such as fashion shows, seminars, and local sport competitions are also good ways to gain product exposure.

Going global, Dr Pepper is expected to enter the French market successfully with the appropriate budget. The expenses needed to go global should not hurt the business in the United States. Advertising mediums that give the least product exposure in France may be eliminated in order to cut expenses.

**Pricing Strategy**

Dr Pepper is a popular carbonated soft drink, but it is not marketed as cola, and it has many flavors, but till now, it has not been sold in France.

There are many brands of soft drinks in France, such as Coca-Cola, Danonoe groupe, which is famous for its yoghurt, ECKES-GRANINI FRANCE SNC, KARLSBRäU FRANCE SA, which is one of the most popular beer and beverage producers from Germany, MONIN SA, NEPTUNE SA, NESTLé-WATERS FRANCE SAS, which is a number one battle water in Europe, PEPSICO FRANCE SNC, which is a biggest competitor for Coca-Cola, TEISSEIRE FRANCE SA, and UNILEVER BESTFOODS FRANCE SA. Some of these brands are high end, and some of them are low end.

From its research, Cadbury knows that the French have a high living standard. Most French can afford to buy high-priced beverages, and they prefer to drink healthy beverages. But as for the launch Dr Pepper, the pricing should be low end. The reasons are as follows:

1. As everybody knows, France is against America. For example, it thinks French should be the world language instead of English, so of course, France will be against the products made in America, so as a new comer, the price cannot be too expensive. Cadbury should put the product at the low end to make France accept the products first.
2. After the French accepts Dr Pepper, Cadbury can develop more products to meet market needs. These kinds of products can be high end. But before launching these high end products, Cadbury should use low end products to build brand.

3. Image and brand awareness first, then it will be easier launch new products in the future.

Contingency Planning

As mentioned previously at the beginning of this marketing plan, Cadbury Schweppes is already quite successful in France with its gum and confectionary products. The company does not expect to fail (that is, lose money) with the Dr Pepper brand, however, as this is not impossibility, it is necessary to anticipate potential issues, and prepare resolutions:

**Difficulties and risks**

- Lack-luster sales prevent reaching the break-even point
- Delays in production and/or distribution systems
- English brand name unable to “catch” in French market

Should any of the above problems occur, Cadbury Schweppes will assign the issue(s) to its diverse and talented team of market researchers for investigation. In the event of lack-luster sales, all facets of the marketing process will be examined. Is it the packaging of the product? Is there sufficient advertising? Will promotions and discounting help? In the event of production/distribution delays, investigations will be conducted on-site at the local level to determine the cause(s) for inefficiencies. If the issues are cultural, additional
training and incentives will be provided to ensure all employees and partners perform at the high level set by the company. In the unlikely event of a translation problem with the brand name, other name options will be examined. On the shelf already is *Dr Poivre*, a direct French equivalent to Dr Pepper. Before this is implemented, however, the name will go through the standard (albeit rigorous) examination process before native French marketers and professionals.

**Worst-case scenarios**

- Determining that expenses outweigh revenue with no hope in sight
- Having to liquidate inventory and real-estate to pay liabilities

Should any of the above issues present themselves, Cadbury Schweppes will have no choice but to cut its losses, and extricate its Dr Pepper branded products in France. The company will resume production and distribution in the U.S., Canada, and Mexico. To make up for its losses, depending on the amount, a small amount of downsizing may be an option. This may occur at the Cadbury Schweppes headquarters in Texas, or in any of the various bottling and distributing plants across the country.
Controls

The following areas will be monitored to gauge brand performance:

- Revenue—quarterly and annually
- Expenses—quarterly and annually
- Positive feedback on various customer surveys
- Use of store and company coupons
- Participation in periodic promotions, such as the recent web based game, “The Hunt for More” where participants can win up to $1,000,000 in cash.
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Cadbury Schweppes, Brands and Market Share

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Summary

When the author went to India, he found that India is not what he thought anymore. He found Indians work for many foreign companies. It’s very interesting to know how foreign use outsourcing and why they want to use outsourcing in India, even in China because these two countries are far away from their homeland. Many foreign companies like outsourcing in India because they could find very good human resource to save their labor cost and with high knowledge and skills to increase production effect. Also, they could use high digital technology like Net-meeting to connect their employees, consumers, and partners all around the world at the same time to discuss the business together to reduce the time and money. Finally, he found out-The world is flat.

The world has become globalization in a long time. And, the process of globalization is downward progressive, in terms of size of the world. In the first globalization era, countries globalization was for resources and imperial conquest, shrinking the world from large to medium. The second ear of globalization is for markets and labor, shrinking the world from medium to small. The third ear of globalization, to this point, has made the world from a size small to a size tiny, flattening the playing field at the same time.

We know the world is changing, but how did the world get flattened and how did it happen so fast? There are ten events and forces that they all come together. The first event is Berlin Wall came down. It not also means that people in German are released to the world, but also means that we will have a global view in the future. The second event is that Netscape went public. By Netscape, people could connect with people everywhere. The third flattener is workflow. Similar to Netscape, workflow revolution was able to realize because of technologies and applications are improved and connected, allowing people all over the world to work together. Innovative technologies and applications made it possible for them to recognize the same data, image, and other information on computers. The Forth
event is uploading that everyone could get and share the information on line. The Fifth event is about outsourcing that companies could pay less but get more effect just stay in your home country. The sixth event is offshoring. Offshoring is different from outsourcing that offshoring need to set up plants in other countries and could save more than cost than outsourcing. The seventh event is supply chaining. Wal-Mart is a very good example that they are successful because they have a good inventory system management between themselves and their supply chain. The eighth event is insourcing that other company could analyze the problems in your company and helps you to improve or create a new system. The ninth event is in-forming like “Google” that you can research different information that you want. The last one is the steroid like wireless access and VoIP. Wireless is a big leap for us, because we now can do the above mentioned activities anywhere.

Those ten flatteners create a global, Web-enabled playing field. People want to take advantages this field and they continue to use new skills, new technology process and new trendy habits and they will have less and less within vertical silos and more and more through horizontal collaboration within companies, between companies and among individuals. The world is changing, people are changing, too. China and India are improving because of the ten events and they also want to join this changing world to compete and cooperate with other leading countries like America, west Europe and Japan. In few years ago, China and India countries will catch up with those big countries quickly and maybe, they will even leave those leading countries behind, in terms of competitiveness, if the big countries do nothing to retain their leading positions.

However, Americans would think if they give outsourcing to other countries, some Americans would lose their jobs. Actually, outsourcing not only reduces labor cost but also potentially increases Americans job opportunities and improves American economics. America could do many things that require more knowledge that outsourcing countries could
not do. They could play a R&D role and give outsourcing to other countries. America could save much cost on R&D and outsourcing countries could learn R&D from America. This cooperation could let both sides get benefit and this is good for people all around the world. If America wants to keep their leading role, they need to attain more and more professional and skill talents to help them in R&D. They need to encourage their children in technology field and know how to keep and recruit non-Americans talents to stay in America to contribute the country. The flat world offers us more new opportunities, new challenges, new partners and new danger. We need to become best globalization people to face all change and all danger and solve it.

**Critique**

I agree with the ideas by Thomas Friedman, especially the results of outsourcing. Outsourcing doesn’t just mean losing jobs for American; on the other hand, it could create jobs and economic for America. Many people would ask, “If America companies give outsourcing to other countries such as China and India, how Americans find the jobs?” It is just the surface for this subject. The author gives me a very good point that if life for people in China and India are getting better, they would have high extra money to buy good products from America and this would result in America needs more people to produce those products for export. It would not increase the unemployment ratio but increase the jobs opportunities and improve America economics. All in all, outsourcing not only helps America companies to reduce labor cost but also potentially simulate America economics.

Also, it’s true that the market would not stay put always, and the world would create more and more market for us to enter. We don’t need to be afraid that people in China or India would share the market because the world is changing and you will find your still have
opportunities always. However, you need to learn more and more knowledge continuously or China and India will be more place behind you quickly. We could see the global market now. China and India is growing very quickly, and maybe one day, they will become another Taiwan but much bigger, and not just an outsourcing countries. Don’t puff but humble from now on.

Content

Few years ago, Taiwan government abridges Taiwan’s companies to enter China market because of political affairs. China is a growing and a potentially big market in the future and many international companies want to enter this market successfully. It is not easy for international companies to enter China market except for outsourcing because they could not understand China’s culture, background, and etc. We have many advantages than other foreign competitors because we know the Chinese culture, we could save shipping cost because of location and we won’t have policy restrictions because China government think Taiwan belongs to them.

Many years ago, Taiwan is just a country with outsourcing and manufacturing. However, after few years, Taiwan has become a developed country and people have ability to develop Taiwan’s own products. We have high income and our country changed from accepting outsourcing from other countries to giving outsourcing to other countries. Finally, Government removed the restrictions because they found Taiwan need to loosen to meet the need in changing environment.

Now, Taiwan companies could offshoring in China; even sell products successfully there. Because of offshoring, Taiwan companies could save the labor cost and resolve the lack of human resource. However, offshoring also indeed lower the salary for some jobs in Taiwan
and increase the unemployment ratio. Generally speaking, I would say offshoring in China is necessary for Taiwan for labor-intensive operations and we could focus on fields like R&D and marketing.
ECBU 568
Marketing Communication

Media Analysis
February 7, 2007

Instructor:
Professor Rossum

Chun-Chen Lin
(Jean Lin)
Introduction

I love most TV shows on BRAVO such as Project Runway, Top Designer and etc. because TV shows on BRAVO are interesting and fun and their shows usually give a look-up on the latest fashion and trend. When I first saw “Top Chef” on BRAVO, I instantly loved the show and developed habits to watch it every week and that is why I wanted to choose it as my program 1.

I love watch some sport shows such as NBA, MLB, beach volleyball and so on that young people would watch. However, not every sport game I would try to watch. If I need to choose a program that I don’t watch, I must choose some sport games that men would watch such as golf and fishing because these sports are relatively unattractive to me. In this assignment, I would like choose fishing show as my second program.

Background/ Purpose

Media marketing is very popular and important in people’s daily lives. We could watch various shows or commercials through TV or internet, and these media marketing potentially affect our decision process and purchasing behaviors. However, not every commercial is accepted by every target, therefore, marketers need to take into considerations as to how to spend money to get maximize their return of investment. Marketers could do commercials during programs that their major targeted consumers would watch and thus save more media advertising cost to generate targeted and positive awareness for their products and brand. This is what I attempt to discuss in this assignment: By looking at different programs and by analyzing what different commercials would show up to reach different target groups.
Program 1

Top Chef

The show’s name is “Top Chef” and it is broadcasted at 10/9c on the BRAVO channel usually on Wednesdays.

Program Description

“Top Chef” is a reality show. This reality show delivers content about how 11 chefs compete with each other and every week, one of the chefs would be eliminated until final winner prevail. In this show, we could not only watch how delicious meals are made in the kitchen, but also, we could see interesting reactions coming from the contestants and how their relationships are like because of the strict competitions. We could watch real judges to scrutinize the work of the contestants on TV; in addition, we too, as viewers of the show, could rate their work and express our own opinions on BRAVO’s website. Viewership is mainly female, especially those who are housewives, arguably because they could learn how to cook by this kind of show. Unsurprisingly, the shows preceded and followed are both “The Real Housewives of Orange County”.

According to TV.com, “Top Chef” is number 32 in reality show ranking and gets 8.6 great scores with 307 votes. In Top Chef Season Two, they have averaged 1.22 million adults between 18-49 years old, according to Nielsen Media Research. The second installment of the series is also number one among women between 25-54 years old, averaging 755,000 viewers in the demo.

Commercials

The commercials during the “Top Chef” are as the following:

- Marriage-Eharmony
- UV protection-simulation
- Supplement product-Beano
- Coffee mate-Nestle
- Haircolor product-L’Oreal

Commercial break 1

- New product for cereal- special K
- Night cream-Neutrogena
- Soup at hand-Campbell’s
Cat food-IMAS
Cold & Cough Medicine- Alka-Seltzer Plus
Lips for midnight-Revlon
Travelocity
Cable TV-Charter
Telephone-Charter

*Commercial break 2*

- Lose weight-WeightWatchers
- Children education-Smart Start
- Foundation-Maybelline
- Investment
- Lawyers-Hissey Kientz, LLP
- Body lotion-Aveeno
- Cheese-Real California Cheese
- Loan-Ditech.com
- Swiffer WetJet

*Commercial break 3*

- For women and girls’ health-Gardasil
- Whole cereal-Kashi
- Eye cream-Avon
- Marriage-Eharmony
- Diamond-The Jewelry Exchange
- Home Furnishings

*Commercial break 4*

- New product for cereal- special K
- Travel-Santa Fe
- Cold medicine-Delsym
- Shampoos & Conditions-TRESemme
- Soup
- Lips-Revlon
- Cat litter
- Lose weight-WeightWatchers

*Product placement*

- Hilton
Analysis

Because this program is about cooking and food, of course, presumably we are expect to see commercials about kitchen appliances and so sort, instant soups and products like Coffeemate. But I find an interesting thing that no restaurant or fast food commercials were spotted during this cooking program. In my opinion, the program is about high-quality food and maybe that’s why no fast food restaurant considers it’s a good spot for them. They probably don’t think delivering a commercial would bring them enough return on investment compared to other shows.

