end-of-book case studies

19 Think design and performance—think Sunbeam Café Series

Nicole Stegemann, School of Management and International Business, University of Western Sydney

The history of Sunbeam dates back to 1883 in Chicago, Illinois, when T J Clark and J K Stewart formed a partnership to manufacture clipping and grooming machinery for horses, later expanding into sheep-shearing equipment.

In 1910, The Chicago Flexible Shaft Company diversified into small electrical appliances and, with the launch of the Princess electric iron, it laid the foundation for the small electrical appliance industry. The diversification strategy was aimed at offsetting the seasonal nature of the sheep-shearing industry.

In 1914, the company purchased the Australian operation, and the company Cooper Engineering Co. (CEC) was born. Seven years later, in 1921, the introduction of the Sunbeam brand reflected CEC’s core business shift to electrical appliances.

After World War II, CEC changed its company name to Sunbeam Corporation and it introduced the slogan ‘Best Electric Appliance Made’. The first Australian appliance, the Sunbeam mixmaster, was launched. Despite the fact that it cost more than an average Australian’s monthly wage, it was an immediate success. Within its first 10 years on the market, the Sunbeam mixmaster generated sales in excess of 725 000 units.

In 1950, Sunbeam exported its appliances to New Zealand. With international exposure, the growing company needed further manufacturing capacity and it acquired a second manufacturing site in the Sydney suburb of Campsie. In 1952, with the benefit of its sustained success, the company listed on the stock exchange and became Sunbeam Corporation Limited. Expansion continued with the New Zealand operation becoming a wholly-owned subsidiary of Sunbeam Corporation Limited in 1960. Today, Sunbeam is owned by the United States company, GUD Holdings Limited, a manufacturer of pumps, filters and security products. GUD’s acquired Sunbeam in 1996.

After catering for predominately female needs, it was the male population’s turn to benefit from Sunbeam’s innovations. The electric shaver—Shavemaster—was introduced to the market. Despite heavy international competition, Shavemaster became a market leader shortly after its launch.

The appliance revolution continued to penetrate the Australian market. Consumers were introduced to the pop-up toaster, the electric frypan, and the dry iron. Over the years, models were replaced and the Toastermatic was introduced in 1960. In 1972 Sunbeam sold more than 1 million products. By 1973, Sunbeam had sold 3.5 million frypans, one for every three Australians.

Aiming to be the first in the market with product innovations, Sunbeam introduced a range of new appliances—including an iron that featured a patented safety cut-out mechanism; the first plastic jug-style kettle and a fast-boil kettle, the Express kettle; the Oskar food processor; Quantum, a cordless automatic kettle; and the Toast ’N’ Crumpet toaster. Many of the new products became top sellers, and their excellence in design and function was recognised with several Australian design awards.

Sunbeam realised that to maintain its competitive edge, its consumers needed more than just an innovative tangible product. The first 12-months replacement guarantee was implemented by Sunbeam across its entire product range, demonstrating Sunbeam’s commitment to quality and performance.

The inventive smokeless Kettle King, an outdoor electric barbecue, was also introduced. In this way, Sunbeam not only catered for the great Australian barbeque tradition, it developed a product that reflected changing consumer lifestyles and social trends, such as an increase in apartment living.

Sunbeam continued to respond to changes in lifestyles by expanding its product range. An increasing number of women were looking for alternative ways of

> **Sunbeam is currently experiencing overall growth in all its product categories**

rewarding themselves by giving themselves a rest from their growing workloads. An increased interest among consumers with respect to alternative health practices was another growing trend. Sunbeam's response came in the form of Sunbeam's therapeutics product line, and its massage and aromatherapy offerings.

Sunbeam continues to lead the market in electrical appliances, offering more than 250 products to the market. To date, Sunbeam's sales exceed A$100 million from its numerous product categories.

Sunbeam is currently experiencing overall growth in all its product categories and is gaining solid market share from its competitors. The market is oligopolistic. Competitors such as Kenwood, Remington, Ronson, Krups, and Mistral & Breville are all competing in the small appliance market.

As of January 2002 Sunbeam held a 20.1 per cent share of the small appliance market. Its competitor, Mistral & Breville, has a similar market share, posing the only real challenge to Sunbeam.

Ongoing new-product development is the key to success in this market. Sunbeam maintained its reputation as an innovator by responding to competition and consumer lifestyle trends with the new Café Style product line.

Café Style

A change in lifestyles towards café lifestyles, and a renaissance in the demand for high-quality products prompted Sunbeam to adapt heavy-duty appliances, that were traditionally found in restaurants and cafés, for the consumer market. Sunbeam introduced a range of commercial-style appliances called Café Style. The range included a variety of new food-preparation and cooking products that encapsulate the trend towards a cosmopolitan lifestyle. The product line began with a limited range of semi-commercial kitchen electrical appliances, from espresso coffee machines to sandwich toasters. Sunbeam's initial target market was food lovers and those who searched for premium products in terms of quality and durability. See the complete set of products in the product range listed in Figure 1.

Market research results suggest changes

After an initial rush to launch the Café Style line into the market, data was gathered and a focus-group discussion was conducted. Consumers did not quite agree with what Sunbeam assumed to be their needs and wants. The positioning was not as clear to consumers as Sunbeam had envisaged. Sunbeam positioned the products through packaging, design and promotional materials with a serious, no-nonsense tone and manner.

Figure 1 Complete set of products in the product range

MODEL	NAME	DESCRIPTION	PRICE
GR4800	Café Press	4 slice sandwich press	$99.95
GR8410	Café Grill	4 slice sandwich press—grill plates	$99.95
MDF6300	Stainless Deep Fryer	4 litre stainless deep fryer	$159.95
EM4800	Café Crema	pump espresso machine	$399.95
PB8700	Legend	die-cast alloy blender and glass jug	$159.95
MS8500	Milk Bar	die-cast alloy milk shake maker	$99.95
MS8500C	Milk Bar—Chrome	die-cast alloy milk shake maker	$99.95
WW8900	Stainless Professional Wok	7.5 litre stainless heat-wall wok	$199.95
MX8800	Mixmaster Professional	twin-motor bench mixer	$399.95
ES9600	Deli-Slicer	die-cast alloy food slicer	$149.95

The market research results led to a revision of the range for Christmas 2001, which involved a series of changes. The name Café Style was changed to Café Series. Also, the logo was modified strongly to suggest high-quality electrical appliances that perform at the highest standards and fit with consumers' trendy lifestyles. The marketing communications strategy was streamlined, as the actual target market was different from that initially identified.

Café Series users

Sunbeam identified a segment within the AB socio-economic group as its target market. The 25- to 39-year-old food lovers who have a passion for food and food preparation represent this segment. They are fashionable consumers who 'must have' the latest technology in beautifully designed products. The quality is appreciated and they are happy to pay a little bit extra, but only if the products come with the right look.

It sounds like a good strategy but only a small percentage of consumers bought the Café Series products just for the look. In reality the segment comprises 25- to 59-year-old consumers from the ABC socio-economic group. This segment is disenchanted with plastic appliances. While their purchases do represent socio-economic aspiration, the latest fashion is less important than the benefits of long lasting, exceptionally performing appliances. Other benefits sought from the products include ease of cleaning and value for money.

Research shows that consumers, depending on their gender, purchase different products from the Café Series range. Most women show traditional values and tend to make purchase decisions with respect to mixmasters, deli slicers and deep fryers. Practicality and performance is sought and the focus is on food preparation. The male population seems to buy blenders and espresso machines.

> **Research shows that consumers, depending on their gender, purchase different products from the Café Series range.**

Café Series function and form

Initially, Sunbeam created the brand Café Style to bring the atmosphere of the coffee-shop environment to people's homes with a commercially inspired product range. The name captured the modern city lifestyle feeling of many people who increasingly eat out in café-style restaurants.

The Café Style logo emphasised this notion with the slogan 'commercial design, guaranteed performance'™. From market research, it was determined that consumers believed that while the products were designed to look like commercial products, this did not mean that the products would provide the same heavy-duty performance. Thus, to overcome this problem, the Café Style range was re-named to Café Series—given that consumers associated the word 'style' with the look of the range but not its function. The logo was altered to a three-dimensional image, distinguishing it from the previous one-dimensional image. The new design aims to create an association of authenticity and newness with the brand.

The Café Series products have the following attributes in common:

- they are manufactured from materials such as stainless steel, chromed metal, die-cast alloys and glass
- they have a simple design
- they function and perform on par with commercial kitchen appliances.

Consumers in this market do not tend to have brand loyalty, and they make most of their purchase decisions at the point of sale. For this reason, packaging plays a crucial part in the marketing strategy of Café Series products. Research has shown that the previous packaging was not effective in communicating the benefits of the product range. In order to connect with its target market, the Café Series packaging needs to depict more than just a stainless steel machine. It needs to stimulate thoughts and feelings associated with the products' benefits—that is, the creation of colourful, simple yet stylish beverages, meals and snacks. The packaging has been changed to show the appliances with images of food products. The packaging serves as an important marketing communications tool as sales personnel are often unavailable due to the cost cutting undertaken by most businesses.

Sunbeam has achieved a major breakthrough by introducing extended five-year motor guarantees, 25-year cooking surface guarantees and one-year commercial guarantees to most of the Café Series products. None of its competitors offer comparable promises. The successful sales figures are partly attributed to the differentiating appeal of generous warranties.

At Christmas 2002, the Café Series adopted a few siblings. A bench mixer, contact grill, deep fryer, compact sandwich press, and programmable espresso machine were added to the family. Additional products like a professional espresso machine, semi-professional toaster and semi-professional blender may be added to the range.

Café Series at an affordable price

Pricing is an important aspect for consumers as they tend to be price sensitive with respect to electrical appliances. Therefore, the chosen pricing strategy is set at the top end, which is, at the same time, less expensive than competing products. Sunbeam is not going to be caught up in price wars with its direct competitors—Mistral & Breville, and Krups—its prices range between A$260 and A$500. Sunbeam intends to convey a value-for-money proposition, while creating a professional kitchen environment that provides the best performance results. Consumers perceive that they are purchasing a high-quality product without a high-price tag.

Where to find the Café Series

Sunbeam realises that distribution is a crucial part of a sound marketing strategy since most consumers make their purchase decisions at the point of purchase. The right retailers reflect the preferences and shopping behaviour of the target market. They support the product idea, offer sufficient display space for the range, and offer sufficient customer assistance. Trade and sales staff share Sunbeam's enthusiasm and heavily support the new range.

The Café Series range is available at specialty retailers and department stores such as Grace Bros and David Jones. In addition, some hardware stores (such as Mitre 10) sell Sunbeam products. This is because the male portion of the target market prefers to buy their toasters and blenders at their favourite hardware stores.

Communicating Café Series to the target market

To communicate Café Series to the target market, Sunbeam applies an integrated marketing communications strategy, markets the products through a variety of media, and utilises a range of promotional tools.

The advertising campaign was developed to position the Café Series range as a high-performing premium brand.

Sunbeam focused on magazine advertising and point of purchase displays. In addition to the magazine print campaign, supportive materials were developed—such as a 12-page brochure, in-pack cross-selling leaflets, on-pack/product stickering and in-store merchandising posters. Sunbeam also invested in sales promotions, with several incentive-based promotions and special offers.

To build the brand and strengthen the association between Café Series appliances and Sunbeam, the Café Series logo was utilised in all Sunbeam's communication. This association was even more obvious after attaching a 3-D effect to the logo, which stressed the unique combination of strong performance and high-quality products in a 'designer skin'.

For the launch of Café Series, the choice of national magazine titles to feature advertorials included *Vogue Entertaining & Travel*, *Gourmet Traveller*, *Home Beautiful*, *Elle Cuisine* and *Marie Claire Lifestyle*. However, to more effectively reach the target market, this media buy was shifted to cover *Gourmet Traveller*, *Belle Delicious* and *Donna Hay*. This choice was complemented by local titles such as the *Sydney Morning Herald's* insert magazine, (*Good Living*), and the *Epicure* section of Melbourne's *The Age*. This media strategy aimed to reflect Sunbeam's quality positioning.

A brochure was developed to assist retailers in their personal-selling effort. The brochure introduced the range and prominently displayed each product. This brochure provided Sunbeam with the opportunity to provide more information about its products, rather than only providing a list of product specifications. The cross-selling brochure that is included in all Café Series products accomplishes a similar outcome by motivating satisfied consumers to make further purchase decisions before going into a store.

The marketing communications efforts that were directed at the consumer market were complemented by a push strategy; whereby, merchandising kits were provided to key stores that would like to support Sunbeam's success story. These kits included banners of the Café Series products and mobiles of the logo. Sunbeam's sales representatives offered to set up the displays in stores while stores agreed to purchase a minimum quantity of the product line.

Results

The new Café Series range did well, it achieved A$2.3 million sales in the first year. After streamlining the marketing strategy for the Café Series range, sales reached A$9.9 million. At the end of April 2002, sales climbed to A$12.2 million, representing approximately 10 per cent of Sunbeam's business.

What is the secret to the success of Café Series? Its unique design and outstanding performance supports the aspirational purchases of the target market. The clear positioning creates and sustains interest in the product, which is complemented by the strong media support. The products are easy to handle and maintain, and they fit well into the target market's lifestyle. The Café Series showcases the best Sunbeam product in each category. It endorses Sunbeam's leadership and expertise.

QUESTIONS

1 | Describe the marketing strategy planning objectives applied by Sunbeam. Using the Ansoff matrix, identify which marketing strategy opportunities the company is pursuing? Are these appropriate strategy opportunites?

2 | Develop a SWOT analysis comparing Sunbeam with its main competitors. Can you identify further changes in the marketing environment that may encourage the company to change its marketing strategies? Justify your suggestions.

3 | Describe the target markets identified by Sunbeam. Do you agree with the company's segmentation strategy? What other possible target markets can you suggest?

4 | Identify the customer benefits, product attributes and additional features of a product of your choice within the Café Series range. What is the difference between customer benefits and product attributes? Of the three characteristics of a product, which one is most significant in terms of gaining competitive advantage.

