Gillette case study essay

In 1970 Gillette Razors was dominating the manufacturing and distribution of men's and women's razors, blades and other toiletries. Their distribution to 500, 000 retail outlets in the US and the strong relationships of their sales team with chain retailers and wholesale distributors made them well-positioned to enter the emerging market of blank cassettes.

Based on the research they received from their consultants, Gillette was smart to seriously consider expansion into the new arena of selling blank cassettes. The Gillette sales team already had accounts with 67% of the places where blank cassettes were sold and could leverage their existing reputation for quality with retailers and customers. Also important to note is that blank cassettes were a growing market, expected to increase 60% in 1970 to total $130M in sales. At an average cost of $1. 95 per cassette, that is 65 million cassettes being sold in 1970. A 30% increase to 86 million units was expected for the following year. This predicted increase in sales was in part due to the development of automatic-reversal and the expectation for cassette players to become safer, and more common to install in cars.

The competition for Gillette in this market does present some reason for caution. Though currently there was little marketing for the blank cassette brands, Gillette learned that Memorex had plans to aggressively develop their sales force, led by ex-P&G personnel. Memorex was likely to initially focus on high-fidelty and electronics stores, where their brand was more known by music afficianandos. They lacked the brand name recognition, distribution outreach and promotional displays that Gillette had already established with variety, department, and chain stores, 67% of the blank cassette outlets. However, Gillette was not naïve and knew that Memorex would look to quickly expand to the same mass-market retailers.

Given this competition, they should look to enter this new arena cautiously. It would make the most sense for Gillette to purchase assembled blank cassette tapes from an established manufacturer for at least the first year. This would avoid the start up costs and time required to optimize their own manufacturing and would allow them to test out the market. Given the quotes reported of $0. 159 per case, $. 214 for 60 min of standard quality tape and $0. 20 for loading/packaging and inspecting, the per tape cost for Gillette would be $0. 573 per cassette. Retailers were typically purchasing for 50% of retail price – in this case 50% of $1. 95= $0. 975.

We also know from the consultants report that Gillette's sales force costs were $5-$6 million per year and they estimated putting 10% of their work toward this new product. Therefore, from the information given, their fixed costs would be $550, 000. If they take their ad agency's suggestion of a $2M media spend, their costs would then be $2. 55M.

To find Gillette's Break-Even Volume (BEV) we divide the fixed costs by the unit contribution. In this case the unit contribution is $0. 98-$0. 57= $0. 41. Then, $550K/. 41= 1. 34M units; and $2. 55M/. 41= 6. 2M units. Therefore, of the 86 million blank cassettes predicted for sales in 1971, Gillette's BEV would be 6. 2 million units with a $2M media spend. Given its position with retailers and wholesalers that sell their products, as well as their valued brand name, and a BEV of 6. 2M units (only 5. 3% of the total sales volume) blank cassettes present Gillette with a strong opportunity for growth.