Because the major audiences are women and housewives, we could find all commercials are promotion products that are targeted to women and housewives, or those of products that women or housewives are major decision makers of. Because women care about their beauty, weight, marriage, we could see many commercials from brands such as Avon, Maybelline, Neutrogena and etc. for beauty, Weight Watchers for losing weight and Eharmony for single women. Moreover, most women audiences of this show are married; therefore, we could see Avon and Maybelline use commercials to promote products like night cream, eye cream or items matured women are more likely to buy.

We also could see home products such as TRESemme for shampoos, and medicines, food, furnishing, pet’s product and cleaning items. No matter you are a career women or full-time housewives, women usually are the ones that take care of everything. Even though their husbands might be major decision makers on certain products, women very often play important roles in the decision making process. Many companies are aware of this fact and we could see many commercials about travel, investment and loan, and charter appear during breaks of this show.

Of course, we could find some products and commercials for children; however, I am more interested in commercials which use children to potentially raise their mothers’ desire to purchase these products. I would use three products as examples. First, we would see a commercial of medicine is about children getting cold, not parents getting cold because parents love their children more than themselves and they want the best for them, and so they are willing to pay almost everything they could for their children’s well being. Second, Special K commercial is about a daughter who just sees her mother’s bottom in Christmas Eve and calls her mother “Santa”. This is also an example of using children to stimulate
women’s motivation to lose weight. I found a commercial that most potentially encourage mothers to buy the product - it is about a snowman who is very cold outside and when it enters the room and drinks the soup, it melt away to become a boy. The commercial gives mother an idea of when their children are so cold, they need to feed them this soup to warm them up.

**Implications/ Lessons Learned**

Women are really a hug market because they are major decision makers on a lot of things in everyday life, not to mention they are also major actual buyers for most products. Especially housewives, they could access media all day and commercials could affect their decision and purchasing very much. If marketers take advantages of the combination with commercial and context of the programs their commercials are in, they could create effective advertising for their products.

Except for reality show, many women like to watch fashion program, soap, drama and etc, and marketers could use the same way to connect their products of commercial. This would enhance their brand image and product awareness.

It seems that major audiences on BRAVO are women because except for “Top Chef”, they have shows “Top Designer” and “Real Housewives” now. Companies which sell women products could not just focus on commercials in individual programs; it is also wise for them to take the whole network image into considerations, in this case, a network that is most perceived as a more feminine one.

**Product-IMC Extension**

I would pick Eharmony and insert a commercial for this product during daytime talk show or soap opera as part of the IMC strategy. The audiences of Opera are mostly women and housewives like “Top Chef”, but their audience would be more sensitive because Opera would talk about love and relationship. They would notice some commercials about marriage during breaks from the Opera Show, because they are under this emotional. Opera has her own magazine and this kind of advertisement could also be considered as part of the IMC strategy.
Program 2

Bassmaster Elite Series

The show’s name is “Bassmaster”. It is a competition that we don’t have stable time to watch it. I watched it on the ESPN channel at 11:00 on Tuesday.

Program Description

“Bassmaster” is a sport competition show about fishing. Bassmaster has a series of competitions everywhere and this episode is one of them. This sport competition show delivers content about how people compete with each other and the champion will go to the person whose fish caught weighs most. Viewership is mainly matured male, especially those who are not only interested in fishing but also who have time and economic ability to go fishing because the equipment is very expensive and they create a leisure image.

Because more and more matured men emphasize the quality of their leisure time, they have increasing interests in going fishing. According to ESPN and ESPN2, they have increasing audience and averaged a 21 percent more than last year. Bassmaster’s slogan in ESPN goes: “It’s the highest-rated Classic in ESPN2's history of airing the tournament. There are more than 9.5 million viewers tuned in to the programming and the networks averaged 368,000 households, up 21 percent from 304,000 in 2005. ESPN2's 0.4 rating for the three telecasts represents an average of 331,000 homes, the most ever in six years of coverage and up 61 percent from 230,000 last year. Additionally, the 2006 Bassmaster Classic was the second most-viewed Classic on ESPN. An average of 461,000 households watched the two telecasts, an increase of 14 percent over the audience for last year's coverage.”

Commercials

The commercials during the “Bassmaster” are as the following:

Commercial break 1
- Car oil-Purolator
- Power-Mercury
- GPS-Finder

Commercial break 2
- Motor guide
- Truck-Toyota
- charter
**Commercial break 3**
- Boats-Triton
- GPS-Finder
- Advance auto parts

**Commercial break 4**
- Car oil-Purolator
- Truck-Toyota
- Power-Mercury

**Commercial break 5**
- GPS-Finder
- Health insurance-Cinergy health
- Motor Guide

**Commercial break 6**
- Advance auto parts
- Truck-Toyota
- Power-Mercury

**Product placement**
- YAMAHA
- CITGO
- Mercury
- Berkley
- Loctite
- Triton boat
- Gambler boat
- Chevron

**Analysis**

Because the major target viewers are matured men who pay attention to leisure time and have time and economic ability, and also because fishing is still a growing leisure activity, the product for this market is limited. We could understand the situation from the commercials. Product varieties the commercials are promoting during the program are fewer. They repeat again and again, because they don’t have many products to connect to this program. Generally speaking, the products of commercials are about car, oil, engine, GPS, and so on.
All of these products are mainly for men and outdoor activities.

I would like to discuss the product marketing strategy in this program. This is a normal competition and it seems that teams are sponsored by big companies to compete to each other like F1. You could see many companies’ name and logo on contestants’ outfits. You would see it is very different from competitions and programmed TV shows in their genres. In programmed TV show, they still need to have better appeals in their shows and they need to show up the products and brand on purpose. But in outdoor competitions, they could show up the product and brand of their sponsors by using their product or sticking their name and logo on outfits. Maybe that’s the reason why sponsors like to sponsor in competition games rather than spend money on media commercials.

**Implications/ Lessons Learned**

Commercial is not the only way for us to wake up people’s awareness for products. We need to see different situation can make corresponding marketing strategy. In this program, it is more suitable for companies to use product marketing strategy than media commercials. Many companies save money as their names directly show up in the show.

On the other hand, we need to consider if the product is appropriate to show up in this show. For example, no product of YAMAHA and Chevron can be used in this competition, therefore, they just show name. The product of Mercury and Triton are boats and of course, their products are very adaptable to show directly to their consumers.

**Product-IMC Extension**

I would pick Toyota truck and insert a commercial for this product during the travel shows on the Discovery channel as part of the IMC strategy. The audiences of travel shows on the Discovery channel are major people who pay more attention to leisure activities the same as the “Bassmaster”. However, the audiences of the travel shows are perhaps younger than those of “Bassmaster” and also could fit into the target group Toyota trucks are aiming at. The target consumers of Toyota truck like outdoor activities though these men may have huge range of ages among them.
Conclusion/ Lessons Learned from Exercise

Media shows and commercials are very close to each other. We need to do analysis for our target consumers first and put our commercials to media that our target consumers would watch or listen. Also, marketing communication is not one way to run. We not only target our consumers carefully, but also change the marketing plans with changing situations. I am so glad that I’ve learnt a lot from these two different targets, the huge women market and the more limited men market, and have understood different marketing strategies and approaches to use. Media is a complicated and changing tool that marketers should take advantage of.
Appendix

Bravotw.com  http://www.bravotv.com/

Bravo Renews Top Chef

ESPN  http://espnc.com/

Most Classic viewers ever in 2006
s_release

TV.com http://www.tv.com/top-chef/show/55264/summary.html?tag=show_table;title;31
ECBU 568
Marketing Communication

Creative Advertisement
March 14, 2007

Instructor:
Professor Rossum

Chun-Chen Lin
Juni Lianawati
BACKGROUND AND PURPOSE

“In 1963, any company founded in Detroit wanting to be synonymous with excellence had no other choice but to be christened with the name of Cadillac. Since then, Cadillac Shoe Products, Inc. has been the leading Manufacturer, Marketer and Distributor of a comprehensive quality line of Shoe Care, Foot Care and Leather Care.”

Victor Kanners founded Cadillac Shoe Company in legacy of his father, Samuel Kanners, who started in the shoe business by selling door to door shoe repair service in 1919. In the early 1960, Cadillac became the first company to provide an entire collection of shoes, boots, leather, and all material products, and had been successfully creating superb relationship with its retailers and consumers. ²

One of the products offered by Cadillac Shoe Products, Inc. is its leather cleaner. The product offers high quality of leather and vinyl care, and a very effective product to clean, polish, and protect all colors of shoes, boots, handbags, luggage, coats and other leather articles.

Although Cadillac Shoe Products, Inc. has been around for over decades; it is necessary for the company to re-introduce its various products and to adapt an effective marketing strategy. Considering the number of shoes and handbags owned by women, Cadillac’s leather cleaner product should be widely promoted. Most women own more than one leather handbag and pair of leather shoes, and yet women tend to buy more shoes and handbags at any occasions. Besides, lots of women get bored easily with their belongings and abandon their old shoes and handbags.

Our job is to create the best marketing strategy for Cadillac leather care cleaner, focusing on women market particularly. We would like to re-introduce Cadillac leather care to them,

and make them realize the benefit of this product to their lifestyle habit. Meanwhile, we will definitely maintain the brand image and credibility of Cadillac for its highest quality goods, competitive prices, and commitment to 100% customer satisfaction at all times.

COMPETITIVE CONSIDERATIONS

Cadillac leather care product faces a lot of competitors who offers similar product line in the domestic market. Competitors such as Kiwi brand, Bee Natural Leathercare, Liquid Leather™, Shoe MGK, and others have comparable product benefit with competitive prices. Cadillac has to remain competitive in the market by offering high quality of leather care product with affordable price to consumers. The most important thing is to maintain superb personal connection with customers, retailers, distributors and wholesalers. Besides, the company should carry on its motto to provide full satisfaction guarantee to its customers.

There are lots of factor to consider in marketing Cadillac Leather Care. The SWOT (Strength, Weaknesses, Opportunity, and Threat) analysis is a crucial tool in the process of marketing communication (marcom) plan to market this product:

- **Strengths:** Cadillac Leather Care has been showing great reputation for its great quality of product for 44 years. The product not only cleanses, but also polishes and protects all colors of leather and vinyl materials. The product price is only $5.95 for 8 fl oz bottle that is affordable to anyone. The company has maintained excellent connection with its wholesalers, retailers, suppliers, and provides superb customer service. Moreover, Cadillac Shoe Company owns various product line extensions.
• **Weaknesses**: Cadillac Leather Care’s packaging needs to be re-designed. The current package design is too plain and boring. Besides, the brand is not well promoted, thus many people do not recognize this mature product.

• **Opportunities**: The product has broad potential buyers, especially women who like to collect shoes and handbags. Since the company has been around for a while and maintained its good reputation; the product will have better chance of exposure and to quickly gain credibility from buyers.

• **Threats**: There are many competitors that aggressively try to sell their products in the market. In addition, a lot of women do not care about their shoes and handbags, are lazy to clean their belongings regularly, to get bored easily with them, and rather buy new shoes and handbags.

Situation analysis problem for Cadillac leather care product may include issue about its brand name. It will affect the marketing plan for Cadillac leather care, since the name is similar with a well-known brand for car Manufacturer Company in the US. People may associate Cadillac leather care with leather care treatment for car seat and other car’s related accessories. In fact, Cadillac Shoe Company was named after the Cadillac car, and was hoped to be as excellent and famous as Cadillac car.

**CREATIVE BRIEF**

**Objective**

To re-introduce Cadillac leather care product to women, and to develop advertising
campaign to increase sales of this mature product. The advertising must show the benefit of Cadillac leather care product to any leather shoes and handbags.

**Target Audience**

Women with age range of 18-65 year-old who own leather shoes and handbags.

**Consumer Promise/Benefit**

Cadillac leather care will take good care of your leather shoes and handbags. This product offers gentle care with rich moisturizer and cleanser without causing damages to all your leather materials. It comes with 100% satisfaction guarantee to all customers and provides highest quality of leather care possible.

**Behavioral Outcome**

The product advertising motivates buyers to take the advantage of limited-time sales opportunity in a department store, which includes a giveaway bonus with purchase until the end of March.

**Positioning**

Cadillac leather care gives ultimate care, rich moisturizer, and gentle protection and maintain smooth leather.

**Message and Medium**

General message is to encourage women to buy Cadillac leather care and take good care of their leather shoes and handbags. The appropriate medium will be television infomercials, and ads in women’s magazine.
**Strategy**

Advertising campaign in various Medias will be performed. In addition, marketing strategy will include online promotions for product trials giveaway, and promote bundle leather cleaner package, such as leather cleaner, soft cloth, soft brush, and small trial product from other Cadillac product line in one attractive packaging.

**Support**

Women will discover more old and abandoned leather shoes and handbags in their closets; if they are not aware of Cadillac leather care product.

**Selling Line**

Get Cadillac leather care and pamper your leather shoes and handbags.

**Personality**

Gentle, moist, clean, polish, protect, and safe.