5 | Using the consumer decision-making process, describe how you would go about purchasing an espresso machine? What psycho-logical variables should Sunbeam be particularly aware of?

6 | Did Sunbeam utilise push and/or pull strategies? Identify the elements of the strategies the company applied. Which strategies were most effective and why?

20 Bangarra Dance Theatre —The Sydney Swans: a 'Cousins' relationship

Beverley Thompson, School of Marketing and International Business, University of Western Sydney

Bangarra Dance Theatre, founded in 1989, is regarded as Australia's leading indigenous-influenced dance company. Its work blends traditional Aboriginal and Torres Strait Islander history and culture with international contemporary dance influences to create a uniquely Australian form of performing art, which blends the beauty of movement and music with Aboriginal storytelling and philosophy.

The Sydney Swans are an Australian Rules football team in the Australian Football League (AFL). Their history commenced in 1874, in Victoria, when they were the South Melbourne Football Club. They moved to a Sydney base in 1982. During what can only be described as a history with fluctuating fortunes, the last few years have seen The Sydney Swans emerge as the most popular football team in Australia with more than 1.8 million supporters; television audiences of major AFL games, featuring The Swans, that reach the millions; and the highest level of corporate sponsorship in the AFL.

What, if anything, might these two entities have in common, you might well ask? In modern Australian society, one could be forgiven for regarding sport and the arts as being like 'chalk and cheese'—poles apart in terms of content, purpose and advocates. The concept of rowdy football fans and players appreciating and enjoying the beauty of dance or ballet is perhaps difficult for many to comprehend. Equally incredible might be the concept of arts lovers or 'culture vultures', or performers such as dancers, being fans of the game involving hot and sweaty bodies pursuing a ball on a football field.

However, in 2001 the Bangarra Dance Theatre and The Sydney Swans formed a unique and exciting type of sponsorship agreement, which they termed a 'Cousins' relationship. This case study examines this unusual relationship in some detail.

The case commences by briefly examining the histories of these two unlikely partners, to search for the underlying core values that were recognised as being synergistic elements; thus, facilitating this exercise in relationship marketing. An examination of the principles of generic sponsorship relationships, and the Bangarra–Swans 'Cousins' relationship follow. Then, finally, some principles of relationship marketing are examined to suggest a generic context into which this exciting partnership can be placed—with a view to providing guidelines for other entities to benefit from the formation of relations hitherto considered unconventional in the arts, sports or business world.

Bangarra Dance Theatre—an overview, history and company profile

The Bangarra Dance Theatre Web site (www.bangarra.com.au) beautifully and succinctly describes, with many images of performance excerpts, the history and company profile of Bangarra Dance Theatre as follows:

> *'Bangarra Dance Theatre is one of the youngest and oldest of Australia's dance companies. Its living traditions go back at least 40 000 years but it also reflects the lives and attitudes of indigenous peoples today. This unique company blends traditional Aboriginal and Torres Strait Islander history and culture with international contemporary dance influences to create a truly Australian dance language. Steps that have pounded the dusty, dry continent for so long are the source of a truly Australian dance language.*
>
> *'Under the artistic direction of Stephen Page since 1991, Bangarra has stunned audiences throughout Australia and the world with electric, startling and inherently spiritual dance works of immense theatrical presence.*
>
> *Already a major force in Australian contemporary dance, Bangarra first galvanised international audiences with Rites, choreographed to Stravinsky's The Rite of Spring performed in collaboration with The Australian Ballet. The work premiered at the 1995 Melbourne Festival and then toured to overwhelming acclaim to New York's City Centre. The company has also appeared in major cities such as Washington, Edinburgh, Seoul, and Amsterdam and returned to New York in 2001 for sold out performances of Corroboree at the Brooklyn Academy of Music.'*[1]

The company now tours far and wide, from football fields in metropolitan areas, to tribal lands in Arnhem Land, to sophisticated venues in some of the world's largest cities, such as the Sydney Opera House and the Kennedy Centre in Washington DC. Bangarra Dance has become a symbol of the connection between indigenous culture in Australia and the ideals of the Olympic movement, through its involvement in the 1996 Atlanta Games flag hand-over to Australia and the Sydney 2000 Olympic Games' opening and closing ceremonies. In addition, during the Olympic Arts Festival, Bangarra Dance played an integral role in Tubowgule—a three-part ceremony, choreographed by Stephen Page, portraying dawn, day and dusk, each part being performed respectively at La Perouse, the Sydney Botanical Gardens, and on the Opera House forecourt. Bangarra Dance also mounted, or premiered, successful world premier festival seasons of other major indigenous dance productions, such as Skin, at the Sydney Opera House, and Corroboree and Walkabout in Brisbane, Sydney and Melbourne in 2001 and 2002.

Integral to the success of the Bangarra Dance Theatre is artistic director Stephen Page who has also been appointed artistic director of the 2004 Adelaide Festival. At the heart of Bangarra's uniqueness is Stephen Page's vision for a theatrical style that remains true to the indigenous spirit that is at the core of the company's work. Bangarra Dance Theatre speaks with an ancient yet completely contemporary voice to people everywhere. The philosophy and purpose of Bangarra is perhaps best summed up in the words of Stephen Page, as follows:

> *'I want to lay down the foundation of the spirit—and of black communication. I believe that it's what keeps kinship together —the constant story telling, whether you are passing on to children or giving direction and elder advice to your peers.'*[2]

The Sydney Swans—an overview, history and company profile[3]

The Sydney Swans are unique. They are the only Sydney team competing in the AFL competition, with Victorian and South Australian teams dominating the competition. The club has been around for a long time, celebrating its 125th anniversary in 1999. However, despite its long history, the club's progress and continuity have at times been in doubt.

A quick history of The Sydney Swans reveals that a form of Australian football was played in Melbourne in the 1860s. In 1874 a team called The Red and Whites (the colours of the uniform which continues to this day) played at South Melbourne. The VFL (Victorian Football League) formally commenced in 1897 with The Red and Whites winning their first VFL premiership in 1909. This team adopted the name 'The Swans' during winning seasons in the 1930s, based on the presence of swans on Albert Lake, near their home ground.

The decades during the remainder of the 20th century saw mixed fortunes for The Swans. In fact they reached very few grand finals during this time; but, nonetheless, the club battled on with a kind of indomitable spirit on the part of dedicated administrators and many talented players (many Brownlow Medals were awarded to Swans players), becoming known in the 1940s as 'the club that refused to die'.

In 1982, it became obvious that The Swans could not survive in the competitive football environs of Melbourne, so they moved the base of their operations to Sydney; thus, becoming The Sydney Swans. The ensuing years saw mixed success. On the field some famous Swans names emerged including Warwick Capper, Greg Williams, David Bolton, Merv Neagle, Bernard Toohey, Gerard Healy and David Murphy—with the awarding of more Brownlow Medals. However, success on the field did not translate to finances, memberships or a sustainable structure. In 1985 Dr Geoffrey Edelsten bought the Swans for an estimated $6.3 million—an experiment that lasted less than a year, resulting in the sale of their licence back to the VFL for less than $10. Edelsten resigned as chairman in less than 12 months. Capper was sold to Brisbane in 1988 for $400 000, while two players from the Riverina—John Longmire and Wayne Carey—were sold, sight unseen, to North Melbourne. Losses were in the millions. By the end of 1988 ownership had passed to a group of private investors, including some well-known Australian names such as John B Fairfax and Mike Willesee.

During much of the 1990s, success both on and off the field eluded The Swans, with the media at the time declaring The Swans dead.[4] In October 1992, the AFL issued various ultimatums to The Swans, which resulted in various salvation schemes, ultimately involving the waivering of debts, the installation of a new board and the appointment of Ron Barassi as coach in 1995. This was perhaps the catalyst the club needed to begin its recovery, with Paul Kelly winning the Brownlow Medal in 1995.

In 1996 The Swans made it to the grand final for the first time since 1945, which prompted the New South Wales premier, Bob Carr, to tour with the team and Sydney civic receptions. Also, in 1996 four Swans 'legends of the game' (Cazaly, Pratt, Skilton and Barassi) featured in the newly established AFL Hall of Fame.

Appearances in finals followed in 1997, 1998 and 1999. In 2000, The Swans were again grand finalists, losing to North Melbourne but winning in the hearts of supporters. The change of fortune for The Swans is reflected in two headlines from the *Sydney Morning Herald*:

> *'AFL's ugly ducklings to get the boot' (12-10-92), and 'Sydney's red and white fairytales come true' (23-9-96).*[5]

The Swans' difficult history has translated into a spirit, a heritage, and a set of values that has commonality with indigenous peoples. As such, the club has tried to develop a set of values that reaches out to the community, to youth and to the code as a whole. These values represent the Aussie battler spirit; demonstrating that passion, pride, persistence and hard work (often in the face of adversity) will eventually produce victors.[6] The value of long-term relationships and loyalty are also particularly important.

The Swans' difficult history and optimism towards the future is reflected in their credo as:

> *'Continual improvement, loyalty, long term relationships, persistence, community responsibility.'*

The Swans' future and community involvement

The impact of a successful end to the 20th century for The Swans has far reaching implications for the code in Sydney and New South Wales, especially in developing a larger youth base and in encouraging young players at a grass roots level. The new administration set about learning from past mistakes. The aim was no longer just to survive but to build both the club and the code to create a secure future with a strong membership base, modern business practices and excellent facilities—culminating in the AFL/state government underwriting of the re-configuration of Stadium Australia, at Homebush in Sydney, to accommodate the AFL from 2001.

The history of The Sydney Swans illustrates that they have, on many occasions, needed community support at all levels just to ensure their survival. Conversely, The Sydney Swans have a strong belief in giving back to the community. At present, The Swans are a community-based club, dependant on community support. They have an obligation and a desire to play a wider role off the field and to contribute to the development of the community. This materialised in the form of The Sydney Swans Community and Code Development Program. The latter involves a close involvement with youth in fostering interest in the Aussie Rules code and in developing youth talent relating to the game. Coincidentally, The Sydney Swans are involved with many charities at both the club level and individual player level.

One relationship that has been especially nurtured by The Swans is the relationship with their sponsors. The Swans' association with their principal sponsor QBE goes back to 1988 and continues to be an enviable sponsorship relationship, having endured some troubled times for the club. Sponsorship has been, and will continue to be, critical to the success of The Sydney Swans—as is the case with the Bangarra Dance Theatre. The unique 'Cousins' sponsorship relationship between these two entities will now be examined.

The Bangarra–Swans 'Cousins' relationship

A search through the Web site of Bangarra Dance Theatre (www.bangarra.com.au) shows a page titled 'Sponsors' with listings as follows:

- Funding bodies—mostly government bodies or agencies.
- Sponsors—including Telstra as the principal sponsor.
- Foundations—such as the Myer Foundation providing scholarships.
- Cousins special relationships—containing one entry, The Sydney Swans.[7]

The curious reader might well ask about the nature of a 'Cousins' sponsorship relationship. Before addressing this question it is useful to examine the concept of sponsorship in further detail.

The mention of the word 'sponsorship' brings to mind various notions such as patronage, corporate support, backing, financial assistance, joint promotions, logos on programs, signage at venues, and television rights. We might also recognise that these terms are associated with relationships between corporations, and bodies, in sport (such as the Pura Cup Cricket), or the arts (such as the Telstra Adelaide Festival of the Arts), or charities (such

Exhibit 1 From L–R: *Stephen Page, Bangarra's Artistic Director; Adam Goodes, Sydney Swans player; Victor Bramich, Bangarra Dancer; Michael O'Loughlin, Sydney Swans player; and Lewis Lampton, Bangarra Dancer.*

as Ronald McDonald House). In fact, all of these notions or concepts are generally associated with sponsorship. All sponsorship relationships involve an exchange of some sort that tends to offer mutual advantage to both the sponsor and the sponsee. The sponsee usually benefits from a financial or in-kind contribution from a sponsor, which may mean the survival of the sponsored entity, while the sponsor benefits from a sense of goodwill and the potential to exploit, in a synergistic manner, the identity of the sponsored body.

Return to the list of types of sponsorships enjoyed by Bangarra Dance Theatre. It can be said that the first three types—involving funding bodies, sponsors and foundations—involve the principles discussed thus far. They involve an injection of cash, or the offering of a service to Bangarra Dance, either as part of their governance or sponsorship, which helps to facilitate the ongoing operations of the dance company's operations.

However, the previous scenario does not describe the 'Cousins' relationship enjoyed by Bangarra Dance Theatre and The Sydney Swans, even though it is listed on Bangarra's Web site under sponsorships. Now let us take a look at this interesting and unique type of sponsorship relationship.

On 27 July 2001, a press release announced that the QBE Sydney Swans and Bangarra Dance Theatre had formed an innovative new partnership arrangement called the 'Cousins' program, in what was believed to be the first ever partnership of this kind between a leading sports organisation and a leading arts company. The announcement recognised that The Swans and Bangarra have much in common. Both organisations operate in extremely competitive environments; showcase the efforts of highly-talented and highly-trained individuals who work as teams and present spectacular performances; proudly have indigenous players, dancers and leaders as key participants; and operate with great commitment to their communities.[8]

There was already a good relationship between the two organisations based on this synergy. The 'Cousins' relationship formally recognised many opportunities for mutual and beneficial programs. The practicalities of the 'Cousins' relationship involve no exchange of money or provision of products or services, but rather a commitment from each organisation to undertake activities that mutually assist each organisation, and that foster the training and development of indigenous youth. Swans associates, such as members, staff and players are offered the 'money can't buy opportunity' to attend a special night at Bangarra, which includes a performance and a post-show function mingling with Bangarra dancers and Swans players. The ticket price for such an event is discounted and all-inclusive. Conversely, Bangarra associates are issued with special invitations to attend Swans matches. In addition, the relationship provides mutual marketing benefits to each of the organisations, in the form of database sharing, joint sponsorships, joint involvement in community programs (especially those involving indigenous youth), performer and player development programs, joint promotional efforts using Bangarra dancers and Swans players, and showcasing opportunities such as when Bangarra dancers perform at Swans venues prior to a major match with television and other media. Such activities have the potential to foster increased public interest in the creative work of Bangarra.

