Gillette safety razor division: blank cassette project

In late 1970, after the split-off of the Toiletries Division, the Gillette Safety Razor Division (SRD) is considering a proposal to enter the blank recording cassettes market to try to achieve its assigned earnings growth target. The blade and razor business is mature and the SRD knows it won't be able to achieve the growth target there, so it's evaluating a diversification strategy to enter the new business. As in any diversification strategy, they are facing a new market, with a new product.

The first thing that SRD should do, in order to profitably satisfy customer needs, is to do a situation analysis. The firm first must understand its external and internal situation (strengths and weaknesses), including the customer, the market environment, and the firm's own capabilities. Furthermore, it needs to forecast trends in the dynamic environment in which it operates. The first thing to understand is the environment, where three different technologies (reel-to-reel tapes, eight-track cartridges and cassettes) are competing to satisfy the same need (of course with differences).

But according to the information in the case, because of its advantages in cost, size, general recording capabilities and off-the-air recording trend among young people, the cassette seems to be the one that will win this competition. The one thing that we need to notice regarding the regulatory environment, is that government agencies and consumer safety advocates had strongly discouraged the installation of cassette equipments in automobiles. This is very important, because the automobile segment is vital for the cassette technology to grow.

Second, to understand the customer base, we can see that this is a fast growing market with 1970 expected sales of $130 million (60% over 1969) and expected average growth rate of 30% per year through the 1970s. Also the market is divided in three product segments based in the quality of the cassettes:

•Professional quality: Higher price ($2. 98) but smaller in market size than other segments. Sold under relatively well known brand names and distributed mainly through audio shops, home entertainment departments of department stores and some discounts stores. Standard quality: prices ranging from $1. 70 to $2. 00 and a bigger market size than professional quality (assumption based on price oriented competition and size of budget quality). Similar characteristics to professional quality in terms of brands, a little less concentrated distribution and slightly lower quality in the materials to coat the tape and the packaging.

•Budget quality: low prices $1. 00 but 50% market size in terms of dollars. Small players competing mainly with private labels. Very bad reputation in terms of quality. From the information in the case we can also define four possible client segments: •Audiophiles, focusing in the quality of the sound and less price sensitive. •Teenagers, focusing mainly in music (with a growing trend to record of the air) •Professionals, focusing mainly in recording meetings •Automobile market, which needs a portable and safe to operate solution. The third part is to understand the competition, which is fierce and price oriented but with no market leaders that dominate the market.

Also, we know that new competitors are entering the market, RCA, Capitol Records and soon Memorex, all known players in related fields. Finally, we need to look inside SRD to find its strengths and weaknesses: •Main strengths: high volume manufacturing of precision metal and plastic products, marketing of mass distributed packaged goods reaching over 500, 000 U. S. retail outlets with a strong sales force, known and respected quality brand (even tough are different industries) and history of proven diversification capacity.

Main weaknesses: no experience in the industry, no knowledge of customers, sales force with no capacity to reach electronics and high fidelity stores and brand association with other industries. Also don't have a tape producing capacity or knowledge and margins for that supply are very high (50%). Because the brand can be a strength or a weakness, RSD needs to find that out before deciding whether to use it or not for the cassettes. One way to find this might be through focus groups or customer interviews.

After the situational analysis, RSD needs to define its objectives and core strategy. For its objective they should go for market share, because cassettes industry is in its early stages, growing at fast rates, with price oriented competition and with no market leader so the position is still open. For the customer target, they should focus mainly in teenagers because of the recording music trends, especially the off the air recording and because is a easy to recognize growing segment that would help them reach its market share goal.

Even though the teenagers should be their primary target, they should also address the other targets with different communication and distribution strategies. Finally, because of the objectives and customer target selection, the value proposition should be a Gillette branded cassette that through its broad distribution channels will let RSD gain market share and a leadership position in the market. For the product decision, RSD should choose a standard quality cassette, because the budget one would damage the brand and the professional one has a high price for the costumer target and objective.

The distribution should leverage RSD capabilities and include channels that are not common in the cassette industry, trying to change the customers purchasing behaviors (location) and making it an impulsive buy. The price should be around market prices for standard quality cassettes, maybe with specific promotions at the introduction to gain market share. Communications should focus teenagers using radio, TV and sponsoring live entertainment events. Finally, my recommendation would be not to enter this market and look for other opportunities to achieve its earnings grow target.

First, they would need to get a 20% market share in their second year just to break even (assumptions: discounted price of $1. 75, retailer/wholesale margin of 50%, variable production cost of $0. 57, fixed costs of $2. 7 millions, standard quality represents 35% of dollar market). Second, the brand is associated with other industries so it’s not a clear advantage and there’s a risk to damage it if Gillette doesn’t get a leadership position. Third, we don’t know if they will be able to change purchasing behavior to leverage their distribution capabilities.