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**RESEARCH METHODOLOGY/OUTCOME**

**Research Methodology**

Two personal interviews to very credible sources were conducted in contribution for our project. Keiko Schwartz from Chanel boutique Costa Mesa, CA said, ”I recommend Cadillac leather care to clean and polish most Chanel leather handbags. It gives rich moisturizer to most leather material and the most importantly, it does not damage our leather bag.” The other interview was performed at Factotum, experienced and professional shoe and leather repair shop in Yorba Linda, CA. Chris, the store owner’s son said, “I
recommend Cadillac leather care to clean, polish, and protect all leather shoes, boots, and even handbags. The product contains delicate substance that works well on all colors leather and vinyl materials.”

In addition, we selected five people, female in the age range of 18 to 65 year-old, to answer our questionnaires. The participants consisted of three college students, one office workers and one film producer. Each participant was being asked about the effectiveness of our ad through our questionnaires.

**Outcome**

Most of their awareness top-of-mind is about clean product and they saw the ad showing products that are associated with “leather”. They know the main idea of the ad is about the leather cleaner and two people think the ad is interesting to use wood background. Most people are not confused about the ad, but two of them are confused about what the cleaner use for. Almost everyone doesn’t think the ad is hard to believe and no element that they don’t like. Most people got the product’s name and all of them have different image to see this ad. All of them think this product will keep their product clean and new and they are willing to buy it.
CREATIVE PROCESS

First Advertising

In the beginning, we did the research about the product on their website and got several ideas to create our first advertising. Because this product is very good and we just want to let our consumers know what the product’s benefit, we list many advantages also know on the website in the advertising. However, we found the advertising was with too much information and could make consumers feel confused, therefore, we create second one before copy test.
Second Advertising

This time we want to create a simple advertising but still with professional image to our audiences. Our product could clean many leather products such as shoes, bags and coats; however, we decide to focus on two products in our advertising. We think if we put everything in advertising, consumers would feel confused and would not pay attention to our product. We choose red shoes not only for its shining and matching color but also for the product’s function—could be used in product with every color. Also, we choose handbag with brown color for two reasons. First, we know most people would consider brown when it comes to “leather color” and we want to deliver a strong leather image. Second, the handbag is too big and we don’t want to choose other color to catch more people’s eyes. We like wood background because the color is warm and it could be a contrast for our items using our product. We use “Always Feel New” for our slogan because we want to create an image that you don’t need to pay much money to buy new one and our product would give you a pair of new shoes with less money. Although our product is cheap for only almost $5, we still want to try crafting a high-end image. You could pay less and get more.
Final advertising

After copy testing, although most people got the point that we are selling leather cleaner, we find people would be affected by handbag and shoes and would be a little confused about the focus. Therefore, we decide to put more words to tell more details about the product. Especially we put our company’s long open time to let our consumer know that we are such a company that worth it to rely on. Also, we replace the slogan “Always feel new” with the company’s original slogan and to avoid “New” bring some needless disputes. Because we want to use some discount to catch consumers’ attention at first time, we put our marketing plan “Bonus leather kit set with purchase. Only at Nordstrom. Limit one purchase per customer. Limited-time offer ends 03/31/2007.” in our advertising.
MEDIA PLAN/CHANNELS

We will focus on four steps and promote step by step the brand and its image. First, we want to put advertising in popular magazine for our women target such as Opera magazine, fashion magazines like Vogue and Cosmopolitan, Redbook, and Women’ Day. We could use this kind of advertising to deepen their consumers’ image because many consumers even don’t know the brand not to mention the product. Second, we want to use infomercial. Infomercial is a good media to promote this product because it usually attracts television viewers to pay attention on how to use this product visually. Besides, the audience can conveniently purchase the product by phone or Internet, and try it with 100% money back guarantee policy.

Third, because our product focuses on its features, we want to use some sample or discount promotion to let consumers want to try first and then we would use world-of-month to attract more and more people to buy our product. At the same, we are ready to reconstruct our website and let people know more details about our product and company. We will create high end image and tell consumers that they could use our product even in their high value items. Our high end image also could give them “the value is higher than the price” after they find our products are really inexpensive.

HOW EVALUATED

After the copy test, we found that most people could easily get the point that what we are selling and all of them are willing to buy the products. That is good news for us that we transfer what we want to say to our target and actually attract them to buy the products. However, still some people didn’t get the brand completely right and we really need to think about how we can correct this problem. If people want to buy your product but cannot think
of your brand, it still doesn’t work. Still we appreciated that someone could get the intended ideas of contrasting old wood background and our clean items like new and feel the differentiation. If we want to do advertising next, we would think about how to focus on our major products and reduce other items’ effect.

**IMC PLAN**

Cadillac leather care will be promoted through wide arrays of media channels, such as women magazines, radio, brochures, various Internet shopping network, direct mail, promotions at leather repair shops and department stores, including in store promotion, its online store and catalogues. Infomercial is a good media to promote this product because it usually attracts television viewers to pay attention on how to use this product visually. Besides, the audience can conveniently purchase the product by phone or Internet, and try it with 100% money back guarantee policy.

Other plan is to provide giveaway bonus with the purchase of Cadillac leather care product. The bonus will include soft cloth, soft brush, brochure, coupons, and other Cadillac’s product, such as shoe stretch, shoe horn, safe soles®, shoe polish, and et cetera in the small trial sample form.

**LESSONS LEARNED**

This project contributes a great deal of experiences for us. It made us realize the importance of systematic planning and thorough research before advertising is released to public. Successful ads do not come overnight. Thus, we must be able to generate creative ideas, and understand the ads’ effective marketing communication process.
Copy testing and re-testing are two crucial aspects in this project. They help us to examine an ad meticulously, tell us what kind of modifications and improvements we need to perform, so that the ad’s message can be delivered to the target audience successfully. The most important thing is to make sure that audience knows the name of the product being advertised and encourage them to purchase the product immediately after seeing the ad.

Moreover, effective communication between client and the agency is another crucial factor in the ad development process. Client and agent must be comfortably to talk to each other, exchange thoughts and ideas, as well as open to any suggestions and comments. Lastly, selection of the right focus group and its contribution play crucial role toward our project.
Copy Test Results for Cadillac Leather Cleaner

Target Customer: women  
Age range: 18-65  
Advertising Campaign: Cadillac Leather Cleaner could make your shoes and hang bags feel new  
Number of participants:

<table>
<thead>
<tr>
<th>1. Awareness Top-of-Mind</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. This ad is about something that is sophisticated.</td>
<td></td>
</tr>
<tr>
<td>2. Clean leather products.</td>
<td></td>
</tr>
<tr>
<td>3. Simple, easy to understand.</td>
<td></td>
</tr>
<tr>
<td>4. Can cleaner any leather</td>
<td></td>
</tr>
<tr>
<td>5. Clean</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. What Was Shown</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A leather bag, a pair of leather shoes, and a leather cleaner</td>
<td></td>
</tr>
<tr>
<td>2. Clean leather products.</td>
<td></td>
</tr>
<tr>
<td>3. Every thing in the advertising is clean and bright, so I think it will tell the people that after they use the product, their leather products will keep clean and bright.</td>
<td></td>
</tr>
<tr>
<td>4. It can make the leather like new.</td>
<td></td>
</tr>
<tr>
<td>5. Pair of shoes, cleaner and handbag</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Main idea of the Ad</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I think it is trying to associate the leather cleaner to the bags and the shoes. And the slogan tells us that the purpose of the product – to keep leather product like new.</td>
<td></td>
</tr>
<tr>
<td>2. Yes</td>
<td></td>
</tr>
<tr>
<td>3. A very bright, colorful and clear vision. It is just a simple picture, but I can know what it try to tell the customers, I can clearly understand it is the cleaner from the advertisement picture.</td>
<td></td>
</tr>
<tr>
<td>4. Leather cleaner</td>
<td></td>
</tr>
<tr>
<td>5. Cleaner will maintain like new appearance of leather goods</td>
<td></td>
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</tbody>
</table>
### 4. Interesting Ad Elements

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>The layout of the ad design, the items used in the ad, and the slogan. The old wood in the background in contrast to the shining shoes and like new bag.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Every thing in the picture is clean and bright</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Make the leather become new</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Warm wood background, rich colors contrast with leather cleaner</td>
<td></td>
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</table>

### 5. Confusing Ad Elements

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<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The product is placed in front of the shoes and the bag. Is this product particularly for bags and shoes, or I can use it with other leather products?</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>The cleaner is use to clean the desk or the leather?</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

### 6. Hard-to-Believe Ad Elements

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Didn’t find any.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Yes, I can believe</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

### 7. Objectionable Ad Elements

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Did find any.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Maybe do not choose the wood background. It will not show the main products.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>8. Name of the Product Advertised</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>1. Leather Cleaner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. I don’t know the brand.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Cadillac</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Cadillac</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Cadillac leather cleaner</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>9. Where do you image yourself to see this ad?</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A magazine.</td>
<td></td>
</tr>
<tr>
<td>2. Red shoes</td>
<td></td>
</tr>
<tr>
<td>3. In the shoes store, shopping more.</td>
<td></td>
</tr>
<tr>
<td>4. In the mall where sell the leathers.</td>
<td></td>
</tr>
<tr>
<td>5. At someone’s home</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10. What benefit do you think the product will provide in your life?</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I can buy this product and keep my bags and shoes new and clean. Don’t need to worry about them getting old or dirty.</td>
<td></td>
</tr>
<tr>
<td>2. Yes. I think it maybe work for my shoes and bags, too.</td>
<td></td>
</tr>
<tr>
<td>3. I like to the leather product, and I can use the product to clean my leather products.</td>
<td></td>
</tr>
<tr>
<td>4. My leathers are always like new.</td>
<td></td>
</tr>
<tr>
<td>5. Maintain my goods</td>
<td></td>
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</tbody>
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<th>11. Would you try the products?</th>
<th>Total</th>
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<td>1. Very likely.</td>
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<td>2. Yes.</td>
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<td>3. Yes, I will, as long as the price is not too expensive.</td>
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<td>4. I want to try this product.</td>
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<td>5. Yes</td>
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ECBU 581
Managing in a Global Economy

Midterm Paper: Wine Industry Analysis
February 10, 2007

Instructor:
Professor Glynn

Jean Lin
(Chun-Chen Lin)
Summary

Because of culture, environment, and economic changes, more and more people enjoy wine and demand more this product in their daily life and thus many companies from Old World wine producers-France, Italy, Germany, and Spain have a wine war with many companies from New World wine producers-Australia, the United States, Chile, and South Africa. Old and New World wine producers are very different in many ways, such as grape growing, wine making, distribution, marketing, regulation classification and etc. Also, accompanying with the taste changing in consumers, every factor is the reason to affect the demand and sale worldwide for Old World wine producers and New World wine producers. I would discuss the strategy, organization, and management for these two different wine producers and they are as followed:

Strategy

Old World wine producers

Actually, comparing with New World wine producers, they don’t develop extensive marketing strategies. Because their agriculture holds are fragmented, they use traditional way such as terrior to grow grapes and have different units to make wine and sell wine. Therefore, most of them don’t have their own brand and label. In Old World wine countries, they focus very much on their strict classification and regulation by government organizations such as Vins Delimites de Qualite Superieure (VDQS) and Appellation d’Origin Controllee (AOC) and this helps consumers sort through the complexity of a highly fragmented market. Except for their domestic markers, many of them think England as their frontier to the world.
New World wine producers

Comparing with Old World wine producers, new world wine producers have three different industry environments. First, they have huge suitable land to produce lot of grapes and thus result in less expensive and bring a lot of productive profits. Second, unconstrained by government regulations, they attend to use new technologies in both grape growing and wine making to control wine quality. Third, they incline to use specialized equipment to improve their harvester ways.

They have a scale and scope to develop marketing plans. They know how to build up strong brand and it is very important for common consumers when choosing wines. Except for connoisseurs, most consumers don’t know how to choose wines because they don’t have expertise, and they will choose wine based on strong brand name.

As the same with Old World wine producers, they think England as a huge market and then spread to the world. They have different segments and give every segment clarified product and price.

Old World wine producers

As I mentioned earlier, Old World wine producer members include France, Italy Germany, and Spain. Most of them don’t have organizations to sell their products, not to mentioned marketing plans. They are just the land owners to produce grapes and then sell the grape to some wine markers.
New World wine producers

As I mentioned earlier, the memberships are Austria, the United States, Chile, and South Africa. Many wine companies in these countries have their own organization that does everything from growing grapes, making wine and to finding distributions. They know how to make develop and implement marketing plans to their market consumers and they know how to decrease cost and improve their production.

Management

Old World wine producers

Because their agriculture holds are fragmented by kings and emperors historically, they have different part in their value chain. They have different units to deal with grape growing, wine productions, distributions and retailing. Because of this kind of management, their governors always involved in their staff such as making regulations and classification to control and buy the remain to help them.

New World wine producers

Unlike Old World wine producers, New World wine producers control and integrate all value chain. Because they control value chain, they could also control situation occurred at different stages of wine production and ensure their final product is good. Also, they could get good bargaining power with retailers if they don’t need to outsource their wine production.
Questions and recommendations

How did the French become the dominant competitors in the increasingly global wine industry for centuries?