Bangarra acknowledge the sophistication of The Sydney Swans sponsorship and marketing efforts, and the value of their extensive and loyal supporter base. They also acknowledge that there are many common areas between a dance group and a sporting club where mutual support programs could operate, especially when dealing with young, impressionable people who are often operating under considerable pressure, particularly leading up to performances, and upon retirement at a relatively young age.

At corporate levels, the 'Cousins' relationship offers the further benefits of regular liaison between members of each organisation, to brainstorm ideas pertaining to such things as joint promotions, opportunities for supporting dancers and players, and opportunities for supporting indigenous youth and culture. The commitment comes from executives of both organisations, from Bangarra's dancers and from indigenous players such as Michael O'Loughlin and Adam Goode who act as indigenous ambassadors between the two organisations.

Although this relationship involves no exchange of money, goods or services per se, it is invaluable to both

> **"The sponsorship represents a win–win situation for each of the participating organisations."**

companies and is heralded as a unique partnership, which forges a strong and mutually beneficial relationship between sport and the arts. The sponsorship represents a win–win situation for each of the participating organisations. As such, this sponsorship relationship displays characteristics that are now being recognised as the keystones of relationship marketing, a term that applies to any business interaction that approximates a human relationship.[9] Relationship marketing involves a move away from transactional marketing—whereby the emphasis is on the individual sale—towards a focus on building long-term relationships where the target customer is encouraged to continue his or her involvement with the marketer. Relationships evolve over time and involve learning (about each other's uncertainties and abilities); investment (tangible and intangible resources by both parties), trust and commitment; and 'distance' (either deliberate or inadvertent, incorporating social distance, cultural distance, technological distance or time distance).[10] Each partner in the relationship is part of a wider network; each having its own support groups and sponsors but interacting at a new node in the network and, thus, producing the elements of this unique relationship.[11]

The 'Cousins' relationship also utilises resource interfaces, involving a sharing of resources; whereby, the partners must examine what resources are required and how the partnership with another entity might help to maximise the total pool of resources.[12] In the Bangarra–Swans relationship, the resources are primarily the 'Cousins'—the dancers, players and support staff—who have much to mutually share and offer their counterparts on the other side of the partnership, especially where the common bond of an indigenous heritage exists. This human resource exchange occurs through forums such as workshops, youth training, indigenous support, and game or performance attendance by sportspeople and artists. As such, the 'Cousins' relationship is putting into practice one of the key elements of The Sydney Swans' credo—that of establishing 'long-term relationships'.

Conclusion

This case has illustrated an unusual sponsorship relationship between a sporting body and an arts body. The final conclusion is that both entities benefit by forming a synergistic relationship that maximises their respective strengths and commonalities, and possibly aids areas of their operations where weaknesses might exist. It is an unusual sponsorship relationship in that no money, or goods and services, per se, actually change hands. The elements of the relationship are the invisible, but nonetheless powerful forces of commonality between artists and performers, overlaid by their mutually strong linkage to indigenous cultures.

This framework of sponsorship, based on the principles of relationship marketing, need not be particularly unique. Many organisations may benefit by finding partners in differing fields, in order to work together positively in the spirit of ancient tribal cooperation.[13]

QUESTIONS

1. What principles of relationship marketing are evident in the Bangarra–Swans relationship? How does this differ from relationship marketing involving suppliers or customers?
2. Using a SWOT (strengths, weaknesses, opportunities and threats) analysis, analyse the Bangarra–Swans 'Cousins' relationship.
3. What are the main principles of the Bangarra–Swans 'Cousins' relationship? Are they very different to the principles involved in a more conventional sponsorship?
4. Choose another sponsorship relationship of which you are aware. Indicate the sponsor and the sponsee, and outline the elements and/or principles of this sponsorship. Compare and contrast this sponsorship relationship with the Bangarra–Swans 'Cousins' relationship.
5. One of the key synergistic linkages between Bangarra and The Swans is their acknowledgment of the importance of indigenous cultures. Consider how each organisation can utilise this theme when designing their positioning strategies as part of their overall marketing strategies.
6. Compare and contrast the marketing strategies for a sports organisation and an arts organisation, with which you are familiar. Do you think that they are essentially similar products or not? Discuss.

21 What happened to Pokémon?

Rowena Holloway, University of South Australia,
updated by Francine Garlin, University of Technology, Sydney

At the end of 1999, *Pokémon: The First Movie* opened to unprecedented demand in countries around the world including Australia, Germany, the United Kingdom, Spain, Israel, Finland, Austria, Switzerland, Norway, Denmark and Portugal. As of April 2000, *Pokémon: The First Movie* had a cumulative box-office gross of US$35.6 million. In the United States, this Warner Brothers movie grossed US$10.1 million in first-day box-office sales, beating Disney's *Toy Story*, which previously held the top spot with a gross record of US$4.8 million in first-day box-office sales.[1] This interest in the movie was reflected in the demand for Pokémon merchandise, including trading cards, toys and the Gameboy game from which it originated. Cross-promotion of products with Pokémon also reached unprecedented heights. For example, Pokémon products were included in Burger King's 'Kids' Meal' and 'Value Meal', enabling Burger King to break previous sales records within five days of launching the cross-promotional campaign.[2]

Following on from the first movie, *Pokémon 2000* was released the next year, grossing US$43.75 million in the United States and A$4.53 million in Australia. However, *Pokémon 3: The movie (2001)* could not compete with the likes of the Harry Potter movies, *Lord of the Rings*, *Shrek* and *Monsters Inc.*—coming in at 107th, in the list of US box office sales, grossing US$17.05 million. The Australian box office did not even take A$2 million.[3] Competition for this lucrative and often fickle market was impressive.

During its peak, Pokémon was not only directly popular in the consumer market. Its success with children in the 6- to12-years-of-age group generated interest among other businesses targeting this consumer group. Hasbro Inc. paid US$325 million to make and market the Pokémon toys based on the TV show.[4] KFC paid US$12 million to cross-promote Pokémon with its products.[5] Burger King undertook its most extensive marketing effort ever to cross-promote its products with Pokémon and in the process it beat McDonald's, which had snapped up the lucrative *Toy Story 2* franchise. Burger King had previously been successful with the first franchise for the original *Toy Story*, but had lost the option on the second movie to McDonald's by refusing to enter into a long-term agreement with Disney, which owns the rights to *Toy Story*.[6]

The phenomenal success of the first Pokémon movie is one element of a clever and well-designed approach to integrated marketing aimed at capturing and maintaining a large share of the media-savvy, sophisticated, demanding and fickle children's toy-and-game market—the same market that was crazy about Power Rangers not so long ago, and that has now embraced Digimon, Harry Potter and Dragon Ball Z.

On the launch of the first Pokémon movie, Edward E Frumkes, president of international distribution for Warner Brothers Pictures, stated: 'This film's performance against other animated and family fare is a testament to the outstanding efforts of our international marketing and distribution staff to create, explore and utilise all possible opportunities in bringing *Pokémon: The First Movie* to the international marketplace. I'm certain that their efforts will continue to produce record-breaking openings in the remaining territories'.[7]

As the box office statistics suggest, subsequent Pokémon movies have not been able to achieve such results. Nonetheless, a fourth Pokémon movie, *Pokémon 4ever (2002)*, was released in the United States in October 2002. As of January 2003 it had not grossed US$10 million.[8]

What is Pokémon?

Pokémon is an abbreviated term for 'pocket monsters'. The Pokémon are creatures that can shrink in size and be contained in a Pokéball. This makes it easy for them to be carried around by the 10-year-old hero of the Pokémon story. The hero, Ash (or Satoshi in Japan), tells his mother he is embarking on a quest and goes off in search of Professor Oak who gives him one Pokémon to train and get started. Ash starts the game with a handicap as his Pokémon (Pikachu, given to him by Professor Oak) has behavioural problems and is hard to train. Undaunted, he sets out to be 'the best Pokémon trainer ever'. His task is to capture and train one of each of the 150 Pokémon creatures, interacting (battling) other players along the way (including his arch rival, Gary). This is the premise of the game, which was subsequently transferred into trading cards as well as cartoons and movies. The success of this role-playing game and associated products is a mystery to many parents, and that is part of its appeal—adults do not understand it.

Overall, the TV show (and movies) stress friendship, fair play and kindness to animals. They are also, relatively, non-violent—Pokémon who lose matches simply pass out and they are sent off for rehabilitation. The central message is one of good triumphing over evil.[9]

Humble beginnings

Pokémon started as a game for the cartridge-based hand-held video game Gameboy. It was the brainchild of Satoshi Tajiri, who wanted to develop a game that could capture the feel and excitement of his childhood that was spent collecting insects and other creatures. Tajiri signed a contract with Nintendo to develop a game inspired by its technology, which made it possible to link players via a cable interface between Gameboys. However, the project took six years to come to fruition, by which time-cartridge technology had been superseded by the CD-ROM-based games of Sony's Playstation.[10]

An integral part of the Pokémon game is the use of the networking between Gameboys that enables players to interact with other players. This, coupled with the affordability of Gameboys compared to CD-ROM-based games, led to slow but steady sales of the game in Japan. The launch of a comic book with free trading cards and a five-day-a-week animated TV series supported the Nintendo Gameboy sales—Pokémania was born.

With the games segment in the United States expected to grow 3.3 per cent between 1998 and 2008 and the toy-and-game market worth over US$5.5 billion per annum,[11] the United States represented an attractive opportunity to introduce the Pokémon phenomenon to the Western world. Yet, Nintendo America was sceptical. Role-playing games had never been popular with American children and there was some question as to how Pokémon would be received. Initial efforts were also hampered by negative publicity when more than 600 Japanese viewers of the TV series suffered seizures and nausea after watching a particular half-hour episode in which strobing effects were used to simulate the electricity spewing fighting skill of Pikachu, the main character. The first exposure of American audiences to Pokémon was the headline 'Cartoon Monster Attacks Kids'. Another issue was the absolute 'Japan-ness' of the concept. However, the decision was made to bring Pokémon to American audiences, which was soon followed with entry into Australia, the United Kingdom and most of Europe.

The Westernisation of Pokémon

Gail Tilden, vice president of product acquisition and development at Nintendo America, is quoted as saying, 'We decided to make an all-out effort to repeat the Pokémon phenomenon in the Western world'.[12] Part of that success included broadening the age range of the target group to four- to 15-year-olds and Westernising the names of the lead characters, as well as giving the Pokémon characters descriptive names that Western children could easily remember. Charmander, a salamander whose weapon is a ball of fire, was formerly *Hitokage*; Squirtle, a turtle who squirts water, was formerly *Zenigame*; and Bulbasaur, a dinosaur with a bulb on its head, was formerly *Fushigidane*. Nintendo also requested some changes to the TV show to reflect the 'political correctness' of American culture. Violence and sexual discrimination were toned down or removed, as were religious scenes. The changes paid off and Pokémania has since swept the Western world.

To be the best

The key to popularity in Japan was the insightful inclusion by Tajiri of a 151st character named Mew

"The intense interest in collecting and trading Pokémon, the core of the Pokémon concept, has resulted in Pokémon trading cards being banned from schools."

(unknown to Nintendo), who could only be obtained by the 'best' players through interacting with other players. Rumours of this special creature spread quickly among Japanese fans and created intense interest in the Pokémon game. This strategy appealed directly to the competitive nature of Japanese boys, the main target group.

When the game entered the United States this special creature was widely known about and so the element of surprise and excitement was diminished. However, this strategy was repeated with special 'rare' (limited edition) trading cards. The intense interest in collecting and trading Pokémon, the core of the Pokémon concept, has resulted in Pokémon trading cards being banned from schools. School principals report that the children are trading instead of doing school work, and even instead of eating lunch. In the United States, four parents attempted to sue Nintendo for inciting illegal gambling by having 'rare' cards. These rare cards have a resale price of about US$70 and their rarity means that children need to buy multiple packs of cards to obtain rare cards. Unfortunately, some children took short cuts to obtain these rare cards and several reports have been made about delinquent behaviour aimed at ripping-off less savvy or younger school children (one particularly entrepreneurial child down-loaded pictures from the Pokémon Web site and traded with or sold them as trading cards to other children). There have also been reports of criminal behaviour such as attacks on other traders, including one child stabbing another child in New York over a dispute about trading cards.

Pokémania: gotta catch 'em all!

Based around a tag line that plays on the competitiveness of children in the target age group and their desire to be special, Pokémon represents an integrated approach to developing and maintaining interest by offering a range of products strongly associated with the brand Pokémon. These associated products provided longevity to the original concept by maintaining interest, awareness and desire, all of which are reinforced by the strong demand in reseller markets. To date, the Pokémon range of products includes:

- video games
- toys
- comics and story books
- trading cards
- movies (on DVD and VHS)
- music CDs
- clothing
- Web site.

These products appeal to each element of the target market. The toys appeal to younger children who can then move on to cards and then on to various levels of video games. Although the product may change, the brand remains. What this target group is buying is a strongly identifiable brand built on the product concept of collecting, trading and being the best.

Branding is not the only part of the Pokémania strategy. Strategic partnering is also an integral part of the plan.[13] Nintendo, the makers of the Pokémon game, has agreements with Warner Bros to air the cartoon and develop the movie, and with Hasbro Inc. to market the toys and other merchandise. There are also cross-promotional agreements with a range of resellers. According to Alan Hassenfeld, chairman and CEO of Hasbro Inc., 'Pokémon's phenomenal success in Japan demonstrates the power of this brand. We are incredibly excited to bring a wide range of Pokémon products to the rest of the world'.[14] The strength of the brand contributed to the ability to develop strategic partnerships with resellers and other manufacturers who, in turn, increased the consumer's accessibility to the Pokémon product and fostered the awareness of the brand.

At the heart of this integrated marketing approach is the trading card product. This builds on the interactive nature of the Pokémon game (trading and collecting) and the rarity of selected cards adds to the 'be the best' nature of the concept. According to *Brandweek* magazine, 'The show and the inevitable videos are interesting in that their primary use does not seem to be the conveyance of stories featuring Pokémon. They are used as reference material for the card trading game.'[15] 'Gotta catch 'em all' was the battle cry of six to 12 year olds in schoolyards and on street corners the world over.

As previously noted, when the Gameboy product was first released in Japan in 1996, rumours quickly spread among fans that a special creature could be 'caught' only when the player was the best—that is, when the player had caught, trained and battled other players to advance through the game. This generated immense interest in Japan and contributed to the success of the product in that country.[16] When Pokémon entered the American market and spread through the Western world a similar interest was generated by the rare trading cards.

The cartoon and movies have helped broaden market appeal. Originally appealing primarily to young boys, the introduction of a female character to assist Ash on his journey (and provide some dialogue) has helped Pokémon to appeal to young girls. However, boys still remain the largest group within this segment. Toys, books, comics and other associated products help reinforce demand for the Pokémon brand.

Despite a significant waning interest in the concept, the cartoon series remains popular in Australia, as evidenced by the scheduling of a new series in 2003 on Channel Ten's children's morning show—*Cheez TV*.[17]

The promotion of Pokémon

The promotion of Pokémon has been cleverly built around a strong brand. Both producers and resellers of Pokémon products undertake promotion to consumers. Nintendo undertook direct marketing to inform its database of existing Gameboy users about the Pokémon game. To promote a Pokémon movie, five winners of a Pokémon contest were awarded a trip to Japan. There was also a lot of cross-promotion between producers and resellers. For example, Warner Bros gave away trading cards with the purchase of movie tickets (although it underestimated the attractive-ness of this combination to consumers, many children were left in tears when it ran out of trading cards); a free Pokémon player stadium guide was included with each video bought; and a $3 rebate for each video was included with each Pokémon stadium game purchased.

The resellers themselves undertook heavy promotion of Pokémon to encourage the purchase of products—for example, Burger King and KFC included the toys and trading cards with their 'Kid's Meals' and Kraft offered a $3 rebate on four million packages of Kraft Singles sliced cheese—supported by TV ads and point-of-sale materials. Heinz offered a $5 video rebate as part of a freestanding insert in major newspapers and on bottles of tomato sauce.[18] However, this type of promotion has been less and less apparent in the market over time.

Less time to 'chill'

Pokémon's integrated marketing has tapped directly into a need of the segment to which it is targeted. By making strong connections between the products, Pokémon has appealed to children who demand toys that can fit their multitask play time. Julie Halpin, CEO of Gepetto Group, a New York-based marketing company, explains this notion of multitask playing. 'Play is for children what work is for adults. It's the way they learn about the world, express themselves, socialise, individuate and mature. When kids have limited time though, marketers have to be much smarter in their promotional efforts.'[19] This is exactly what Pokémania has done, by making strong connections between products that fit into a multitask play time.

Children spend their time juggling school time, work time, play time and family time. As with adults, the increasing demands on children's time is very stressful, but unlike adults, they do not divide their time between these different demands. Instead, children tend to do several things at once, so school time can include play time, and work time can include family time and play time, and so on. This is what is meant by multitask playing.

This change in play habits and the resulting change in demand for products is due, in a large part, to the changing lifestyle and family structure that has emerged over the last 10 to 15 years. Children spend much more time in supervised care (school or pre-school) than they did in the early 1980s. A University of Michigan study found that in 1997, three to 11 year olds spent six hours per day in school or pre-school, compared with four hours per day in 1981. Since 1981, children who are 12 years and under spend half-an-hour less per day in unstruct-ured play (just hanging out with friends) than they did in 1981. Children from families where both parents are breadwinners or children who come from single-parent families spend more time in structured play environments than those who come from the traditional two-parent, one-breadwinner family. There is also increased emphasis on performance-oriented goals (such as rewards for good grades) among six to 17 year olds, increasing from 27 per cent in 1995 to 38 per cent in 1999.

In his paper, *Pokémon Consumer Culture (2002),* Simon Leet notes that Pokémon provides a 'conversational currency' for children.[20] 'In effect, these children consume Pokémon to express their membership in a subculture of their peers, and it is a subculture precisely because the complex Pokémon fantasy world excludes adults'. Leet believes a culture resembling 'fan culture' is created from the 'strong sense of intellectual and emotional involvement in Pokémon… This distinguishes Pokémon as being something more than just another fad, which may explain popular appeal of the concept, 'well past the life expectancy of most fads'.

Fashions and fads among children are by no means new. Britain's National Toy Council suggests that the difference today is that the widespread availability of consumer goods and the use of mass media in their promotion makes us much more aware of fads. They suggest that children today are under much more pressure to adopt a particular lifestyle and own a product at a younger age in order to be accepted by their peers. Peer pressure may be felt at a younger age than before because children are socialising with other children at a much earlier age, and are exposed to a great deal of television and other media at the same time.[21] All these changes are resulting in KAGOY (kids are getting older younger). The implication for marketers targeting this group is that their target markets are more sophisticated and demanding. As one mother is quoted as saying, 'They know what they want and are often the driving force behind its purchase'.[22]

The consumer profile

The central Pokémon concept of collecting and trading is ideal for the six- to two-year-old age group. Dr Spock (a child-care guru in the 1960s and 1970s) identified that starting collections was an ideal way for this age group to develop orderliness and completeness. Author Joyce Millman states, 'the Pokémon start out as cuddly yet ferocious (when provoked) baby creatures—they're ideal fantasy objects for second graders who act tough but still sleep with teddy bears'.[23]

The change in lifestyle and family structure means that many of the children in the Pokémon target group feel insecure, and the tag line 'Gotta catch 'em all' may have several dimensions for these children.[24, 25]

'The more Pokémon you have the better you feel,
The more Pokémon you have the more power you have,
If you don't collect them all you are a loser.'

The future of the Pokémon brand

The success of Pokémon has attracted much competition, particularly in the influential children's TV marketplace. The Pokémon TV show has helped to boost Warner Bros *4 Kids Entertainment* top spot among two to 11 year olds and six to 11 year olds, above Nickelodeons' *Rugrats*, which previously held this position. Fox Kids is tackling Warner Bros head-on with its own Japanese import *Digimon* (digital monsters). *Digimon* is rapidly growing in popularity among Pokémon's largest target group (boys who are two to 11 years and nine to 14 years), but the strength and longevity of its appeal has not appeared to rival the Pokémon craze.[26]

In this highly lucrative yet unpredictable segment, competition is hot. The type of success that Pokémon has enjoyed will always attract criticism and the media in Australia and the United States, as well as in other countries experiencing this phenomenon, has been highly critical of the integrated marketing approach, labelling it as unethical. The lawsuits and negative press about its health effects, as well as the criminal and delinquent behaviour by some Pokémon fans, provides plenty of scope for detractors. Although Pokémon has lost momentum, its marketers are continuing to release Pokémon products, such as new card packs, games and movies. The original target market might have outgrown—or been diverted from—pocket monsters, but perhaps a revival of Pokémania is possible with a new generation.

QUESTIONS

1 | Explain the phenomenon of Pokémania using the concept of the product life cycle. At what stage in the product life cycle is the Pokémon brand? What marketing strategy decisions need to be made?

2 | Using examples from the case, provide arguments for and against the view that the marketers of Pokémon have been unethical. What is your view?

3 | Describe the target segment for Pokémon. What factors might have contributed to the success of Pokémon with these consumers?

4 | Branding is one of the most important issues to address in developing a product strategy. How has branding contributed to the success of the Pokémon marketing strategy?

5 | Why was the Pokémon concept so attractive to resellers? Use examples from the case to explain your answer.

6 | What type of major promotion strategy is predominant in the case study? Do you think this is the most effective way to promote this brand? Why?

22 The evolution of café groupies

Ellen McArthur, University of Sydney

Rising consumer sophistication is leading to a rejuvenation of the coffee market in Australia, and public ideas about 'good coffee' are changing.

Instant coffee versus fresh coffee consumption

Australia is one of the few countries where the market for coffee sold for in-home consumption is dominated by instant or 'soluble' coffee.[1] The mix in most developed coffee-drinking countries is about 50 : 50[2], but in Australia the instant coffee category, valued at $500 million,[3] accounts for almost 90 per cent of the total coffee market.[4]

The leading instant coffee brand, Nescafé, launched in Australia in 1948, and by 1958 it accounted for more than 63 per cent of the total Australian instant coffee market. Since that time our consumption of coffee has quadrupled. Figure 2 shows the changes in trends in the per capita consumption of various beverages from 1938 to 1999. Today, Nescafé brands—including the flagship Blend 43, Nescafé Decaf, Nescafé Espresso, Nescafé Gold Blend and Nescafé Mild Roast—account for around 60 per cent of marketshare in the soluble coffee category. Nescafé's leadership is partly explained by heavy advertising expenditure by parent company Nestlé (about 90 per cent of the total advertising expenditure for the instant coffee category), including the successful 'Valley' advertising campaign—a 'soap opera' that featured 16 episodes from 1992 to 1998, before culminating with the wedding of the two main characters (http://www.nestle.com.au/nescafé/).

The market for coffee consumed in the home, however, has been changing significantly in recent years. Preferences are moving away from the value sector (instant) as consumers trade up. A survey by *Retail World* of the main product segments (instant powdered, instant granules, instant freeze-dried and fresh coffee) found that over the past three years, 'powdered instant coffee has been the big loser, granules were flat, while freeze-

Figure 2 Apparent per capita consumption of foodstuffs in Australia from 1938–39 to 1998–99

		AVERAGE AT YEAR END								
	UNITS	1938–39	1948–49	1958–59	1968–69	1978–79	1988–89	1996–97	1997–98	1998–99
BEVERAGES										
Tea	kg	3.1	2.9	2.7	2.3	1.7	1.2	0.8	0.8	0.9
Coffee	kg	0.3	0.5	0.6	1.2	1.6	2.0	2.0	2.3	2.4
Aerated and carbonated waters	L	—	—	—	47.3	67.4	87.4	114.4	109.0	113.0
Beer	L	53.2	76.8	99.7	113.5	133.2	113.1	95.5	94.5	93.2
Wine	L	2.7	5.9	5.0	8.2	14.7	20.2	19.0	19.7	19.8
Spirits (litres alcohol)	L	0.5	0.8	0.7	0.9	1.2	1.2	1.2	1.3	1.2
MILK AND MILK PRODUCTS										
Market milk (fluid whole litres)	L	106.4	138.7	128.7	128.2	100.5	101.7	104.2	103.0	102.4

SOURCE: APPARENT CONSUMPTION OF FOODSTUFFS, AUSTRALIA ABS (4306.0); THE AUSTRALIAN DAIRY CORPORATION.

Figure 3 Instant coffee MAT to Sept 2002

$000s	423498.4
$000s growth % YA	1.2
Kgs	11258253.0
Kgs growth % YA	-0.6

	$000s Share of total instant coffee	Kgs Share of total instant coffee
Total powder	16.7	24.4
Total granules	49.6	51.8
Total freeze dried	23.3	15.4
Total espresso	5.4	4.9
Total de-caf	4.9	3.5

	$000s Share of total instant coffee	Kgs Share of total instant coffee
Total Moccona	17.5	11.7
Total Douwe Egberts Co. instant	17.5	11.7
Total Internat Roast	13.2	18.6
Total Nescafé	59.3	56.8
Total Nestlé instant	72.5	75.3
Total Bushells	1.9	2.6
Total Pablo	0.3	0.4
Total Robert Timms	0.3	0.2
Total Fresh Foods instant	2.5	3.2
Total Maxwell House	3.4	4.4
Total Jacobs	0.8	0.6
Total Lyons	1.0	0.9
Total Kraft Foods instant	5.2	5.9
Total private label instant	2.0	3.6
Total other mfrs instant	0.2	0.3

Figure 4 Freeze-dried coffee (segment of instant coffee) MAT to Sept 2002

$000s	98754.8
$000s growth % YA	17.5
Kgs	1730808.0
Kgs growth % YA	23.0

	$000s Share of total freeze-dried coffee	Kgs Share of total freeze-dried coffee
Total freeze-dried < = 50 g	11.5	9.2
Total freeze-dried 51–100 g	37.5	34.0
Total freeze-dried 151–200 g	47.0	51.4
Total freeze-dried 201–250 g	3.3	4.6
Total freeze-dried 251–375 g	0.2	0.2
Total freeze-dried 376–500 g	0.5	0.6

	$000s Share of total freeze-dried coffee	Kgs Share of total freeze-dried coffee
Total Moccona Classic	33.8	35.7
Total Moccona Indulge	10.2	7.9
Total Moccona Mystiq	4.5	3.5
Total Moccona Tmption	4.3	3.4
Total Douwe Egberts Co. freeze-dried	52.7	50.5
Total Nes Gold Blend	34.5	37.6
Total Nescafé Gourmet	6.1	4.7
Total Nestlé freeze-dried	40.6	42.2
Total Fresh Foods freeze-dried	0.4	0.3
Total Kraft Foods freeze-dried	5.4	5.8
Total private label freeze-dried	0.5	0.8
Total other mfrs freeze-dried	0.4	0.4

dried, and roast and ground (fresh coffee) have grown as consumers have traded up'.[5]

According to research by Aztec, for the years from 1995 to 2000, fresh coffee consumption grew eight per cent by volume and 25 per cent by sales value,[6] and this trend is accelerating. In the 12 months to September 2002, the fresh coffee market increased by five per cent in volume, and 4.2 per cent in value. Sales growth in the instant coffee market, however, increased by just 1.2 per cent over the same period, but consumption actually fell by 0.6 per cent in volume. (A category can be increasing in volume but declining in sales value. In the case of instant coffee, this was mainly due to heavy discounting promotions by several 'premium' or expensive brands, which tempted consumers to trade up to buy the discounted premium products, according to Aztec. Several new products that appealed to the consumers' search for variety and alternative tastes were also launched in the premium end of the market in that period—for example Moccona Temptation.)