First, French government could purchase fragmented lands to get together and sell integrated lands by low price to French companies who are interested in wine industry and enables them to develop their businesses in this industry. Also, French government should simplify their classifications and regulations to these companies. And then, these French wine companies could develop an integrated system in their value chain like New World wine producers and to save cost to battle price competition. They can keep their traditional ways to grow grapes or make wines and develop a strong image that their product is high quality. Along with the cost saving and lower prices, they could make a product position as consumers could get higher quality than what they pay and build up a strong brand to attract wine shoppers.

What sources of competitive advantage were they able to develop to support their exports?

According to the case, because of World Trade Organization negotiations, the cost of shipping wine from Austrian to the United Kingdom was about the same as trucking it from the France. Similarly, France also could use this competitive advantage to export their wines to those countries who is a World Trade Organization member.

Where and why were they vulnerable?

I would say that the United Stated is the most vulnerable market. Americans are fluctuant in fashions and their taste change very quickly. The cycle for France wine need a long term to be produced based on their traditional ways and it can not keep up
with Americans changing fashion. Also, they are used to the taste of wine that they produce and it’s not easy to change it.

What changes in the global industry structure and competitive dynamics led France and other traditional producers to lose market share to challengers from Australia, the United States, and other New World countries in the late 20th century?

Major reasons of the declined demand were different drinking preference coming from the younger generation, the healthy concerns derived from the older generation, and the awareness of “no drink and drive” among all consumer groups.

What sources of opportunity and change were the New World countries able to develop, exploit?

In addition to the existing growing markets, Canada and the United Kingdom, there are new markets in Asia-China, Japan, Taiwan, Singapore, South Korea, and Thailand. People in these countries and afford to purchase wine and more channels to obtain information and try foreign products.

What advice would I offer today to the French Minister of Agriculture, the head of the French wine industry association, and the owner of a mid-size, well regarded Bordeaux vineyard producing wines in the premium and super premium categories?

I would suggest that French not need to copy all approaches that Austrians and Americans use. They still can keep their traditional cores and ways and just need to do some technology improvement. However, I think it’s very important for French to learn how to simplify their regulations and learn how to make marketing plans such as building up strong brand and label like New World wine producers do. If you have wonderful
products but no strong brand, consumers are not easily to try your product in the beginning and that means missed opportunities. Because Bordeaux vineyard always produce high quality wines, it’s not good for this place to produce wines in the premium and super premium categories. If they really want to try it, they could reduce their years of making wines and make another low level of products for the premium and super premium. Of course, they could have different brand such as Bordeaux-light to differentiate between different products and target different consumer groups.

What advice would I offer today to the Australian Minister of Agriculture, the Head of the Australian wine industry association, and the owner of a mid-size, well regarded vineyard in the Barossa Valley (a premier Australian wine region) producing wines in the premium and super premium categories?

I don’t think it is necessary to expend their vineyards, because people change their tastes all the time and maybe the expending would affect their quality of grape and wine. They could invest more time to develop marketing plans to enter their new market in Asia, because culture, taste, drinking habits and etc in Asian countries are quite different from those of the western part of world. For example, people in China don’t like complicated labels and you just need to show that wine is from Australia. According to the case, more and more people recently prefer to drink red wine than white wine because of health and disease prevention. Indeed, red wine has some material benefits for people and it must increase the market share in the future. The New World wine producers need to think about the changing market situation and make some decisions to manage the changes. According to the case, the market trend for Super-premium and premium are growing and now occupies 40% of the total wine market. More people have the ability to and also have developed the hobby to enjoy high-quality wine and this caused the shift
away from basic wines. Barossa Valley is a premier Australian wine region and if Australia really wants to expend their land, they could choose Barossa Valley as their first place. Also, they could use more of their new technologies and specialized equipments to stimulate product in Barossa, because wines in the premium and super premium categories are adaptable to this kind of production method.
ECBU 581
Managing in a Global Economy

Final Paper: Samsung in America
March 10, 2007

Instructor:
Professor Glynn

Chun-Chen Lin
(Jean Lin)
**Introduction**

Samsung Electronics Co. Ltd, a Korean company, has become one of the top ten electronics manufacturers in the world because they are always devoted to gaining its position in the high-tech industry and developing digital revolution. America is a diverse yet huge market for many industries, including the electronic industry. Also, the majority of people in America have enough income to buy products Samsung produces and they are exposed to rich information about electronics products that would help raise their interests in electronics. Of course, Samsung didn’t want to miss this huge market and in fact, they became successful in only a few years.

Samsung has become the best digital innovator and finally they manufacture the world’s number one products such as CDMA cell phones, LCD and CRT monitors, DRAM memory chips and microwave ovens. They have high worldwide electronic product sales of 36.9 billion, over 75,000 employees in 87 facilities, and a global network in 47 countries.

I am interested in knowing how Samsung grew so quickly, especially in America, which is such a big and competitive market. In this case, I not only want to analyze Samsung in America from three angles - development of global strategic alliances, implications for MNC overseas operations and their globalization strategies, but also want to discuss issues and challenges they would face now or in the future and give some recommendations. I think Samsung would be a very good model for other companies to learn.

**Analysis**

**Positioning for greater global competitiveness**

Samsung has four competitive advantages for them to enter the American market. First,
they are extremely devoted to developing top technology such as DRAM and TFT-LCD to have differentiation with their rivals. Samsung paid much attention on their R&D and have a R&D center to help them develop basic technologies for new business and applied technologies for product development and manufacturing problems in the business divisions. They wanted to use R&D to improve their product, maintain high equality, and increase the efficiency of the manufacturing process.

Second, Samsung has its own way to train and recruit employees. Their employees are motivated and not only work hard but also possess professional skills and ability to develop new products. Applications for U.S. patents increased from 19 percent of 380 total applications in 1997 to 85 percent of 1,400 patent applications in 2004. Because Samsung successfully produces some unique products, it still could compete with other big competitors. Also, Samsung lured Peter Skarynski from AT&T to run sales, and Peter Weedfald from ViewSonic Corp. and ComputerWorld magazine to run their poor marketing.

Third, Samsung have strategies to build up their high end brand awareness and improve their designs to meet American taste. They want to steer their low end of the market into the high end of the market. Because Samsung have high sale for their cell phones in the high end market, this helped raise Samsung’s high end image. Consumers would transfer their high end image to other Samsung products and this could help Samsung set high price strategy. Samsung was very successful in developing high end products to helped raise brand awareness and then using high brand awareness to promote its other products. Also, though Samsung has their own design department in Korea, they still founded a local design company in the United States to be responsible for designing products that meet Americans style. They want to give their consumers products that have an American touch, instead of just giving them a foreign brand.

The third one is the ability to be an outsourcing company in America. For example, they
help GE to make microwave and help Dell to do laptop. Being an outsourcing company improves Samsung’s purchasing, production and efficiency for supply chain and reduces cost to compete with other competitors. By reducing cost for being outsourcing company, Samsung produce high price to get much more profit.

**Implications for MNC overseas operations**

According to the Samsung Electronics America, Inc. website, Samsung’s mission is “to provide consumers with innovative digital convergence products that possess exceptional technology, quality, features, performance and value. Therefore, Samsung set up Samsung’s Information Technology Division and Samsung Consumer Electronics Division to offer broad award-winning products and enhanced customer service and technical support programs.

America is a consumer-orientation market, therefore, the Samsung America President Oh Dong Jin wanted to integrate their three core divisions-semiconductors, telecom, and consumer electrons and offer Americans consumers the digital home by Samsung. The technology is Samsung’s biggest advantages in the world, but for Americans, Samsung is not a familiar brand. Because Samsung sell products under other names in America in the beginning, therefore, Samsung knows that their weakness is still brand awareness. As I mentioned before, they spent a lot of budget to boost marketing and they repositioned themselves toward the higher end of the market because they want to have reputation among consumer-electronic companies. Also, they always introduced new products very quickly and result in giving people “world’s first” association to the brand. “They’ll get a product to market a lot faster than their competitors,” says George Danko, Best Buy’s senior vice-president for consumer consumers. Because their digital product has done well, “quality” became their potential slogan. For those reasons, they want to let the consumers know that they could compete with world famous rivals such as Sony in term of technology,
in terms of brand image, and in terms of operational excellent.

Besides good product and good brand awareness, Samsung also sought good partnership such as national electronics retails Best Buy, Circuit City, and Sears to increase their distributions to stimulate sales. By this way, not only they could show their product is not just glitzy during these kinds of public selling places, but also they could increase their high end and high quality image in such good retailers.

**Improving globalization of markets**

Samsung has become the biggest maker of digital mobile phones using the CDMA technology and it not only just helped Samsung get high profit in America but also helped increase overall global revenues. A year ago, it’s very hard for us to find a Samsung high-definition TV in the U.S. But now, Samsung beat Sony and Mitsubishi to become the best-selling brand in TVs priced at $3,000 and above. In America, for digital music players, except for only the Rio of Japan's D&M Holdings Inc. and Apple’s iPod, Samsung has left behind Micron Technology, Infineon Technologies, and Hynix Semiconductor. In 2002, Samsung earned $5.9 billion on sales of $33.8 billion.

In America, such tough environment, Samsung decided to lower prices to get there, and memory-chip prices also hit the bottom line. The result was a drop in first-quarter profits of 41%, to $942 million, on sales of $8 billion. Because of depression of global economic, Samsung’ profit still slipped for the second quarter. Also, Samsung Electronics agreed to invest a further $93 million in a troubled credit-card affiliate. Although Samsung Electrons face such tough situation, Samsung Group still didn’t divest it. Concern over corporate governance is the big reason that Samsung continues to trade at a discount on Samsung Electronics and that’s also Korea's history of corporate scandals that it will always suspect its numbers.
In 2004, Samsung is the most widely held emerging-market stock, with $41 billion in market capitalization, and foreigners hold more than half its shares. Samsung can also use South Korea as a test market. For example, in the world, some 70% of the country's homes are wired for broadband and twenty percent of the population buys a new cell phone every seven months. Samsung is selling 100,000 video-on-demand phones a month in Korea at $583 each. Because the behavior for cell phone using in America is similar to Korea, Samsung launched their popular products with few changing sharp and got very successful result.

Samsung's status in chips and displays, which can make up 90% of the cost of most digital devices, gives it an edge in handsets and other products. Besides, Samsung produces strong memory and controls 55% of the $2 billion market for NAND flash memory, a technology mainly used in removable cards that store large music and color-image files. Samsung really did their best to enter and win the market. They improve their product quality and develop new products to meet their consumers need and get high sale and profit for their Samsung Group by improving globalization of markets.

Issues

Lawsuit for price-fixing

“Samsung Electronics Co., the world’s largest memory chip maker, agreed to pay $90 million to settle a lawsuit charging the company and others with price-fixing,” New York Attorney General Andrew Cuomo said. The suit claimed Samsung and lots of companies have secret arrangements to raise the prices for their popular products DRAM chips. Also, Young Hwan Park, president of Samsung Semiconductor Inc., agree to plead guilty and serve 10 months in prison for his role in price-fixing suit. If Samsung raise their price, many
computer companies such as Dell, Apple, Hewlett-Packard Co., need to raise their price too for their higher material cost. I think this suit would hurt Samsung’s image which is hard to build up successfully not only in computer industry but also in consumers. Samsung always want to give consumers that they are strongly committed to legal and ethical business and is a brand to trust. Therefore, they need to think about how to fix the damaged image.

Management

Management is very important for a multinational company. For Samsung, they have Samsung America to deal with all of the staff in America. Because of Korea culture, Samsung is a centralization management company and every decision would be made by headquarter in Korea. However, if they are growing in America market, this centralization management may probably impede their decision making process and speed. Also, if they want to have alliance or corporation with other companies, it could be possible for them to have management issues for both companies such as who is major decision maker or R&D information sharing. Moreover, if the alliance companies have the patent, it’s very hard to define patent belong to whom.

Challenges

America competitors

Information about high-tech is highly accessible and abundant in the United States. People could access technology information very easily and consumers could have a variety of choices for products and brands in such competitive market. Compared to Samsung, American companies could have many advantages because they know American culture and consumer behavior and they could get a lot of resources and support from local government.
Not to mention that many of them have been in the market for a long period of time. Although Samsung is successful in America, they still need to pay attention to every aspect of changing. For only one minute you were not fully focused, they will catch you no matter they are big companies or small companies. For example, XM Satellite Radio Holdings and Sirius Satellite Radio want to offer hardware discounts and free trails. Samsung transformed this challenge into corporation because they had a deal with these two companies to release their co-branded Helix. This whole process only took nine months. Samsung would face this situation and challenge more and more and they really need to be prepared.