In the fresh coffee category, four major companies (Douwe Egberts, Cantarella Group, Valcorp and Fresh

Figure 5 Roast and ground coffee (incl. coffee bags) MAT to Sept 2002

$000s	86306.6
$000s Growth % YA	4.2
Kgs	3948373.3
Kgs Growth % YA	5.0

	$000s Share of total roast and ground coffee	Kgs Share of total roast and ground coffee
Total ground bricks	72.9	73.0
Total ground tins	5.7	5.7
Total beans	10.6	14.3
Total bags	7.8	3.9
Total pulverised	3.1	3.1

	$000s Share of total roast and ground coffee	Kgs Share of total roast and ground coffee
Total Harris incl bags	17.0	19.3
Total Douwe Egberts	0.1	0.1
Total Moccona Branded	5.2	4.8
Total Douwe Egberts Co. R&G coffee	22.3	24.2
Total Aurora	7.0	11.8
Total Delta (cosmo)	0.4	0.7
Total Oro Nero	0.2	0.2
Total Vittoria	19.5	18.7
Total Cantarella Bros R&G coffee	27.1	31.3
Total Lavazza	20.2	15.7
Total Valcorp R&G coffee	20.2	15.7
Total Robert Timms incl bags	11.4	8.1
Total Bushells reg	1.9	1.7
Total Europa	0.8	1.3
Total Fresh Foods R&G coffee	14.0	11.1
Total Melitta Co. R&G coffee	6.3	6.5
Total Nestlé R&G coffee	2.3	2.3
Total Jacobs	1.2	1.2
Total Kraft Foods R&G coffee	1.2	1.2
Total Private Label R&G coffee	0.9	0.9
Total Other Mfrs R&G coffee	5.7	6.8

Foods) account for about 80 per cent of total retail sales ($86.3 million), with the balance held by about 40 small brands that are competing mainly on price.[7] The largest fresh coffee distributor is the Cantarella Group, which now supplies about every third cup of coffee consumed at home by Australians, under the Vittoria and Aurora brands (http://www.cantarella.com.au/group.html). Vittoria is the leading fresh, or 'pure', coffee brand with about 20 per cent marketshare, closely followed by Lavazza, which is distributed by Valcorp Fine Foods (http://www.lavazza.com.au/lavazza.html).

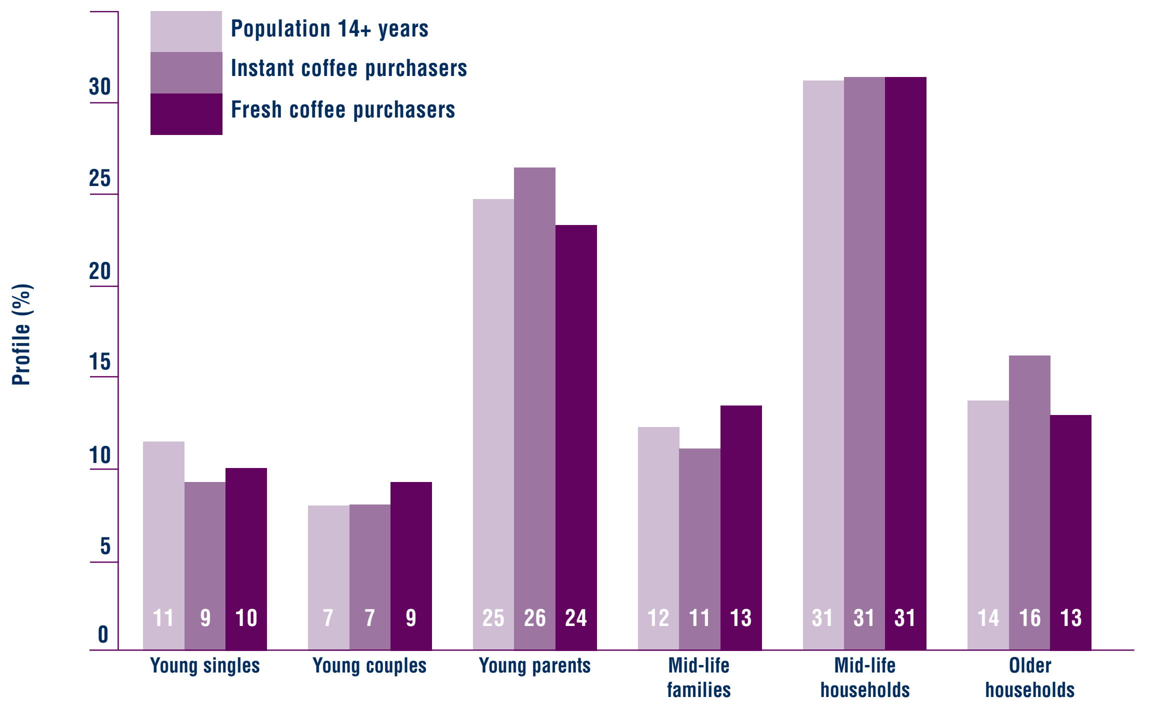
Les Schirato, managing director of the Cantarella Group, pioneered the introduction of pure espresso coffee beans into supermarkets to help stimulate home consumption 'at a time when coffee meant an instant beverage and espresso coffee was considered too strong for the Australian palate'.[8]

By 1997, the grinding of fresh coffee beans in supermarkets had disappeared as manufacturers attempted to make it easy for instant coffee consumers to 'trade up' to fresh coffee. At the same time, the introduction of small single serves and 10-packs had become major tools for enticing the trial of new varieties—for example, the Harris 1-cup coffee filter launch and Vittoria's 50-gram trial pack. By 2000, the fresh coffee segment was already maturing, and in supermarket stores a 'glut' of brands and 'me-too' products were already making it difficult for consumers to make a choice.[9] On top of that, out-of-stocks (empty shelf space) had become the industry's 'biggest' problem by 2001, according to Les Schirato. In an industry trade magazine review of the coffee category in 2001, Schirato said, 'The biggest problem is out-of-stocks at the supermarket store level. There are still far too many brands in the category, limiting shelf space, with no real new offer to the consumer. Consequently, the fastest selling brands end up being out of stock…Supermarkets will get better results if they reduce the number of brands and have more shelf space to also include a small but good selection of brewing devices such as plungers. Retailers need to try to change the pure coffee area and turn it into a café experince'.[10]

Coffee drinkers support the fresh coffee market

The rising home ownership of espresso machines, cappuccino machines and grinders has paralleled the growth of supermarket brands in the fresh coffee category. Another indication of the growing popularity of fresh coffee is the launch of training centres for

Figure 6 Roy Morgan research chart



coffee connoisseurs. Trade classes teach students how to operate commercial machines, while consumer classes focus on coffee usage at home.[11] Vittoria opened its Coffee College in Sydney in 1996, and Lavazza courses are run in all eastern states of Australia (as well as in London, Paris and New York).

Surveys of coffee drinkers show marked differences in the habits and attitudes of coffee drinkers. Referring to the family life cycle, the two largest segments of coffee drinkers in Australia, according to research by Roy Morgan (http://www.roymorgan.com.au/), are empty nesters or mid-life households and young parents. Young singles, young couples, and mid-life families, prefer to buy fresh coffee. Young parent's households and older households, on the other hand, are more likely than the general population (14+ years) to buy instant coffee.[12] The largest segment—mid-life households—purchases both types of coffee with equal preference. See Figure 6, the Roy Morgan chart.

In relation to the cross-purchasing habits of coffee buyers, the June 2002 survey showed that in the four weeks prior to the survey, 44 per cent of all fresh coffee buyers had also purchased instant coffee, but only 14 per cent of instant coffee buyers bought fresh coffee.

The typical fresh coffee consumer is also more likely, than the general population, to strongly agree with the following:

- I like to drink wine with my meals.
- I'm a bit of an intellectual.
- I try to buy organic and additive-free food.
- Computers and technology give me more control over my life.
- I like to entertain spontaneously.
- I believe a percentage of everyone's income should go to charities.

Another Roy Morgan survey showed that fresh coffee drinkers are more likely to be from the upper or 'AB' socio-economic group (32 per cent), university-educated (31 per cent), and aged 35+ years (68 per cent). The age group most likely to buy fresh coffee is 35 to 49 years.[13] Coffee consumers can also be segmented by ethnicity. The survey found that those who were born in the United Kingdom, for example, are 22 per cent more likely to be fresh coffee buyers than those who were born in Australia.

Out-of-home consumption is booming

Australians have the highest per capita consumption of coffee in the world, outside the United States of

America[14], and our interest in coffee does not stop at home. More than 7.3 million people in Australia had visited a café in the first three months of 2002 for a coffee or tea—about 300 000 more than in the same period in 2001. Out-of-home consumption of coffee is booming, as reflected in the popular café scene in Australia, which consisted of 6000 cafés in 2001, with a market growth rate of 10 per cent a year—according to BIS-Shrapnel.[15] About 90 per cent of the café industry is made up of independent small businesses employing less than 20 people, and almost 80 per cent of café businesses are located in the eastern states of Australia —New South Wales, Victoria and Queensland.[16] The Cantarella Group has effectively snared free 'billboards' for its Vittoria and Aurora brands at many of Australia's independent cafés through the provision of outdoor umbrellas, coffee cups, sugar bags and sticks, and other accessories.

> **"Coffee has moved from its relaxation appeal to become a part of a trendy fast-paced lifestyle."**

One of the fast growing segments in the café industry is the new tiny outlet that is springing up in central business districts (CBDs) for take-away coffee sales. Busy office workers are 'not sitting down any more', says one industry commentator. They 'want a quick coffee on their way to work; they haven't got time to waste and they want a strong cup that will get them through the day'.[17] This points to the increasing trend of 'on-the-go' coffee consumption, a development that petroleum convenience chains have also recognised—as shown by the in-store installations of cafés by BP (Café Zip), Caltex (Starmart), Mobil (On the Run) and Shell (Shell Café).[18] A study of the coffee sales made through these major petroleum convenience chains found that 'coffee has moved from its relaxation appeal to become a part of a trendy fast-paced lifestyle'. While still at an experimental stage in Australia, the growth of the convenience store segment for distributing coffee seems promising. Shell wanted its Shell Café to be perceived by customers as a separate entity, and it has 'released two versions of its concepts, one for suburban areas and one for regional areas…While the café concept is still very new to Shell, it reported a 58 per cent increase in coffee sales, after only the first nine weeks. Shell is looking at rolling out a total of 20 cafés by the end of 2002'.[19]

Apart from office workers and travellers looking for a quick fix, 'going out for a coffee' has now become a common social way to catch up with friends. But local café owners are under threat from American coffee chain giants, and their major marketing campaigns. Starbucks, Gloria Jean's, and McDonald's McCafe are steaming ahead with plans to capture more of the market, capitalising on Australia's growing obsession with coffee.[20] Gloria Jean's already counts Australia as its biggest market outside the United States.[21]

At the same time, the Australian-owned Coffee Club chain—with 'over 65 stores throughout Australia'—is considering a public float to finance faster growth in response to the invasion of American chains.[22] Independent cafés have also been responding to the invasion of the United States-style coffee houses, and have 'tellingly adopted American marketing techniques such as cards that provide free bonus coffees to frequent sippers'.[23]

The new coffee chains differ in their marketing strategies and their appeal to different consumer segments. Starbucks relies on prominent high street locations with décor that positions the chain as sophisticated with the younger demographic. The chain has also invested in its cool image through product placements in movies such as *You've Got Mail*, and send-ups in TV shows such as *The Simpsons* and *South Park*.[24]

Starbucks (http://www.starbucks.com/) promotes a relaxed friendly meeting place, with the emphasis on getting customers to stay. 'It's more than just a place to grab a coffee and run', says Australian marketing manager, Ian McKenzie. 'You can't buy CDs through our stores here in Australia (as is the case in the United States), but we are still using music as a springboard to get people into our stores', McKenzie said.[25]

Customers in about 1200 Starbucks stores in the United States can also check email, use the Internet, watch streaming video or download multimedia presentations for a fee over the wireless network service (WLAN), which is 40 to 50 times faster than standard dial-up Internet access.[26] The launch of WLAN in the US was followed by trials in England and Germany. Starbuck's US chairman, Howard Schultz, said, 'People use Starbucks not only as a place to get coffee, but as an extension of their porch, an extension of their office'.[27]

In Australia, Starbucks opened its flagship store in Sydney's CBD in 2000, and by September 2002 some 50 cafés were operating.[28] The chain began co-location ventures with other companies in late 2001, when specially designed Starbucks outlets opened within Borders Books' chain of book, music and video stores.[29] Soon after, Starbucks opened a café within the Commonwealth Bank's Circular Quay (Sydney) branch, in an experiment which may be rolled out to the bank's other branches nationally, if successful. The chain has also introduced a mini-Starbucks site in Westmead Children's Hospital that can be staffed by only four people.[30]

Starbucks' Australian managing director, Mark Hofer, said, 'The co-location strategy had major advantages for the Starbucks chain as it established itself in Australia. As well as providing prime sites for new stores, it also put the Starbucks experience in front of people that might otherwise be difficult to reach. There are people who may never have tried Starbucks or would never go to a store. This is an opportunity for us to let them see and smell a Starbucks'.[31]

The Chicago-based Gloria Jean's (http://www.gloriajeanscoffees.com.au/index.asp), with 77 outlets in Australia,[32] locates mainly in suburban shopping centres and targets an older demographic than Starbucks. Gloria Jean's more downmarket appeal is expected to do 'very well converting instant coffee drinkers' and attracting first-time users of brewed coffee. But serious coffee drinkers 'wouldn't go there', says Les Schirato, of the Cantarella Group.[33] The chain, which also retails its range of coffee beans in take-away packs for home use, launched its first Australian television advertising campaign in May 2002, in time for the peak winter season, featuring the tagline 'Escape the daily grind'.[34]

McDonald's McCafé appeals to a broader audience than some of its competitors, and tends to be more inclusive. 'Some coffee shops can be a bit snobbish or pretentious', says Vicki Fuller, national McCafé manager.[35] The McCafé chain expects to expand to 100 outlets in Australia by the end of 2002, and it has a longer-term goal to establish a McCafé in half of Australia's 700 McDonald's outlets.[36]

The 'mass-produced' image of United States-style coffee chains, however, does not appeal to everyone. The traditional family-run café where the owners know each customer's name and preference—that is, a cappuccino with one sugar—has a genuine appeal for consumers who want a 'real' coffee experience. Coffee 'snobbery' and the loyalty of fresh buyers to 'real' coffee will help preserve the place of independent cafés, at least for the near future.

Is the coffee market exploited?

There is also a growing politicisation of coffee around the world, and consumer resistance towards the unfair practices of giant American coffee buying chains such as Starbucks (see for example www.resistance.org.au/zine/scumbag2.html). Prices of coffee are subject to supply and demand in the world market, and both supply and price are subject to 'dramatic fluctuations' because of climatic effects. The A$24 billion per annum market is dominated by countries such as Brazil, Mexico, Indonesia and Central America, where lower labour costs prevail.

Starbucks is the fifth largest buyer of coffee in the world (after Nestlé and Procter & Gamble), and has been criticised for exploiting the world's coffee farmers, many of whom have been devastated by a chronic coffee surplus and historically low prices in recent years. 'The chain has a lot to lose if consumers, especially young ones, see it as a Third World profiteer.'[37]

Australia produces less than one per cent of the coffee consumed here, and in 1996 only 200 tonnes of green beans (the final stage before roasting) were produced in this country, compared with the 49 000 tonnes of green beans we imported.[38] Australia's small domestic production of high-quality Arabica coffee, which is preferred for the fresh coffee market, is sold to the higher priced specialty outlets and tourist market in Australia, while some is blended with imported coffee. Although freshness, a lower caffeine content, and a clean or 'organically grown' image are attractive qualities of Australian coffee, according to government agencies there is not enough coffee produced domestically to reliably supply major coffee buyers or develop exports.[39]

The ability to customise products in food-service outlets has driven the diversity of the types of coffee now available to consumers.[40] In the five years from 1997 to 2002, the number of American consumers drinking 'gourmet' specialties increased from 7 million to 27 million.[41] Fresh coffee is a breakfast staple in the United States, and while hot coffee is still the 'norm', iced coffee, flavoured coffee and gourmet coffee are also appearing on breakfast tables.[42] Flavoured coffees such as hazelnut and vanilla make up 20 per cent of sales for American chain Dunkin' Donuts. In Australia, Gloria Jean's extensive gourmet range includes caramel nut, chocolate macadamia, Irish crème, and hazelnut, which is also available in the decaffeinated coffee range. The decaffeinated market is one of the fastest growing segments in the fresh-coffee market with approximately 18 per cent annual growth.[43]

The proliferation of different types of coffee, including decaffeinated, was parodied in a movie starring Steve Martin, *LA Story*.

Guy with neck-support: *I'll have a decaf coffee.*
Trudi: *I'll have a decaf espresso.*
Movie critic: *I'll have a double decaf cappuccino.*
Policeman: *Give me decaffeinated coffee icecream.*
Harris K. Telemacher: *I'll have a half double decaffeinated half-caf, with a twist of lemon.*
Trudi: *I'll have a twist of lemon.*
Guy with neck-support: *I'll have a twist of lemon.*
Movie critic: *I'll have a twist of lemon.*
Cynthia: *I'll have a twist of lemon.*

The impact of United States coffee chains has stimulated Australia's coffee consumption, and both our in-home and out-of-home consumption is changing. 'The fact is', says one industry observer, 'real coffee is in and instant is not'.[44] That trend should help Australia's independent cafés, but the long-term future for the sector looks grim.

QUESTIONS

1 | Coffee distributors use a variety of ways to segment the market. Identify the segments in the total coffee market and defend your selection of segmentation bases. (Use different bases for segmentation—that is, business versus consumer; instant versus fresh; consumption versus component product, image, value, usage rates and so on.)

2 | With reference to the product life cycle, the coffee market provides an example of how mature markets can be revived. Explain in your own words the reasons for the rejuvenation of the coffee market.

3 | Using your own research, develop a SWOT analysis of the different players in the café market in Australia; plus, discuss their competitive position.

4 | Develop positioning maps of the different players in the café market in Australia. Defend your selection of attributes—for example image, value and so on.

5 | The long-term future for the independent café sector is under threat. Make specific recommendations regarding the four Ps for independent cafés in Australia.

6 | You are the assistant to an Australian grower of coffee beans who is considering a proposal to try and launch a fresh-coffee brand for distribution through supermarkets. Undertake primary research of the market for hot beverages consumed at home by visiting large supermarkets. Write a description of the product category for your boss, based on your observations, and make some recommendations about the proposal. Compare the shelf space allocated to different types and brands of beverages to the share data in Figures 3, 4 and 5.

23 Dick Smith —the great adventurer

Alvin M Chan, School of Marketing and International Business, University of Western Sydney

In July 1999, Dick Smith announced his intention to set up a 100 per cent Australian owned food company to fight back the trend that an increasing number of Australian brands are now foreign owned. On 29 November 1999, he made the decision to go ahead with Dick Smith Foods (www.dicksmithfoods.com.au) with a capital of $2 million.

The first Dick Smith Foods product, Dick Smith Peanut Butter, was launched at the end of February 2000. Since then, Dick Smith has been successful in engineering consumer support for his food products by attaching his name to the 'buy Australian' cause. On 4 October 2000, Dick Smith Foods announced that retail sales of $27.8 million had been achieved in the first nine months of operation, and that the company was in a profitable situation, having covered all establishment costs. Dick Smith's original aim was to achieve sales of $100 million to support Australian farmers and manufacturers and he achieved this in just 16 months of operation. As at 31 March 2002, Dick Smith Foods had achieved $152.65 million in retail sales.

To further expand the already successful Dick Smith food brand, a 10-year licence was granted to an independent new subsidiary of the Sanitarium Health Food Company (www.sanitarium.com.au) to manage the operations of Dick Smith Foods with effect from 1 July 2002.

This case looks into the external environmental factors and the internal marketing strategies of Dick Smith Foods, which contributed to the success of the new business in such a short period of time. In fact, Dick Smith is not just a person; his name is a brand name to many Australians. This case starts with a brief look at Dick Smith's life.

Dick Smith's biography

Dick Smith is a well-known Australian businessman, aviator, film-maker and explorer. His brief biography follows:

- Born on 18 March 1944 in Roseville, New South Wales, Australia.
- Founded Dick Smith Electronics in 1968 and sold his interests to Woolworths in 1982 to go into publishing, exploration, aviation and philanthropy.
- Named Australian of the Year in 1986.
- Made the first sole helicopter flight around the world in 1983 and made the first helicopter flight to the North Pole in 1987. First person to fly around the world via the poles in 1989.
- Founded the quarterly magazine *Australian Geographic* in 1986 and returned the *Australian Encyclopaedia* to Australian ownership in 1987; sold to John Fairfax Publications Pty. Ltd. in 1995.
- Held several chairman positions with the Civil Aviation Safety Authority Board and the National Centenary of Federation Council between 1990 and 2000; and, in 1998 was appointed as Ambassador for the Council for Aboriginal Reconciliation.
- First non-stop balloon flight to cross the Australian continent in 1993 and first Trans-Tasman balloon flight, against the wind, from New Zealand to Australia in 2000.
- Founded Dick Smith Foods in November 1999.

Dick Smith is a man of many personas. Through his high-profile and self-promotion activities, Dick Smith has become a highly-recognised public figure in Australia. At the time of the republic debate, a poll by The *Sunday Telegraph* in October 1999 found that Dick Smith was the third most popular choice for president.

Company mission

As stated in the company's mission statement, the substantial difference between Dick Smith Foods products and the products of many other companies is:

> *'Dick Smith Foods are made in Australian by Australian owned companies. We believe this is important because it provides employment for Australians and all the profits remain here, helping the future of our country.'* [1]

The company's mission is best summarised in its slogan: 'As Australian as you can get!'

Dick Smith's policy on foreign investment

The driving force behind the establishment of Dick Smith Foods was the realisation that in Australia 85 per cent of the products in a typical supermarket trolley are either foreign owned or imported. More and more Australian 'digger' brands like Vegemite and Arnott's are now foreign owned. Dick Smith wants to fight back and see a more even balance between Australian products and foreign products in our shopping trolleys.

At the Dick Smith Foods Web site, Dick Smith makes his policy on foreign investment clear:

> *'I believe one of the reasons that Australia has been so successful is because of foreign investment. However foreign investment, as we once knew it, consisted of companies coming to Australia, bringing in capital, taking risks and creating a new business that actually increased employment and wealth for Australia.*
>
> *'Unfortunately in recent years, foreign investment tends to mean wealthy overseas companies coming in, taking over successful Australian companies (sometimes against shareholder agreement), downsizing (i.e. putting off, say, 20 per cent of the staff), and then taking profits out of the country. I'm not sure that this type of foreign investment is what we really require.*
>
> *'I believe we should be looking for a balance. Foreign investment has given us some great advantages in the past, however that does not mean that all future foreign investment is good.'* [2]

Figure 7 is a list of famous Aussie food brands now owned by foreign companies.

Dick Smith's position on foreign investment is not without criticism. For example, in a media release of 23 July 1999, Mr Mitchell H Hooke, executive director of the Australian Food and Grocery Council (AFGC), the peak representative body for Australia's food and grocery product manufacturers, welcomed Dick Smith's entrée to the Australian food industry but regretted his alleged reasons for doing so, and considered his attack on foreign owned Australian manufacturers as unfair and unfounded. Mr Mitchell H Hooke said, 'We welcome Mr Smith's foray into the industry and trust that he will develop a competitive strength on merit and not by unsubstantiated denigration of his potential competitors.'[3]

An article in the January 2000 issue of the *Australian Made* newsletter argued:

> *'The real argument in a global economy isn't one of ownership. 'Australian owned' doesn't necessarily mean profits stay on-shore, as supporters claim. And there's no guarantee an Australian owned company is manufacturing here in Australia—it may be importing….Many of Australia's biggest, best known and best supported brands may well be foreign owned. These corporations have invested in Australia and employ Australians. Many support the Australian Made Campaign.'* [4]

Nevertheless, Dick Smith has been influential in raising the profile of the 'buy Australian' campaign. In 1999, he became patron of Ausbuy (www.ausbuy.com.au)—a non-profit organisation that aims to create awareness of the sell-off of Australian icons and brands to overseas interests.

Consumer behaviour

In the 31 March 2000 issue of *B&T Weekly*, Drs John Dawes and Rachel Kennedy from the Marketing Science Centre, University of South Australia, made the following comments on the Dick Smith Foods campaign:

> *'Intuitively we might think that the idea of "buying Australian made" or "not supporting foreign multinationals or cigarette companies" is an appealing one to consumers.*
>
> *'Indeed, if one asks people about issues like these in market research, most people would exhibit very positive attitudes. However, there is only a very weak link between attitudes and behaviour, and a lot of inertia in consumer behaviour. Inertia favours the big established brands.*
>
> *'Therefore, it is unlikely that these appeals will result in a large chunk of the market changing (its) buying behaviour.*
>
> *'We do actually think Dick's motives are admirable and wish him well. But we also think that his new venture will face immense difficulties.'* [5]

Figure 7 Famous Aussie food brands now owned by foreign companies

	BRAND	ORIGINAL AUSTRALIAN OWNER	NOW FOREIGN OWNED BY	LOCATION
BEVERAGES	Andronicus Coffee	Andronicus Co	Nestlé Limited	Switzerland
	Billy Tea	The Tetley Group	—	UK
	Cottee's Cordials	Cottee's Foods	Cadbury Schweppes Plc	UK
	Ecks	Ecks Soft Drinks	Coca Cola Amatil	USA
	Harris Coffee	D. E. Harris Pty. Ltd.	Douwe Egberts/Sara Lee D-E N.V.	Netherlands
	Harris Tea	D. E. Harris Pty. Ltd.	Douwe Egberts/Sara Lee D-E N.V.	Netherlands
	Kinkara tea	The Tetley Group	—	UK
	Mynor	The Mynn Co	Cadbury Schweppes Plc	UK
	Nerada	Nerada Tea	BOH Plantations SDN BHD	Malaysia
	Shelley's (except SA)	Shelley's Soft Drinks	Coca Cola Amatil	USA
	Lan-Choo Tea	Unilever	—	UK
BISCUITS, PIES AND SNACK FOODS	Chiko	Frances McEnroe	J. R. Simplot & Co.	USA
	Four 'n' Twenty Pies	L. J. McLure	J. R. Simplot & Co.	USA
	Ginger Nut	Arnotts Biscuits	Campbell Soup Company	USA
	Herbert Adams Pies	Herbert Adams Bakeries	J. R. Simplot & Co.	USA
	Kettle Chips	Kettle Chip Co	Campbell Soup Company	USA
	Milk Arrowroot	Arnotts Biscuits	Campbell Soup Company	USA
	Nannas	Mr & Mrs A Mutch	J. R. Simplot & Co.	USA
	Peters	Peters Ice Cream	Nestlé Limited	Switzerland
	Salada	Brockhoff Biscuits	Campbell Soup Company	USA
	Sao	Arnott's Biscuits	Campbell Soup Company	USA
	Scotch Finger	Arnott's Biscuits	Campbell Soup Company	USA
	Streets	Streets Ice Cream	Unilever	UK
	Tim Tam	Arnott's Biscuits	Campbell Soup Company	USA
CONFECTIONERY	Butter Menthol	Allens	Nestlé Limited	Switzerland
	Cherry Ripe	Mac.Robertsons	Cadbury Schweppes Plc	UK
	Columbines	Mac.Robertsons	Cadbury Schweppes Plc	UK
	Fantales	Allens	Nestlé Limited	Switzerland
	Freddo Frog	Mac.Robertsons	Cadbury Schweppes	UK
	Jaffas	Allens	Nestlé Limited	Switzerland
	Kool Mints	Allens	Nestlé Limited	Switzerland
	Minties	Allens	Nestlé Limited	Switzerland
	Old Gold	Mac.Robertsons	Cadbury	UK
	Red Tulip	Beatrice Australia	Cadbury Schweppes Plc	UK
	Sherbies	Allens	Nestlé Limited	Switzerland
	Violet Crumble	Hoadleys	Nestlé Limited	Switzerland
JAMS AND SPREADS	Cottee's Jams	Cottee's Foods	Cadbury Schweppes Plc	UK
	Eta Peanut Butter	Kraft Foods/Philip Morris	—	USA
	IXL	Henry Jones	J M Smucker Co/Suntory	Japan
	Monbulk	Monbulk Jams	Cadbury Schweppes Plc	UK
	Vegemite	Fred Walker Cheese Co	Kraft Foods/Philip Morris	USA
GENERAL GROCERY ITEMS	Aeroplane	Aeroplane Jelly Co	McCormick & Co Inc	USA
	Big Sister	Big Sister Foods	J. R. Simplot & Co.	USA
	Edgell Country Gdn	Gordon Edgell & Sons	J. R. Simplot & Co.	USA
	Bundaberg Sugar	Bundaberg Sugar	Tate & Lyle	UK
	Dorato	Pillsbury Australia	Grand Metropolitan/Diageo	UK
	Fountain	W. C. Douglas	Cerebos/Suntory	Japan
	Gravox	Klembro	Cerebos/Suntory	Japan
	Greenseas Tuna	H. J. Heinz & Co.	—	USA
	Latina Fresh	Pillsbury Australia	Grand Metropolitan/Diageo	UK
	Leggos	H. M. Leggo & Co.	J. R. Simplot & Co.	USA
	Noble House	Pillsbury Australia	Grand Metropolitan/Diageo	UK
	P.M.U	Pick Me Up Foods	H J Heinz & Co	USA
	Pioneer	Pillsbury Australia	Grand Metropolitan/Diageo	UK
	Safcol	Safcol Australia	Tropical Canning Group	Malaysia
	Tom Piper	Tom Piper Co	H J Heinz & Co	USA
	Top Taste	Gartrell White	George Weston	UK