**Foreign competitors**

Foreign companies such as Sony, Motorola, Mitsubishi and etc. have been in the American market for a long time. They won reputation among consumers and also, they could produce good products like Samsung did. Although Samsung is the winner in some of the markets, it doesn’t mean that they could be there all the time. These foreign competitors have good competitive advantages, if Samsung make a mistake, they could replace Samsung quickly. Also, many new foreign competitors such as Indian and China companies are growing and they would are going to enter America, even the entire global market, in the near future. For Samsung, they would be the most challenging competitors not only in America but also at a global scale.
Recommendations

I read one of articles in BusinessWeek, which said, “Partnerships are essential in the world of digital convergence, where services are increasing packaged with hardware”.  I strongly agree this quote that finding an alliance or partnership is very important in every industry or every market, even in challenging China market.  Alliance and partnership could help you enter the market easier and more successfully because you could know the culture, environment, consumer behavior, economic and etc by your local partners.  Companies with alliance and partnership could also help you build up your brand image; provide financial support, R&D cooperation and human resources finding.  On the other hand, without alliance to this market, both companies would become competitors in this new world and you never know who will be the winner.  If you have a good alliance and partnership, both of you would have win-to-win situation.  Therefore I would strongly recommend Samsung to form alliance or partnership with digital content provider so they can bundle their products or services together to make their combined offering to consumers more attractive.  In addition, as for the law suit issue, Samsung must do its best to rebuild its image in consumers’ mind. The ultimate price-fixing victim is the general consumer and as more and more people find out this lawsuit, Samsung’s image will suffer.  It is recommended that Samsung actively build up its “corporate citizen” image by doing non-profit sponsorship programs and such. Also, it is recommended that the company also take actions on its selling price on certain products, in attempt to lessen the negative feeling that consumers may have toward Samsung because of this lawsuit.
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ECBU 596
Graduate Business Seminar

Case 1
Whole Foods Market in 2005
February 1, 2007

Instructor:
Dr. Richard E. Simpson

Chun-Chen Lin (Jean)
The Natural and Organic Foods Industry

Since 1980, the market of natural and organic food industry grew itself to a big player in the US grocery store sales. Although growth has slowed down a little from its double digit peak during the 1990s, the sector is still growing and thus more and more people are involved in the natural and organic foods. According to the case, combining sales of the natural and organic foods, the industry sold about $43 billion in 2003 and represented 5.5 percent of the roughly $775 billion in total U.S. grocery store sales. This huge market is growing because more and more people have become conscious about themselves being overweight, and health and environment problems. Organic foods include fresh meat, fish, fruits, vegetables, and etc. If a store claims its food is organic, it is to offer food that use agricultural management practices such as not using genetically engineered seeds, livestock management such as not using antibiotics, and food processing practices such as not using radiation. Nowadays, consumers think natural and organic foods could help them lose weight, could make them healthier because there are no chemicals, and have wellness for environment because of its renewable ecosystem. Whole Foods Market is the world’s largest retail store that focuses selling organic and health food in the world and I found it interesting to study more about its case and conduct analysis on it.

Whole Foods Market

Based on its motto: Whole Foods, Whole People, Whole Planet, Whole Foods Market has come to become the leader in the industry. Up to date, it operates 163 stores in the United States, Canada, and Great Britain, with $3.9 billion in sales. Taking the leader role in the market, Whole Foods Market presumably enjoys the advantages that come with it to a certain extent. In addition, because of the rising social awareness of healthier eating pattern, increasing consumer concerns over the purity and safety of food, environmental concerns, and a health-consciousness trend among people, organic and health food is chosen over other “tradition” food products. We can look at the industry and Whole Foods Market’s situation by using some of the analysis tools:
Five-Force Model of Competition – the organic and health food industry

Buyers

The buyer competitive pressure for Whole Foods Market is relatively low because most of its buyer is individual consumer who shops at their retail stores. They may be well-informed on pricing because of the price tags adhere to the products but it is still difficult for individual consumers to bargain the price at a retail store level. Particularly, the group of consumer who shops at Whole Food Markets might not be as price sensitive, compared with others who shop mostly at other regular super market. Therefore, Whole Foods Market, in this category, should not feel too much pressure.

Suppliers

Whole Foods Market enjoys a buyer bargain power toward its suppliers and has lower supplier competitive pressure. Two reasons are to support this argument: first, Whole Foods Market now carry its private label products and this gives them more bargaining power toward its name brand supplier; second, because it has established its brand and operates as many as 163 stores, it has the advantage to make a better deal with its supplier by buying in large quantity and since some of the suppliers may want to win shelf space at its retail locations. At this point of time, when Whole Foods Market’s brand name usually is better known among general consumers than the organic or health food brands it carries, it is to Whole Foods Market’s advantage to leverage this toward its suppliers.

Potential New Entrants

Back in the 1990s, the growth rate of the organic and health food market was rapid and is usually double digit. This growth rate has slowed down to single digit during 2001-2004. The slow growth rate may hold some of the potential entrants back from investing in this market. However, on the other hand, the growing awareness of eating and living healthily among general consumers still gives hopes to some of the potential new entrants. We probably will see new stores open at a more local level or more conventional supermarkets start offering more and more in the organic and health food category.
Substitute Products

All Whole Foods Market products are healthy and organic. Being in such a niche in the market, they will not be able to grab the general consumers. Nevertheless, on the other hand, because being so niche in the grocery market, the items sold at special organic and healthy food retail store are less substitutable by other conventional items sold in mainstream supermarket. Thus, consumers who regularly purchase these products in this category will find it hard to get what they really want at conventional supermarkets. Even though some of the conventional supermarkets have started to offer organic and health food, the “specialty” image built in consumers’ mind is definitely an advantage for retail store that specialize in organic and health food, such as Whole Foods Market.

Finance

From 2000 to 2004, Whole Foods Market delivers a 34% gross profit/sales, over 28% from its biggest competitor, Wild Oats. Also, starting from 2000, it has managed to keep its operating profit at around 34%, which implies that it has a stable operating performance. From the balance sheet, we can look at its current ratio. Although its current ratio dropped to 1.46 in 2004 from 1.51 in 2003, it is only a slight decrease, which tells us that its current asset can cover its current liability. Whole Foods Market’s quick ratio is around 1, which indicates that it does not need to move its inventory to get cash even when it needs to pay off its short-term debts. From 2000 to 2004, Whole Foods Markets has acquired 3 different companies and paid a large portion of these acquisitions by cash, which give us the idea that its internal fund is sufficient enough to support its expansion strategy. Its return on asset also shows a stable upward trend and so we assume that their assets and those they’ve acquired bring the company profits. In addition, starting from 2002, it’s after tax net income has increased over 50% and their return on equity also shows slight growth which implies that the company turns their shareholder’s investment in it to a profit. Overall, Whole Foods Market’s has been performing well financially. We believe that this is because of the business strategy and operation has been working for the company.
Internal Analysis

Resource

Competency
Whole Foods Market’s competencies can include its ability to build up stores with its own unique ambience and provide customers a pleasant shopping experience, its ability to select quality products, along with its effective in-store merchandising.

Core Competency
Whole Foods Market’s core competencies can attribute to its management and its employee. Its management is visionary and is leading the company with approaches that align with its mission. Its employees are well taken care of by management and therefore are believed to be more productive.

Distinctive Competency
What makes Whole Foods Market prevail in the industry is its capability to better strategize and execute. Although some of the rivals also aim to increase market share by acquisition and opening new stores, they are not as effective as Whole Foods Market is. Whole Foods Market seem to be able to open its store fronts in the right locations, choose the right store size for the location and cater the store to fit into the neighborhood it’s serving. Their acquisitions of other small players seem to have worked out well for the company as well and so it could gain its market share gradually. As a market leader and with all the stores operated, Whole Foods Market enjoys a better economy of scale and has more bargaining power over to the suppliers. This is something that its rivals can hardly keep up. It also has the advantage of being the biggest player in the market by having the suppliers fight for its shelf space. This gives it another bargaining power over its rivals toward suppliers.

Weakness
Whole Foods Market does not seem to focus on its branding and marketing. Although it is known that the company does more public and community relations work than overall brand building, it is believed that if the company wants to push itself to a even larger brand, it should attempt to ramp up a little bit in this part of the business.
Opportunities

Europe

Whole Foods Markets have stores in England and this is a start of opening their market in Europe. People in Europe have higher education and higher income and they are highly welcomed with the whole “natural” and “green” concepts and can afford them. Some of Whole Foods Market’s cheese and wine comes from Europe and this also would make it easier to make Europeans accept the store.

Asian markets

To enter Asian markets, Whole Goods Market needs to select appropriate locations such as Japan, Taiwan, South Korea, and Singapore. In China and India, the economics are growing and they have huge population to build market, in the long term.

Penetration to the untouched markets in the US

In addition to foreign markets, there still room in the domestic market that gives them opportunities to reach their ambitious goal. Organic and health food seems to be a constantly growing trend and is there to stay. Even in the domestic market, there are opportunities for Whole Foods Market to open new stores or continue to acquire smaller players.

Threats

As the whole organic and health food market is growing, it is not surprising that there will be other stores like with this theme exists other than Whole Foods Market. Some of the stores are Wild Oats, Fresh Market, Trader Joes, Sunflower Maters, and other smaller independent natural and health food grocers. Among them, Wild Oats and Trader Joes are the two that have potential direct threats to Whole Foods Market, in terms of size and economy of scale. While Wild Oats operate its stores in a style more similar to Whole Foods Market, Trader Joes is still a potential threat to take the overlapping groups of consumers from Whole Foods Market. Fresh Market is very upscale grocery market but it is not only organic and healthy. It also provides gourmet foods to its customers, which is something a little different from Whole Foods Market. And it mainly occupies the southeast market in the United States and is considered more of a regional chain. Other smaller regional stores are considered having less direct threats to Whole Foods Market. These
competitors smaller to Whole Foods Market can well be on the acquisition target if the company plans to penetrate to the untapped markets.

**SWOT – Conclusion**

- Whole Foods Market has a collective set of resource that is believed to give it advantage in the market over their competitors.
- The weakness identified for Whole Foods Market, at this moment, will not have significant impact on its market position and short-term business operations – it is something that it can definitely improve long-term.
- Whole Foods Market’s competitive strengths outweighed its weakness to allow them to continue expanding its market share.
- There are attractive industry opportunities, both domestic and international, for Whole Foods Market to step into. If it can plan out the right action plan, with its strengths and resource, sustainable success is expected.
- Although there a quite a few threats in the industry, they don’t believe to make a substantial impact on Whole Foods Market’s market leadership position.
- With all elements considered, Whole Foods Market is 8 out of 10 in the organic and health food market.
SWOT – Recommendation

- **In store technologies** – with its market leading position and resource, I would recommend Whole Foods Market to lift customer’s store experience to another level by implementing computer based interactive consulting service to help its patrons with their shopping. Though the majority of its customers are well-informed and self-educated on organic and health food knowledge, still a lot of the consumers are new to this market. Since Whole Foods Market might be these new comers’ first destination, they will want to keep them coming back by providing on-site information, and direct them to where they can find them. Just like a library, but instead, it turns into sales for the stores.

- **Brand building** – although it is not recommended to use the massive advertising vehicles to promote the brand, it can be considered that Whole Foods Market started to do some brand building marketing toward the general public. Since more and more people have become aware of the importance of eating healthy, it is good timing for Whole Foods Market to plant its brand in consumer’s minds. They can consider working with some of the “green-oriented” organization for sponsorship marketing.

- **Private label sale** – since Whole Foods Markets has already established its name in the organic and health food market, it can leverage its brand name by selling its private label products to conventional supermarket or other retail stores. However, it must be very careful in selecting the right partners and avoid those that might product negative brand images. Above average supermarkets can be the right choice.
Case 2
Best Buy – Staying at the Top
March 8, 2007

Instructor:
Dr. Richard E. Simpson

Chun-Chen Lin (Jean)
Consumer Electronic Retail Industry and Best Buy

Consumer electronic retail business has been booming for the past few years, if not a decade. Among all the major players, Best Buy is the largest retail chain in the North America. Since its inception back in the 1966, the founder gradually built up today’s Best Buy, Company of the Year of 2003 chosen by Forbes magazine. For the fiscal year ending February 2004, the Richfield, Minnesota based company announced its sales of $24.5 billion. Since 1996, it has outpaced other players in the industry with a 17% compound annual growth rate and its share price had more then doubled in 2003. The company operates 608 stores in the North America, including smaller retails it acquired, such as Magnolia Audio Video in the west coast and Future Shop in Canada. In addition to consumer electronics, Best Buy also sells products in other categories including home office, entertainment software, and appliance. However, although Best Buy has reached the top, there are still challenges. Competition became fiercer because not only its traditional rivals are competing against Best Buy, but other retailers are aiming to take away market share from it. For example, mass merchant Wal-Mart has its own department that sells consumer electronics that are similar or same as what Best Buy offers. Online marketplace such as eBay and Amazon, and direct computer seller such as Dell have also entered the market, adding oil on the fire. In response to the market situation, Best Buy launched a new strategy concept – customer centricity, hoping to steer its store operation surrounding its customers’ need, instead of just putting products their buyers choose and put them on shelves for sale. This initiative aims to provide more flexibility for customers and ultimately to lift store sales. There are different analysis tools that could be applied to the case and I would like to look at it from a “strategy” perspective and to evaluate the feasibility of each and lastly make recommendations. Let’s first understand what customer centricity initiative is about.

Best Buy’s Concept VII – Customer Centricity

Since its founding, Best Buy has been through different stages of transformations and each stage has a core concept that drives other supporting functions to work. Best Buy’s latest concept was Customer Centricity. Under this new concept are four interconnected strategic initiatives: “customer centricity,” “efficient enterprise,” “win home with service,” and “win entertainment,” while customer centricity being the most important among all, the other three are to support it. To implement this strategy, Best Buy first conducted market research to
segment its target audiences and then further quantify the profitability of each of the different segment. This provides the foundation of the whole initiative because the company can then determine how they would approach these different groups of customers. There are 32 lab stores selected to serve as the testing group. Supporting strategies are then set up corporate wise to back this initiative up. At the store level, more store operating cost was devoted to the lab stores for additional personnel and increased inventories. Behind this, “efficient enterprise” requires the company to lower overall cost and investment spending. “Win the home with service” requires the company to offer content, connections, applications, accessories, and services in addition to its core products. “Win entertainment” aims to beat competition in the entertaining category that included music, movies, video game hardware and software, and other related products. The following paragraphs will be my analyses.

**Five Generic Competitive Strategies and Best Buy**

**Low-cost Provider Strategy**

There are several sub strategies that Best Buy might be able to plug in to its customer centricity initiative and they are mainly work as supporting role to lower cost.

1) Experience and Learning-curve Effects: Best Buy is testing the new concept in its 32 lab stores. Other stores can learn from the testing store to avoid mistakes and save cost.

2) Bargaining Power vs. Suppliers: Best Buy operates 608 stores in North America and this larger economies scale give it certain bargaining power against its supplier and thus can help save cost on purchasing price and other supplier issues.

3) Location Variables: Best Buy stores spread out all over cities and towns in North American. Store operations in lower cost locations can help balance out those in locations that entails higher operations cost. This could ultimately save corporate wise operating cost.

4) Sharing Opportunities with Other Organizational or Business Units within the Enterprise: Even same Best Buy store may have different customers. Personnel in the same store location may be able to help each other and work together to close deal or provide customer service, saving store personnel cost while serving different customer segments.

5) Timing Considerations with First-mover Advantages: Best Buy was the first in the
industry to introduce PC repair service team, known as the Geek Squad. Being first to the market, Best Buy can establish its brand for providing this kind of service and thus save the cost that late comers may have to pay by doing so later.

Considering the market situation:
1) Price Competition among rival sellers is especially vigorous: electronic retailers compete with each other heavily on pricing
2) The Products of Rival Sellers Are Essentially Identical: products sold at Best Buy are mostly available at Circuit City, Wal-Mart, and etc.
3) Few Ways for Product Differentiation: it’s considerably difficult for Best Buy to differentiate itself on the product level
4) Most Buyers Use the Product in the Same Way: consumer electronic buyers buy these products with little usage difference
5) Buyers Incur Low Cost in Switching Their Purchases from One Seller to Another: it is little risk for buyers to switch from Best Buy to Circuit City if they are looking to buy a digital camera

**Differentiation Strategy**

Differentiation can potentially be a deciding strategy for Best Buy to succeed with its customer centricity initiative. Customer centricity is about giving customers what they want when they are in the stores. And if Best Buy can differentiate itself by giving customers what they want and it rivals cannot, then the company is well positioned to pull through this initiative and win customers. By looking into its market search that segment customers geographically, Best Buy can test a differentiation strategy by offering customers what rival cannot in the selected area.

**Best-cost Provider Strategy**

Since this strategy can be defined as the combinations of the low-cost provide strategy and the broad differentiation strategy, I would like to apply previous analyses and plug them into this one. Differentiation can be an execution format of customer centricity and lowering cost can be an execution format for controlling cost that supports customer centricity. I think this strategy can well fit into Best Buy’s current situation in that it is the right thing to do to differentiate itself by implementing customer centricity, and at the same time, it is a must for the company to lower its overall operating cost if they want to have more funds to
implement customer centricity.

**Focused Low-Cost Strategy**

Considering the nature of Best Buy’s business, it is not truly realistic for the company to employ the focused low-cost strategy. The reason is that Best Buy as a whole does not position itself as a specialist list focusing on only a niche of the electronic market. It sells products from digital camera memory card to washing machine. To be focused does not align with its business at this moment.

**Focused Differentiation Strategy**

Again, it is very hard for Best Buy to just focus on a special market. Differentiation can only work when it is executed at the store level. For example, in a neighborhood populated with highly affluent demographics, Best Buy can differentiate itself by providing high-end home theater products and installation service, as a kind of customer centricity. However, this strategy might not be realistic either for Best Buy to execute nationwide.

**Collaborative Strategies: Strategic Alliance and Partnership**

One of Best Buy’s supporting strategies to customer centricity is “win entertainment,” which aims to secure its position in the music download market as well as in the gaming software and hardware market. As digital content is broadly available to consumers, Best Buy can form alliance and partnership with music, video, and game content provider. Best Buy now runs its own online store and therefore should have the capability to build up the infrastructure to form a platform. It also has the resource of a large customer database which is the target audience for digital content. In addition, to implement the other supporting strategy – “win home with service,” which aims to provide customers accessories, applications, and other side-products besides core products, the company can also form alliance or partnership with manufacturers. It can use its brand name, retail space, and expert sales force to negotiate deals with manufactures to provide a combination of tangible goods and intangible services and further differentiate itself.
Merger and Acquisition Strategies

It is not uncommon that companies acquire or merge with others to expand its market share or tap into a different niche. Best Buy is no exception. By far, to expand its market share in Canada, it acquired Future Shop; to expand to specialty audio and video niche, it acquired Magnolia Audio Video in the west coast. It is the fastest way for Best Buy to tap into market that is not its main focus as well as expand its geographic coverage.

Offensive Strategies

Best Buy has by far been trying to build and sustain its market position by rolling out some special service that its rivals had not been able to do. For example, it is the first to provide PC repair service and even give it an easily recognizable name – the Geek Squad. It is also the first to offer, in its selected store, the home theater section that provides all customers will need for building a home theater, including consulting and installation services. These initiatives give Best Buy its off competitive advantage over its rivals.

Web Site Strategies

Best Buy now runs its own online store. It employs the brick and click strategy so it can expand its business without the limitation of geographic boundaries. Running online stores not only provide customers the convenience to shop online 24/7, it also serves as a product information resource for customers to review before purchase either online or in store.

Financial Analysis

Staring from 1988, Best Buy’s net income has been climbing. In 2003, because of the effect of 911 and music download violating intellectual property, CD sales dropped and consequently lowered its net income and EPS. However, this counted as non-operating loss therefore did not affect the company’s normal operation. Gross margin was not affected and even grew to 25% in 2003, exceeding its competitors such as Circuit City, Dell, and Wal-Mart. In 2004, besides sales performed well, EPS increased to 2.18. These facts all tell us that Best Buy is in a very good shape. Net margin ratio is also very
positive – grew 136% since 1999 and then showed a steadily growth. In 2001, its return on total asset dropped 29.1% because of its acquisition and customer development. Asset and liability increased at the same time as well as expenses, resulting in decrease in net income. The ratio of increased asset is larger than the ratio of decreased of net income and thus resulted in the 29.1% drop. In 2003, return on total asset dropped 89%. This is mainly because CEO Mr. Anderson closed the non-profitable departments and caused the loss of operating income of 441 million.
Recommendations

1. **Control inventory cost** – giving customers what they want for Best Buy means more inventories. They must work with their suppliers to learn how to flexibly manage its stock. Internally, they will need to develop a system that allows inventory sharing or swapping between stores to reduce its aggregate inventory.

2. **Develop SMB market** – small and midsize business is a huge market for technology and electronic market. Business customers usually buy more at once than individual consumers. Best Buy can use its local in-store sales force to reach out to customers in this market. Since these personnel already exist, it will help Best Buy to increase its sales figures if single sales force can close a deal with larger quantity. Geek Squad can play the role of the back up and remote IT department for SMBs.

3. **Announce its customer centricity initiative to the public** – just as a defensive strategy to secure its market position, Best Buy should let the public know that it is taking initiatives to make itself better to serve the market. This not only will attract attention from the public, potentially generating more floor traffic, but also can serve as a signal to it competitors that the company is still thriving to stay at the top.

4. **Form alliance and partnership with manufacturers and digital content provider** – use its retail space, customer database, economy of scale, and other corporate resource as bargaining chips to form mutually beneficial partnership. This way it can not only save cost but also strengthen its competitive advantage over its rivals.
Group Project
Target Corp. Analysis

Winter 2006-2007
Date: 03/16/2007

EcBu 596 Graduate Business Seminar

Instructor: Dr. Richard E. Simpson
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Introduction

Target Corporation was founded in Minneapolis, Minnesota in 1902 as the Dayton Dry Goods Co. In 1962, the first Target store was opened in Roseville, Minnesota. It is the sixth-largest retailer (by sales revenue) in the United States behind Wal-Mart, The Home Depot, Kroger, Sears Holdings Corporation and Costco, and is ranked 29th on the 2006 Fortune 500. It sells more gift cards than any other retailer in the United States and is also the third-largest seller of music in the United States. (wikipedia.org 2007) This will include an introduction of the company, external environment analysis, internal environment analysis, SWOT, and most importantly our team’s recommendations for Target Corp.

Background

Target Corporation's main retailing subsidiary, Target Stores, is a United States discount retail chain consisting of 1,494 stores (as of January 4, 2007). It has units in all states except for Alaska, Hawaii, and Vermont, operating under the mastheads of Target, Target Greatland, and SuperTarget. The chain was founded by Douglas J. Dayton and John Geisse, and the first Target store "T-1" opened on May 1, 1962 in Roseville, Minnesota That store was closed and demolished on January 8, 2005, to make room for a SuperTarget, which opened on October 9 of the same year. Target Corporation has aggressive plans to have 2,000 stores open by the year 2010, including expanding to Hawaii. (wikipedia.org 2007)

From the beginning, Target Corporation has given 5% of pretax profit to good causes; it is a traditional started by our founder George D. Dayton and carried out ever since, inspiring other companies to become more active in supporting their communities. Now the company has more than 1,300 stores in 47 states, and employs more than 300,000 team members. (target.com 2007)

In January 2000, Dayton Hudson Corporation changed its name to Target Corporation and its ticker symbol to TGT; by then, between 75 percent and 80 percent of the corporation's total sales and earnings came from the Target division while the other four divisions, Dayton's, Hudson's, Marshall Field's, and Mervyns were used to fuel the growth of the discount chain. It also separated its e-commerce operations from its retailing division, and combined it with its Rivertown Trading unit into a stand-alone subsidiary called target.direct.[14] In 2001, it announced that its Dayton's and Hudson's stores would operate under the Marshall Field's brand. The three brands had been operating as a single unit, the Department Store Division.
Target stores

“Target's first store opened in Roseville, Minnesota, in 1962. Its on-trend merchandise at affordable prices launched a new era in discount retailing. This “T-1” store was easy to shop, attractive and always cleans. It served as the prototype for every Target store opened since then, and it changed how consumers think about discount shopping.

Today, Target operates approximately 1,500 stores in 47 states, including more than 175 SuperTarget® stores that add an upscale grocery shopping experience. In addition to the photo processing, pharmacy and Food Avenue® restaurants found in almost every Target, SuperTarget includes an in-store bakery, deli, and meat and produce sections.” (target.com, 2007)

Target is a chain of discount department stores that are about 95,000 to 135,000 square feet (12,000 m²) and carry hardiness ("regular" products and goods), softlines (clothing), and a limited amount of groceries, usually non-perishable. Specifically, Target stores carry clothing, shoes, jewelry, health and beauty products, electronics, compact discs, DVDs, bedding, kitchen supplies, sporting goods, toys, pet supplies, automotive supplies, hardware supplies, and food. They also carry seasonal merchandise such as patio furniture during the summer and Christmas decorations during November and December. Many stores may also have one-hour photo processing, a portrait studio, an optical store, a pharmacy, and a garden center. Stores opened and re-modeled in 2004 or later also include the expanded snack bar that is featured in Target Greatland locations. These generally include a Starbucks Coffee shop, a Pizza Hut Express, and a Taco Bell Express in addition to Target's Food Avenue. It has also been reported that Cold Stone Creamery and Target have signed a deal to test in-store ice cream shops in four stores.