Figure 8 Dick Smith food products available in supermarkets as of December 2002

PRODUCT	SIZE	VARIANTS
Asparagus	340 g	Green Spears, Cuts and Tips
Breakfast cereal (see variants)	500 g	Bush Foods Breakfast, and Maxi Grain
Canola oil	750 ml & 2 L	
Cheese (block)	500 g	Block Tasty
Cheese (slices)	250 g & 500 g slices	Aussie Slices, Extra Light Aussie Slices, Natural Slices & Tasty Cheese Slices
Cream cheese spread	245 g	Regular & Light
Cordial	750 ml	Lime, Orange, Raspberry, Tropical
Diet cordial	2 L	Fruit Cup, Lemon, Orange, Apple & Raspberry
Flavoured toppings	500 ml	Caramel, Chocolate, Strawberry
Gravy	400 g & 120 g	Brown Onion, Chicken, Supreme, Roast Meat Instant
Hazelnut spread	500 g	—
Helicopter Jelly	85 g	Lime, Port Wine, Raspberry, Strawberry, Tropical
Ice cream	2 L	Vanilla
Jams	450 g	Apricot, Marmalade, Plum, Strawberry, Three Berries
100% fruit spread	330 g	Apricot, Orange Breakfast, Strawberry, Three Berries
OzeChoc	250 g	—
Peanut butter	375 g, 780 g	Smooth, Crunchy, Super Crunchy (375gm only)
Savoury biscuits	250 g, 250 g, 125 g	Cracker Biscuits, Water Crackers
Sweet biscuits	200–250 g	Choc Mint Creams, Dark Choc Wheats, Shortbread Vanilla Creams, TT's, Mini Mates
Tomato & BBQ sauce	600 ml	—

Despite Dick Smith's ability to raise the profile of the 'buy Australian' cause, it seems that consumers are still being wooed by brand names that aren't necessarily Australian. Kellogg's and Arnott's (both American owned) are the two most popular brands on our supermarket shelves, proving that brand loyalty is winning over price and patriotism.

In an interview with *A Current Affairs* (*ACA*) on 3 July 2001, with Debbie Kirslake, the marketing director of A. C. Nielson, it was suggested that it all comes down to advertising. She said, 'If the consumer hasn't heard about it, generally he or she won't touch it'.[6]

One concern about buying Australian products is the perception that it costs more. On 20 July 1999, *ACA* put Aussie products to the price test. In the *ACA* test, the grocery basket ($70 worth) full of Australian products was almost $5 cheaper than the basket of foreign products. While the *ACA* test proved that patriotism did put more money in your pocket, shoppers are confused as to which products are truly all-Australian. One of the statements in a focus group conducted by Dick Smith Foods' advertising agency was, 'We are uneasy with Australian made type programs as we believe they are manipulated by foreign companies'.[7]

In an interview with *Landline* on the ABC, 23 April 2000, Dick Smith also believed, 'Australians are patriotic but at the moment the labelling is so deceptive you don't know what's Australian'. He further added, 'What I can say to people (is) "if you buy a product with Dick Smith Foods on it—it's as Australian as you can get"'.[8]

Product

Since Dick Smith Peanut Butter was launched at the end of February 2000, a range of Australian foods have been added to the product line. Figure 8 is a list of Dick Smith Foods products available in the supermarket as of December 2002 and Exhibit 2 shows Dick Smith displaying some of the Dick Smith Foods product range.

Dick Smith Foods' product development strategy is not to set up its own manufacturing plant but to ally itself with Australian manufacturers, using Australian produce, to produce products under the Dick Smith Foods label and to compete against products made by foreign-owned companies—for example:

- Dick Smith Peanut Butter is produced by Green's General Foods Pty. Ltd. at Glendenning in Sydney's Western suburbs to compete with Kraft, and 'Skippy' brand peanut butter, which is fully imported from the United States of America.
- Dick Smith biscuits are made by Paradise Food Industries Pty. Ltd., a Brisbane-based, 100 per cent Australian owned company, to compete against Arnott's—now owned by the Campbell Soup Company of the United States of America.

- Dick Smith icecream is made by Norco Co-operative Limited, based in the Northern New South Wales country town of Lismore, to compete against Streets, (owned by the United Kingdom multinational, Unilever), and Peters, (owned by Nestlé of Switzerland).

Consistent with the theme of Australian-ness, Dick Smith Foods even renamed their chocolate chip ‘cookies’ to ‘biscuits’ to counter the Americanisation of the Aussie language.

> What I can say to people (is) “if you buy a product with Dick Smith Foods on it—it is as Australian as you can get”

To generate immediate association between Dick Smith Foods and Australian ownership, the Dick Smith Foods label puts Dick Smith’s head and logo on the Australian flag (see Exhibit 3).

In a media statement issued on 30 January 2001, the executive director of Ausflag, Mr Harold Scruby, requested that ‘the Prime Minister and the RSL write to Dick Smith and demand the immediate removal of his face and logo from the Australian Flag, which appear on all his products’.[9]

Mr Scruby quoted from the Government booklet entitled Australian Flags, released by the Prime Minister’s own Department of Awards and National Symbols:

> *‘When the flag is represented, for example, as an illustration for commercial or advertising purposes:*
> - *it should be used in a dignified manner and reproduced accurately;*
> - *it should not be defaced (that is, have superimposed on it printing or illustration).’*[10]

Mr Scruby said, ‘While Mr Smith’s attempts to market “Genuine Australian Foods” are indeed commendable, it is not necessary to deface the Australian Flag to achieve this goal’.[11] Despite the protest by Ausflag, the Australian flag with Dick Smith’s head on it continues to appear on all Dick Smith Foods labelling, advertising and promotional material.

Marketing logistics

As described in the Dick Smith Foods ads, ‘Big companies can afford to buy the best display positions in supermarkets. We’re just a small company relying on the support of Australians’. Dick Smith did not just appeal to the patriotic Australian supermarket managers to stock and display Dick Smith Foods products, he also urged consumers who had trouble finding Dick Smith Foods to ask the store manager where they were. For those who had enthused supermarkets to move Dick Smith Foods products to more prominent positions, Dick Smith thanked them in the ads.

Today, Dick Smith Foods products can be found in all major supermarkets, including Woolworths, Coles, Pick & Pay, FAL, Safeway, Bi-Lo, Foodland, and local independent stores throughout Australia. They are also available in most of the smaller independent stores that purchase stock from Metcash Limited.

Dick Smith Foods products are also available online from Shopfast (www.shopfast.com.au), Woolworths HomeShop (www.homeshop.com.au), Coles On Line (www.colesonline.com.au) and other major retailers.

Pricing

Unlike generic brands that are priced cheaper than the major brands, Dick Smith Foods products are priced at competitive levels with the major brands. However, the major pricing issue is not the levels at which Dick Smith Foods set their prices; the major issue is how competitive brands are responding to the launch of Dick Smith Foods. For example, in a letter to the editor of The *Sun-Herald*, 30 April 2000, one reader wrote, ‘Following the launch of Dick Smith’s peanut butter (price $2.99), the local supermarket placed ETA peanut butter adjacent to Dick Smith’s product at a reduced price of $1.89, a saving of 80 cents. What chance does the Australian made and owned product have with help like this?’[12] Dick Smith urges his supporters to write similar letters to the newspapers if they notice this happening in their local supermarket.

While it is generally believed that price is the most important choice criterion used by grocery buyers, research done by Dick Smith Foods revealed that the biggest single motivator for consumers is that they are helping Australian farmers when they buy Dick Smith Foods. Research by the Australian Consumers Association also showed that consumers are more likely to be influenced by Australian made rather than price when it comes to choosing a brand.

Exhibit 2 Dick Smith displaying some of the Dick Smith Foods product range.

Exhibit 3 Dick Smith Foods label.

Marketing communications

Advertising

Dick Smith Foods rely on minimal advertising. Their largely PR-based advertising is often timed with bursts of activities aimed at causing a stir. Dick Smith admitted, ‘They (multinationals) can afford to lose money in the short term, knowing that in 10 years they can make it again. We, on the other hand, could never push ahead with a product if we were losing money’.[13] The only major advertising campaign by Dick Smith Foods was a $1 million campaign launched in April 2002 that focused on the human face of Dick Smith Foods. This creative strategy, developed by advertising agency Ad Partners, was based on research which found that the major reason as to why consumers bought Dick Smith Foods was to help Aussie farmers. Featuring a visual showcase of black-and-white farmer images, the campaign’s slogan was simple, yet emotive, ‘Helping Australian farmers leaves a good taste in your mouth’. Tomato growers, dairy farmers and berry pickers were a few of the farmers highlighted to give strong branding to individual Dick Smith Foods products. Over a four-month period, eight variations of the campaign were featured as full-page ads in eight national magazines. These were supported by advertorial and editorial opportunities. The new brand advertisements were also featured on 24 bus sides and bus interiors for buses in Sydney, Melbourne and Brisbane.

This $1 million press and outdoor campaign fitted neatly into Dick Smith Foods ongoing strategy of appealing to patriotic Aussie consumers. Since then, there has been very little advertising undertaken by Dick Smith Foods. This is in line with Dick Smith’s interview with *B&T Weekly* on 13 November 2000, in which he said that the largely PR-based advertising for the brand will cease in the long term and the company will always remain a small player in the field, because he is not prepared to spend the mega bucks to make the brand a big player.[14]

Public relations

Dick Smith has a high media profile working in his favour and he knows how to use it to his best advantage. Whenever he wants some free publicity to promote his food products, he attracts considerable media coverage. Below are just some examples of this strategy.

Trans-Tasman balloon flight

The Trans-Tasman balloon flight was initially inspired by a bet with advertising man John Singleton, who stated that flying a balloon from New Zealand to Australia against the wind could not be done, but Dick Smith insisted that it could be done. Thus, the bet was set with a wager worth $100 000. Regardless of the outcome, Reverend Bill Crews’ Exodus Foundation was to receive the $100 000 from the bet loser.

Although the balloon flight took two years to organise, the event was nicely timed to coincide with the launch of the first Dick Smith Foods product, Dick Smith Peanut Butter. Dick Smith took the peanut butter across to New Zealand so John Wallington, his co-pilot, and himself could eat it during the balloon flight. They also had a prototype jar of Ozemite and some Helicopter Jelly.

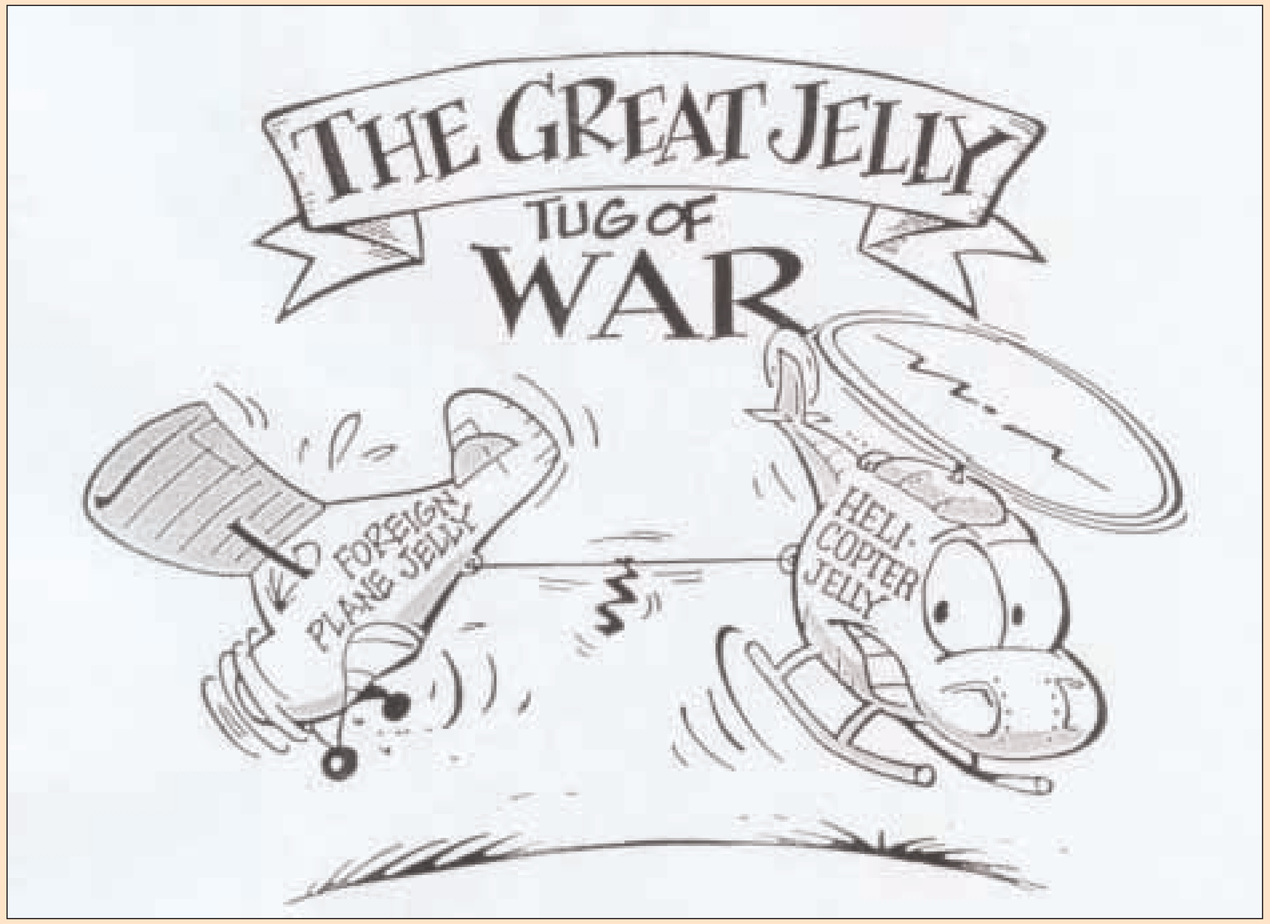


Exhibit 4 The Great Jelly Tug of War media poster, 3 December 2000.