The first few Target stores included leased supermarkets in addition to general merchandise, which during the time was a common practice by discount retailers as they attempted to offer a one-stop shopping experience to customers. Douglas Dayton stated in 1967 that "we believe that the discount-grocery store is a necessary ingredient in what we offer the customer. After all, food sales are about 40% of all department store-type merchandise sales, so the two kinds of stores go hand-in-hand and are what people think of when they think of a discount store." However, by the end of the decade, Target started moving away from this general merchandise and leased supermarket practice. In 1969, Target opened its first store consisting
Target develop new model for modern society

SuperTarget is a chain of hypermarkets that are about 175,000 square ft. (16,000 m²). Like Target Greatland, SuperTarget features double entrances on one story stores; some also have between the double entrances a merchandise loading lane as a prominent feature of the building. The store logo often spells "Super" in green cursive, but recently, newer ones are signed in red block letters that match the Target font. They carry everything a Target or a Target Greatland does as well as a grocery store. Many SuperTargets may also feature a Starbucks Coffee shop, a Pizza Hut Express, a Taco Bell Express, Jamba Juice, a pharmacy, a portrait studio, a one-hour photo processing lab, an optical store, or a Wells Fargo Bank. Unlike many other hypermarkets in the United States (such as Wal-Mart Supercenters and Meijer), SuperTargets are not continuously open. The first SuperTarget opened in Omaha, Nebraska in 1995, and the second SuperTarget opened in Lawrence, Kansas later that same year.[26] As of January 4, 2007, Target operated 177 SuperTarget stores in 21 U.S. states. (wikipedia.org 2007)

External Analysis

The US General Merchandise Retail Industry

Retail is the second largest industry in the United States, both in number of establishment and number of employees. The US retail industry generates $3.8 trillion in retail sales. Off of the entire retail industry pie, Target Corp. is further categorized into the “General Merchandise Stores” sector, competing with big chains such as Wal-Mart alike. Competitor analysis will be performed more in-depth later in this section of the paper. At large, retail industry sales are driven by general consumers who go into stores and make purchase. And the overall sales performance is largely affected by interest rate, automobile price, mortgage rate, and other index that is more sensitive at the general consumer level. Recent concern has been raised on the growth rate of the retail industry, mainly due to increased energy cost, overall economic slowdown and spending slowdown. In addition, the nearly saturating market filled with lots of players may also be a factor to slow down growth at the individual merchant level. However, in recent years, as Internet has become a popular place to shop, the online business of the retail stores has rapidly increased and expected to generate incremental
revenue for the retail stores. The population of buyer that goes to general merchandise retail stores is at a very large size. Given that, this type of retail store’s sales relies on a large size of buyers, instead of only a small group of the population. General consumers go to discount/variety retail stores for various needs. In the early stage, general merchandise stores sell mainly disposable items for daily use. As these stores, a lot of them nationwide chains, grew and expanded, they have added increased their product variety and therefore become a popular destination of shopping for different needs. For example, a housewife might go to Target to buy muffin and toilet paper while a young single guy might shop Target for his electronics gadgets and a teenage girls shop for her clothing at the same store. They both have the same expectations in mind, though – discounted pricing. General merchandise stores compete with other retail stores in various categories in that they offer consumers so many different product categories to choose from. Direct competitors maybe those who are in the same market segment, that is, other discount/variety stores and in some regions, where these types of stores are not seen, local smaller general stores that sell similar items. Other competitors can range from department store, specialty store, super markets, drug stores and etc. Competition is fierce. There are several national general merchandise store chains in the US. Since they have retail fronts nationwide, they typically compete against one another. Sometimes, one can present in a particular area that no others do, but with more and more expansion, they all try to penetrate the same potential markets. If these big chain store competitors are not seen in the area, smaller locally owned retails will be the major competitors. Although some Americans still prefer to shop at smaller local stores, it is harder and harder for them to resist the lower pricing these big chain stores can offer. In general, products sold at the general merchandise retails are similar in nature. Different stores may carry different brands, however, if there is not much brand loyalty, consumers may just choose the brand that is available in store when they shop. Economies of scale play a critical role in this segment of industry. That is because the main selling point of these retails is lower pricing. With that said, if the merchant is going to provide lower pricing, it is more than common that they need to buy large quantity from vendor to get price break. And with more store opened and run, they will be able to purchase higher quantity and in return get more price break. Inventory management system and logistic combines play key roles if a company wants to in this segment of retail industry. Most of the major players invest a lot of fund in their inventory and logistic technologies. Only with state-of-art technologies which they can more accurately track their inventory and perform better in purchasing. In addition, most of the major players operate their own logistic companies so they can flexibly manage the
logistic of distributing items from points to points.

The Rivalry among Competing Sellers

It is said that the strongest of the five competitive forces is nearly always the market maneuvering and jockeying for buyer patronage that goes on among rival sellers of a product or service. Depending on what product category Target competes with others, there are constantly rivalries going on. Target’s biggest competitor, Wal-Mart, is aggressive on pricing and forces pressure on Target in this regard. Pharmacy chain CVS purchased Save-on Drug Stores and expand its territory and since the products it offers overlap with those Target offers, it would affect the part of Target stores’ performance. Costco, though is updating this policy, is known for its 12 month no-question-asked return policy. Since its customers may overlap with Target’s, there must be pressure for Target to think of other ways to provide better customer service. These ever changing strategies from competitors require Target to react and come up with its own way to still attract and increase its store patronage. It is not to say that Target will not profit if the company doesn’t provide what its competitors provide. It is more to emphasize the fierce competition and the necessity for Target to find its unique way to react to its competitors’ action and to maintain its market position. There is not hard to tell that Target has been trying to do this and its effort has been reflected in its sales performance and stock price. To battle with Wal-Mart and other discount stores, Target attempted to position itself as not just offering value, but also quality. It brought in more sophisticated merchandise to attract higher income patronage to shop at its store. Target has had beaten Wal-Mart in same store sales for the last few years. It stock price has been soaring from $40 something range to the current $60 point. Finding this niche gives Target an edge in this pricing competitive industry. To able to battle more with Wal-Mart in this category, it has been steadily adding more food items.

The Potential Entry of New Competitor

Usually, the competitive pressure comes not from new entrants, but from the existing member in the industry. In the case, Target’s competitive pressure comes a lot from other competitors such as Wal-Mart, Big Lots, Kohl’s K-Mart, and etc. These retailers used to have territories where each of them has strong market dominance. However, in recent year, bearing the pressure to expand and grow bigger, most of them have taken actions to step into areas where their competitors have stores opened already. For example, California used to be
a strong Target state; however, Wal-Mart has started opening stores in California, adding competitive pressure to Target. Companies that wish to enter this market will have to pour in a high level of capital and therefore it is not easy for new comers who do not have economies of scale to tap into the market. If new a outsiders do not have the ability to open a lot of stores like Target and Wal-Mart do, it is very difficult to bargain for lower product cost and thus will directly impeded its competitiveness in this segment and cause potential failure. In addition, at this time, the general merchandise market not only is full of players but also the players in this segment have direct competition from other type of retails. The crowdedness and the fierce competition coming from other retails raise the bar for new entrants who want to open their stores with same value proposition. On the consumer side, people might have bond to a particular store that they like to shop at. For example, people shop at Target might not want to go to Wal-Mart.

**Competitive Pressures from the Sellers of Substitute Products**

A majority of merchandise that Target has on its shelves people can find them at Wal-Mart, CVS, or other supermarkets. Usually the consumable and disposable merchandise are of which highly substitutable. If there is not much brand loyalty to Target, consumers can just jump from stores to stores, without needing to buy them only at Target. Plus, the cost for them to switch is very low. Consumers do not need to pay a high cost to switch from one retailer to another, even the 7-11 at the corner can supply some of the essential items if they need it immediately and Target is close in the middle of the night. They may buy a roll of toilet paper at CVS just because they are there to get their prescriptions. Target must realize this situation and therefore has been building up a strong line of designer clothing, more sophisticated furniture, décor, and etc. to spice up its margin to and at the same time differentiate itself from others. It is a good strategy to get rid of one of the biggest the cons of being a general merchandise retailer. It is also a good strategy to differentiate itself from competitors such as Wal-Mart or K-Mart.

**Competitive Pressures from Supplier Bargaining Power and Seller-Supplier Collaboration**

It’s a mix for Target in this part. While Target has the economies of scales to bargain for large quantity price break, it still needs to keep the big brand name manufacturers happy to get allocation. Big brand name products still means a lot to consumers and if they don’t have
a particular brand they have bond to, Target might be off the list of shopping destinations, since they can easily go to Wal-Mart or other retails to buy. On the other hand, smaller or new suppliers may need to give Target discount just to get onto its shelves in its some 1,300 stores. The goal for Target is to provide products that exceed its price value and the goal of the supplier is to take advantage of the retail channel that Target owns at the lowest cost. Target does offer merchandise that is not found with other retailers such as designer Issac Mizrahi’s clothing line. Behind the surface of carrying this clothing line means that Target established its exclusivity for its store because consumers cannot get it anywhere else, and that it has used its retail channel and brand to attract suppliers that would like to work with them. To better work with its supplier on inventory control, Target must partner with its suppliers to have their POS and other information real time to one another to pull, if not fully integrated. It is best for them to keep each other well informed on what and when to ship or what and when to stop shipping and switch. Inventory control and logistic is so important in a retail environment that Target is in. Wal-Mart is best known for its highly advanced inventory and logistic system and is able to use its POS data to negotiate and work well with its supplier.

**Competitive Pressures from Buyer Bargaining Power and Seller-Buyer Collaboration**

While Target has extent degree to bargain pricing with it suppliers, it has less advantage when it faces its customers. Because the market segment Target is in, especially competing with strong low price player like Wal-Mart, Target doest not have much power to set the price as it likes. The other reason is that the consumable merchandise it sells is easily available at other retails, there is no choice left but to provide a competitive pricing to its customers. In addition, retail stores always aim to increase its floor traffic and its target customer is the massive general public, it is obvious that it must thrive to attract the more of the population as possible. Although individual purchase might not be as high as if it were a commercial customers, the whole US household can make up to a tremendously large number. This makes consumers, which is the major buyers control the decision to spend or not to spend their money at Target.
Internal analysis

Strategic analysis

- **Store growth:** In order to enhance access and increase convenience for new and existing customers, Target is continuing to open attractive Target and Super Target stores across the country. During 2005, Target opened 67 new general merchandise stores and 22 new Super Target stores. As of January, 2006, Target owned 1,166 stores, leased 77 stores, and operated 154 combined stores for a total of 1,397 locations in 47 US states. By 2010 Target expect to operate about 2,000 Target and Super Target stores.

- **Reinforcing the brand:** Target has carefully protected and nurtured its brand in order to create a logo that is widely recognized and a corporate image that is appreciated and trusted. Through its integrated strategic approach to merchandising, marketing and community involvement, Target continue to preserve and enhance its valuable reputation.

Value chain analysis

Primary activities

- **Supply chain management:** Target sells a wide assortment of products to customers such as clothing, shoes, jewelry, health and beauty products, electronics, DVDs, kitchen suppliers, sporting goods, toys, pet supplies, hardware supplies, and food. Target sells these merchandises under its own private label brands and licensed brands. Meanwhile, Target also provides in-store amenities such as Food Avenue, pharmacies, photo labs and garden center as well as leased or licensed departments such as Target Optical and Starbucks.

- **Distribution:** In 2006, Target opened two new distribution centers in Rialto, CA and DeKalb, IL. As of January, 2007, Target operated 25 distribution centers across the United States. Target plan to add three distribution centers and two import warehouses over the next two years. Target is expanding its distribution in order to support the growth of its stores and sales and strengthen its distribution network.

- **Sales and Marketing:** Target is intended to provide more upscale and trend-forward merchandise at low cost. It doesn’t follow the traditional concept to focus on the
low-price products. Target offer high-quality merchandise at low margins, because it is cutting expenses. Also, Target offers a comfortable space to customers. Its stores’ design is more attractive than its major competitor, Wal-Mart. Target’s stores have wider aisles, easy-to-shop, clean, bright, safe, accessible, and a more attractive presentation of merchandise. Target stores tend to attract younger, more educated and richer customers than its major competitor, Wal-Mart. Target’s customers are approximately eighty percent female, and about 43 percent children at home. Also, eighty percent of its customers have attended college and 43 percent have completed college. Additionally, Target not only provides in-store selling service, but also offers other business service such as online selling service, and financial service (Target Visa and Target Card). These services will be helpful to satisfying Targets customers’ demand for convenience and increasing its customers’ shopping experiences in Target. Also, Target introduced Target Gift Cards and Target RED card. Target innovative card designs involved over 150 images in order to satisfy customers’ need. They will be helpful to strengthen the loyalty to Target’s brand and increase its sales.

Support activities

- **Product R&D, technology, and systems development:**

  In 2004, Target’s suppliers were going to perform a trial on the effects of radio frequency identification (RFID) on the efficiency of supply chain management in the stores. This trail involved one Target distribution center and then nearby Target stores. RFID would be placed on the bar codes of pallets and cartons to track the goods from the suppliers to the distribution center, and from the distribution center to the stores. This technology will be helpful Target to improve its inventory, and warehouse management systems.

  In addition, in order to satisfy customer demand, Target pays higher attention on design, creativity and innovation. Target has a good design leadership. This team travels throughout the world to develop creative perspective, identify color, category and item trends, and source raw materials for use in production of owned-brand products.

- **General Administration:**

  Target is committed to creating a workplace that its employees prefer because they feel respected and valued. Also, Target’s employees have opportunity for professional growth and advancement, when their performance is judged objectively. On the other hand, Target is earnest in the philanthropy. Target donates around five percent of its pre-tax operating profit
(over $3 million a week) to the communities. It also gives a percentage of charges from its Target Visa to schools. Target takes its corporate responsibility seriously and believes it can produce and deliver the superior value to its customers, its employees and the community.

Financial analysis

According to 5-year income statement of Target, we can see that Target’s revenue, gross profit, and operating income is increasing year by year. Target’s revenue had increased by 13% and its income had increased by 15% from 2006 to 2007. Additionally, Target’s revenue had increased by 59% from 2003 to 2007. Also, its income has double growth in 5 years.

Target’s Income Statement

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<td>26,127.0</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>19,384.0</td>
<td>16,917.0</td>
<td>14,657.0</td>
<td>12,914.0</td>
<td>11,283.0</td>
</tr>
<tr>
<td>Selling/General/Administrative Expenses, Total</td>
<td>12,819.0</td>
<td>11,185.0</td>
<td>9,797.0</td>
<td>8,657.0</td>
<td>7,505.0</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Depreciation/Amortization</td>
<td>1,496.0</td>
<td>1,409.0</td>
<td>1,259.0</td>
<td>1,098.0</td>
<td>967.0</td>
</tr>
<tr>
<td>Interest Expense (Income), Net Operating</td>
<td>572.0</td>
<td>463.0</td>
<td>570.0</td>
<td>556.0</td>
<td>584.0</td>
</tr>
<tr>
<td>Unusual Expense (Income)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other Operating Expenses, Total</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Operating Income</td>
<td>4,497.0</td>
<td>3,860.0</td>
<td>3,031.0</td>
<td>2,603.0</td>
<td>2,227.0</td>
</tr>
<tr>
<td>Interest Income (Expense), Net Non-Operating</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Gain (Loss) on Sale of Assets  0.0  0.0  0.0  0.0  0.0
Other, Net  0.0  0.0  0.0  0.0  0.0
Income Before Tax  4,497.0  3,860.0  3,031.0  2,603.0  2,227.0
Income Tax - Total  1,710.0  1,452.0  1,146.0  984.0  851.0
Income After Tax  2,787.0  2,408.0  1,885.0  1,619.0  1,376.0
(Source: moneycentral.msn.com)

Financial ratios

- **Growth Rates**

  We can see that the growth rate of Target’s sales (5-year avg.) is not much better than that of its major competitor, Wal-Mart, and the industry. Target need to think about how to improve its sales and create the attraction of its products to customers. On the other hand, we can find that Target have a better the growth rate of net income when comparing the whole general merchandise and its major competitor, Wal-Mart.

<table>
<thead>
<tr>
<th>Growth Rates%</th>
<th>Target</th>
<th>Wal-Mart</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (5-Year Annual Avg.)</td>
<td>8.36</td>
<td>11.12</td>
<td>10.72</td>
</tr>
<tr>
<td>(2003/02~2007/02)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income (5-Year Annual Avg.)</td>
<td>15.29</td>
<td>13.56</td>
<td>13.60</td>
</tr>
<tr>
<td>(2003/02~2007/02)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(Source: moneycentral.msn.com)

- **Profit Margin**

  According to the following tables, we can see that gross margin and net profit margin of Target was higher than those of Industry. On the other hand, competing to Wal-Mart, the major competitor of Target, the gross margin and net profit margin of Wal-Mart are lower than those of Target and industry. Therefore, I can understand that Target has a well operation for gaining profit margin in the general-merchandise industry.
<table>
<thead>
<tr>
<th>Profit Margins %</th>
<th>Target</th>
<th>Wal-Mart</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>32.6</td>
<td>23.5</td>
<td>24.5</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>4.7</td>
<td>3.6</td>
<td>3.7</td>
</tr>
<tr>
<td>5 Yr Gross Margins (5-Year Avg.) (2003/02~2007/02)</td>
<td>31.5</td>
<td>22.9</td>
<td>23.6</td>
</tr>
<tr>
<td>5 Yr Net Profit Margins (5-Year Avg.) (2003/02~2007/02)</td>
<td>4.2</td>
<td>3.6</td>
<td>3.6</td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)

- **Financial condition**
  
a. **Debt/Equity ratio**

  We can see that this ratio of Target is higher than that of industry and Wal-Mart. A high Debt/Equity ratio means that Target has been aggressive in financing its growth with debt. This is a risk for a company, so Target needs to pay attention this issue.

<table>
<thead>
<tr>
<th>Financial condition</th>
<th>Target</th>
<th>Wal-Mart</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt/Equity ratio</td>
<td>0.64</td>
<td>0.63</td>
<td>0.54</td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)

b. **Current ratio**

  When we compare the current ratio of Target with that of Wal-Mart and the whole general-merchandise industry, we can find that the current ratio of Target is higher. Therefore, we can understand that Target has a stronger efficiency of a company’s operation cycle and its ability to turn its product into cash.

<table>
<thead>
<tr>
<th>Financial condition</th>
<th>Target</th>
<th>Wal-Mart</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.3</td>
<td>0.9</td>
<td>1.0</td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)
c. Quick ratio

Target’s quick ratio is much higher than its competitor, Wal-Mart, and the industry. This means that Target have a stronger ability to meet its short-term obligations with its liquid assets. When a company has a higher quick ratio, it has the better position of company.

<table>
<thead>
<tr>
<th>Financial condition</th>
<th>Target</th>
<th>Wal-Mart</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick ratio</td>
<td>0.8</td>
<td>0.2</td>
<td>0.3</td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)

d. Interest coverage ratio

The interest coverage ratio in Target is increasing from 2003 to 2006. That means that Target’s ability to meet its interest payment on outstanding debt is getting better year by year, and Target is not burdened by debt expense. However, the ratio is not so great when comparing to the whole general-merchandise industry and its major competitor, Wal-Mart. The interest coverage ratio of the whole general merchandise industry and Wal-Mart is much higher than that of Target. Therefore, Target should still improve its ability to meet its interest payment on outstanding debt.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Coverage</td>
<td>8.9</td>
<td>9.3</td>
<td>6.3</td>
<td>5.7</td>
<td>4.8</td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)
• **Price ratio: P/E ratio**

When comparing to the whole general-merchandise industry, the P/E ratio in Target was higher than the industry. That is to say, the investors are expecting that Target will have a higher earning growth in the future. Investors to the Target’s business operations have a good estimate.

<table>
<thead>
<tr>
<th>Price Ratio</th>
<th>Target</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current P/E Ratio</td>
<td>19.3</td>
<td>17.9</td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)

• **Investment returns: ROE & ROA**

According the following tables, we can see that Target’s ROE and ROA were lower than the industry and its major competitor- Wal-Mart. Therefore, Target should improve its management to efficient use its asset to generate earnings and create profitably management to allocate the company’s resources in order to stronger the company’s competitive position and financial flexibility.

<table>
<thead>
<tr>
<th>Investment Returns %</th>
<th>Target</th>
<th>Wal-Mart</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return On Equity</td>
<td>18.7</td>
<td>21.2</td>
<td>20.2</td>
</tr>
<tr>
<td>Return On Assets</td>
<td>7.7</td>
<td>8.7</td>
<td>8.4</td>
</tr>
<tr>
<td>Return on Equity (5-Year Avg.)</td>
<td>16.9</td>
<td>21.6</td>
<td>20.2</td>
</tr>
<tr>
<td>(2003/02~2007/02)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Assets (5-Year Avg.)</td>
<td>6.4</td>
<td>9.0</td>
<td>8.4</td>
</tr>
<tr>
<td>(2003/02~2007/02)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)

• **Management efficiency: Inventory turnover & Asset turnover**

We can see that the inventory and asset turnover of Target is lower than those of Wal-Mart and the industry. Target should improve its efficiency at managing its inventory and using its assets to increasing sales or revenues in order to strength its competitive advantage.

<table>
<thead>
<tr>
<th>Management efficiency</th>
<th>Target</th>
<th>Wal-Mart</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>6.6</td>
<td>8.1</td>
<td>8.8</td>
</tr>
<tr>
<td>Asset turnover</td>
<td>1.6</td>
<td>2.4</td>
<td>2.4</td>
</tr>
</tbody>
</table>

(Source: moneycentral.msn.com)
According to the internal analysis, we can find that Target is higher focus on design, creativity, and innovation in order to satisfy what customer need. Target not only provides reasonable price products to customers, but also offers better shipping environment, higher quality goods and trend-forward merchandises to customers. Meanwhile, Target attempts to strengthen its brand that will be helpful increase its potential customers and enhance its valuable reputation. On the other hand, according to financial analysis, we can find that Target’s revenue and margin are increasing year by year, so we can understand its strategies are much successful in its business operation. However, I can see that Target’s interest coverage ratio, ROE, ROA, inventory turnover, and asset turnover is lower than its major competitor, Wal-Mart, and the industry. Therefore, Target needs to improve its ability to meet its interest payment on outstanding debt, enhance its management to efficient use its asset, create profitably management to allocate the company’s resources, and strengthen its inventory management.

SWOT

According to the external and internal analysis, we make the SWOT analysis as the followers:

Strengths:

- **Target’s good image; Clear and bright shop:**
  Target prefers clear and bright aisles filled with well-labeled merchandise chipper employees who direct customers to appropriate departments, and a well-running checkout line with open registers to match how many customers are in the store.

- **The store experience makes store growth quickly**
  The purpose is increasing the customers’ accessible. By 2010 Target expect to operate about 2,000 Target and Super Target locations.

- **Advancing innovation and improvement**
  There are two innovated systems: The first is Target call box: this is a machine which you can press one and the attendants will respond within 60 seconds to track down an answer, another size or anything else you need. It makes smarter, simpler and easier.
Target Pharmacy’s ClearRx system is yet another way to do more in one store while preventing any prescription confusion at home. In 2005, Target introduced a major revision of prescription bottles, which it calls the ClearRx system. The redesigned bottles are color coded, flattened-out and turned upside down providing more room for the label. This system was based on the patent by student Deborah Adler and was named one of Time Magazine's Most Amazing Inventions of 2005. (wikipedia.org 2007)

- **Target offers merchandise with different designs**
  Like a trash can, a bottle of shampoo, a watch …… and so on. Target can provide world-class designers who will offer the perfect blend of form of function. Target finds out more about how design fits into customers’ life.

- **Target offers high-quality merchandise at low margins**
  Because we are cutting expenses, they would much rather does this than trumpet dramatic price cuts on cheap merchandise. Target stores tend to attract younger and more educated and affluent customers than its competitors.

- **Best for shareholders**
  From the finical analysis, we will know the book value increase gradually. The financial reports will increase the investors’ confidence to buy the stock.

**Weaknesses:**

- **Customers have low brand loyalty**
  Economies of scale play a critical role in this segment of industry. There is not much brand loyalty in consumers’ mind. Consumers may just choose the brand that is available in store when they shop.

- **Less power for setting the price**
  Because there are too many competitors, customers can buy groceries easily. If the price is higher than the other one, the customers will choose the cheaper one. The retail stores don’t have the power to bargain with customers.
• **A weak balance sheet and burdensome debt**

Target’s interest coverage ratio, ROE, ROA, inventory turnover, and asset turnover is lower than Wal-Mart and the industry.

**Opportunity:**

• **Star products of target’s brand**

Target has its own brand products; customers cannot buy the brand products from other retail stores. It attracts some loyalty customers to shop in Target.

• **Price is not the only consider of customers’ behavior**

At first, we make an assumption: the price difference is not larger maybe within 10% allowed. The reasons convenience, accession, clean and bright shops more attractive the customers.

**Threats**

• **The price war**

In retail industry the price war is not avoided. Most customers still focus on the low price products. Price reasons make decision

• **Strong competitors**

There are too many competitors in the retail industry like Wal-Mart, CVS, Save-on, Costco ext. Of course, they have their strong strategies to attract customers. Target’s biggest competitor, Wal-Mart, is aggressive on pricing. Pharmacy chain CVS purchased Save-on Drug Stores and expand its territory and since the products it offers overlap with those Target offers, it would affect the part of Target stores’ performance. Costco, though is updating this policy, is known for its 12 month no-question-asked return policy.

• **The online business of the retail stores has rapidly increased**

Internet has become a popular place for shopping and the online business of the retail stores has rapidly increased and expected to generate incremental revenue for the retail stores. It means the barrier will reduce for new competitor entry. And it will reduce Target’s own marketing share.
Conclusion and recommend

We think Target has clearly marketing segment. Shopping in a Target store, you know you're not in Wal-Mart. Targets are spaciously laid out and full of attractive displays and promotions. While many people associate Wal-Mart with low-income, rural communities perhaps dominated by a prison or power plant, life-size photos throughout Target stores remind you that their customers are a lively, beautiful cast of multi-cultural hipsters.

Their image is more upscale, more urban and sophisticated. Target stores tend to attract younger and more educated and affluent customers than its competitors. Currently, the median Target shopper is 41 years old, which is the youngest of all major discount retailers that Target competes directly against. The median household income of Target's customer base is roughly $58,000 USD. Roughly eighty percent of Target customers are female, and about 43 percent have children at home. About eighty percent have attended college and 43 percent have completed college. (wikipedia.org 2007) Target attempted to position itself as not just offering value, but also quality. It will bring in more sophisticated merchandise to attract higher income patronage to shop at its store.

We suggest Target can do some improvements. First, Target needs to improve its ability to meet its interest payment on outstanding debt, enhance its management to efficient use its asset, create profitably management to allocate the company’s resources, and strengthen its inventory management. Second, Target can extend the operating time. They can offer some selective stores for 24 hours. The 24 hours stores will afford customers shopping at anytime. Third, Target can provide some special discount for enterprises to gain more sale volume. Four, issue “pre-paid card”, not gift card. Of course, Target sells more gift cards than any other retailer in the world. The unique designs of their cards contribute to their higher sales. We can give the points which the customers can collect and provide the unique gifts. Finally, counting operating and innovated strategies are the main keys to win the retail market.
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