WANTED

Adventurer to live in a cave in the Himalaya for 48 days and only eat Dick Smith's Peanut Butter. Please write to us before contacting Harry M. Miller. Please apply to Dick Smith Foods Pty Ltd, PO Box 398, Terrey Hills, NSW, 2084, Australia.

Exhibit 5 Himalaya caveman advertisment.

Dick Smith said he was 'symbolically bringing the ownership of food back to Australia'. This balloon flight was widely covered in the media. On 22 February 2000, *ACA* presented a live interview with Dick Smith in his hot-air balloon as he floated from New Zealand to Australia.

Himalaya caveman

On 1 April 2000, Dick Smith inserted an advertisement (see Exhibit 5) in national newspapers.

Although intended as a joke to generate radio talk-back interviews to help market the new Dick Smith Foods products, some 32 people aged from 17 to 70 years of age responded to this advertisement. A Melbourne roof tiler, 30-year-old Tim Barrot, was finally selected for this adventure. In addition to Dick Smith Peanut Butter, Tim had Dick Smith Helicopter Jelly as emergency rations and he was allowed a Dick Smith Choc Biscuit for each media interview he did from the cave. Dick Smith did achieve the objective of gaining free publicity through talk-back interviews with himself and Tim Barrot.

The Great Jelly Tug of War

Exhibit 4 is the media poster issued by Dick Smith Foods announcing the 'Great Jelly Tug of War' on Sunday, 3 December 2000, at Bankstown Airport in Sydney where Captain True Blue (flying Helicopter Jelly), ate Dick Smith's bubblegum flavour Helicopter Jelly and attempted to tug Captain Yankee Doodle (flying Foreign Plane Jelly), over the line. Dick Smith said, 'I once towed an iceberg into Sydney harbour and even jumped a double-decker bus over 16 motor bikes, which gave great news coverage on a quiet Sunday'.[15] This tug of war show did give Dick Smith a lot of coverage in the media 'on a quiet Sunday' to publicise the launch of his Dick Smith Helicopter Jelly and compete against Aeroplane Jelly—now foreign owned by McCormick of the United States of America.

Donations and sponsorships

Dick Smith Foods has a philanthropic policy that some 96 per cent of its profits are donated to Australian charities and other important causes with only a tiny four per cent put back into the business to maintain its viability. In just two years, Dick Smith Foods donated over $1.5 million to the community; recipients included the Exodus Foundation, Smith Family, Salvation Army, Care Australia and so on.

To mark the Centenary of Federation, Dick Smith and his wife, Pip, also gave a personal gift of $1 million to the nation on 26 January 2001. The donation was spread among a range of national, social and conservation institutions and included a number of special interest projects.

Dick Smith is happy that Aussies are not only continuing to support Australian owned companies by purchasing his products, but they are also helping thousands of under privileged people.

Other sales promotion tools

Dick Smith Foods T-shirts

As part of their marketing communications activities, Dick Smith Foods has two different styles of T-shirts available for sale at a cost of $27.50 each. One style features the wording 'Dick Smith Foods—We're Fighting Back' and the other features the wording 'Dick Smith's OzEmite—We're Fighting Back' (See Exhibit 6). The wording appears on both the front and back of the T-shirts.

Dickheads matches

In October 2000, Dick Smith Foods launched their own matches called Dickheads. Dickheads matches are not part of the Dick Smith Foods range but are described by the company as 'purely a marketing exercise and a major protest over the loss of Australia's manufacturing skills'.

The statement on the box says:

> 'We would have to be complete dickheads to let most of our famous Australian brands be taken over by foreign companies. Brands such as Vegemite, Aeroplane Jelly, Arnott's, Speedo and Redhead Matches are in overseas hands. This means the profit and wealth created goes overseas and robs our children and grandchildren of a future.'
>
> A protest from Dick Smith Foods
> 'As Australian as you can get'

Dick Smith Foods were not originally planning to sell the matches but popular demand has forced them to think again. Dickheads matches are now available through clubs, hotels, some newsagents and independent retailers at approximately 30 cents a box.

The way forward

Around the world, the anti-globalisation movement seems to be gaining momentum. Dick Smith has picked the social trend before it is apparent to most companies. More and more companies are now marketing their

Exhibit 6 Dick Smith Foods T-shirts.

Exhibit 7 Dickheads matches.

products as being Australian made—multinational ownership notwithstanding. Dick Smith marketed his own Dick Smith-branded food products as not just Australian made but also made by Australian owned companies, thereby keeping employment and profits in Australia—threatening the brand image of rival multinational brands.

We are starting to see the impact of the 'buy Australian' theme on the marketing plans of multinational companies.

There is no doubt that the launch of Dick Smith Foods is another successful adventure for Dick Smith and it has created some disturbance for the multinational giants. However, in an interview with *B&T Weekly*, 16 March 2001, Dick Smith himself confessed, 'I still tend to agree with the marketing people who say that, in the long term, the big multinationals will win'.[16]

We have yet to see the long-term impact of the 'buy Australian' movement in general, and Dick Smith Foods in particular, in changing consumer inertia.

QUESTIONS

1 | What are the astute marketing opportunities that Dick Smith identified in establishing Dick Smith Foods?

2 | Identify the major target markets that are most susceptible to the patriotic appeal of Dick Smith Foods.

3 | What are consumers really buying into when buying an 'Australian' brand? Or, do they really care about the Australian-ness of a brand? What do you think?

4 | Some critics labelled Dick Smith's new adventure as 'nothing more than a money-making scheme'. What do you think?

5 | Dick Smith Foods placed an ad in national newspapers on 21 and 22 April 2001 headlined, 'Is Australian ownership of business simply jingoism?' The copy of the ad reads:

'Newspaper journalist, Dennis Shanahan, has been running a campaign against Dick Smith Foods, claiming that it is "feeding paranoia" and "jingoism" to promote the advantages of Australian owned businesses.

'At the same time Mr Shanahan pushes the advantages of 'Australian Made' especially when promoted by foreign companies.

'The reason for this hypocrisy is obvious to most Aussies. The big foreign companies that exploit the "Australian Made" logo have enormous advertising clout in the press. Patriotic Australians are not stupid—we know that while "Australian made" is good "Australian owned and made" is even better as the profits stay here creating wealth and a better future for our children and grandchildren.' [17]

Do you think Dick Smith is hypocritical in making use of his image of patriotism to brand his products and increase sales, and denigrate his competitors that are predominately foreign owned?

6 | Visit the Big Kev's Limited Web site (www.bigkev.com.au) and assess its marketing strategy. Building on the same patriotism appeal, Dick Smith Foods managed to break even in the first nine months of operation, but Big Kev's Limited had a $2.9 million net loss for the financial year 2001 to 2002, compared to a $1.5 million net loss for the previous year. Compare the marketing strategies of the two companies and identify the reasons for Big Kev's failure.[18]

THE FIGURES AND EXHIBITS IN THIS CASE STUDY ARE COURTESY OF DICK SMITH FOODS.

24 Apple's renaissance —the agreement that works

Nitha Palakshappa, Department of Commerce, Massey University, and Dr Mary Ellen Gordon, Managing Director, Market Truths Ltd

Mal Thompson, managing director of Renaissance Corporation Ltd, sat down to finish pending paperwork. He has just spent the last few days with management staff from Apple Computer Australia Pty Ltd. The visit was trouble free and the Australians left happy that things were going well with the New Zealand distributor. Mal breathed a sigh of relief and found his thoughts wandering a bit further. The last few years were definitely good to him… business was good; and, achieving a life–work balance was a continued priority. He smiled to himself as he realised how much he had changed. 'I've matured and I am nowhere near the risk taker I was, but I'm still entrepreneurial', he assured himself. This admission made him think about all the elements that contributed to the growth within the company and the success of Renaissance's agreement with the Australian company.

Background

Renaissance Corporation Limited

Renaissance has been a publicly listed company in New Zealand since 1968. Though the company has existed in many forms, its current name was adopted in 1997, at which time key business concentrations were also developed. It functions along three key business streams: (1) distribution, (2) education, and (3) e-business. The company has built a successful information technology distribution business with a number of leading international brands.

Renaissance has, in the past, had exclusive distribution rights for Apple computer products in New Zealand. However, the global policy of the computer manufacturer now prohibits exclusive deals. Though exclusivity is no longer possible, Renaissance is still the sole wholesale distributor for Apple locally. The manufacturer has not moved to cultivate relationships with other New Zealand distributors and has expressed no intention to do so in the future, in spite of the fact that it has done so elsewhere in the world. Sole distributorship of Apple products provides Renaissance with a degree of credibility in the market.

Renaissance achieves economies of scale through the distribution of multiple brands. The company also has the distribution rights of brands such as Hewlett Packard, Microsoft, Epson, Compaq, Toshiba and Techtronics. Multiple distributorships provide the opportunity for joint promotions; however, co-marketing is not always strongly encouraged at the local level.

Conflict of interest between the various distributorships is avoided by the use of separate product managers and strong divisional lines, which also help to maintain an Apple focus. Apple functions as a separate division within the Renaissance offices. Apple products still benefit from having access to the other brands that are sold, allowing for cooperation in an otherwise competitive market.

Education forms a significant part of Renaissance's activities, an emphasis that supports Apple's worldwide philosophy. Renaissance also plans to develop a new division to support the exclusive distribution of educational products imported from the United Kingdom. This agreement is with a well-known organisation that currently holds 50 per cent of the educational software market in the United Kingdom.

A whole new team at Renaissance has been coached on the Apple 'way'. Because Renaissance is seen as

Apple New Zealand, they try to mirror the Australian operations as much as possible. Apple Australia considers Renaissance to be its New Zealand office.

Apple Computer Australia Pty Ltd

In order to facilitate its sales, marketing and distribution network, Apple Computers established various offices internationally by way of regional offices, subsidiaries and distribution contracts. Apple Australia is a wholly-owned subsidiary of Apple Computers. Apple Australia is a sales, marketing and distribution organisation that receives guidelines from Apple Computers in the United States, which are then shared with Renaissance in New Zealand. It does not function on a distribution agreement. Apple Computers previously had its own distributor in Australia, but adopted the current operating model from 1981 to 1982.

Morale at Apple Computers and Apple Australia was low throughout the early 90s, and both organisations worked hard to rebuild confidence. As a company, Apple Computers has endured varying degrees of success over the past decade. It has steadily rebuilt its reputation and maintained a loyal following of customers who are truly committed to its products. This has resulted in fairly large changes within Apple Computers over the years and a stronger customer focus. Apple Computers has moved to concentrate on core technologies with a decreased product range. Peripherals such as printers and scanners are no longer manufactured. Other product lines were also culled during this period. Apple Australia has also undergone similar changes as a result of this.

Industry-related background

Apple Australia and Renaissance functioned through the 90s faced with considerable changes in the information technology environment and significant reductions in margins. Margin pressures resulted in business re-engineering—ways to reduce costs and grow profit.

Now, other external influences include the trend towards information technology standardisation, exchange rate fluctuations, and technology differentiation. Changes to parallel importing laws in New Zealand could also signal the entry of new importers, affecting the market structure.

Apple Australia is developing stronger ties with the universities in Australia, and it is seeking to increase the number of Apple users within these institutions. A growing relationship between universities in Australia and New Zealand presents an opportunity.

Segmentation and market share

Market share and segmentation are also important for Renaissance and Apple Australia. Renaissance tends to exceed Apple Australia in market share. The market share in the United States has been slightly lower than the market share in Australia. International Data Group (IDC) reports are consulted to provide industry-related information and growth-rate data.[1]

Renaissance's quarterly survey measures market share responses. An industry-based survey also measures the performance of companies against industry standards. A key issue is that industry revenue drops easily and though growth may be satisfactory, margins are often not.

In assessing market segment performance, Apple Australia examines Renaissance's financial projections for each of the market segments and IDC figures for growth and forecasts. Performance is then measured against these criteria.

Structuring the agreement

The interaction between Renaissance and Apple Australia centres on the agreement to distribute Apple products in New Zealand. The managing director of Renaissance has played an historical role in the formation of the relationship between these two companies. Apple Computers approached CED (a local New Zealand company dealing in watches at the time) at a tradeshow in the United States. The current managing director of Renaissance had a shareholding in CED, and the relationship progressed from this point.

CED subsequently lost the Apple distribution business, and the managing director of Renaissance was personally approached to take over the franchise. His enthusiasm, drive and innovative approach were, and still are, considered to be valuable assets. In addition, Apple Computers were not happy that CED's board, that had no experience with computers or the industry, controlled the distributorship.

Though the relationship is primarily with Apple Australia, Renaissance also has a few dealings with the United States. Quarterly reviews are conducted, and 99 per cent of Renaissance's dealings are with Apple Australia's senior management team.

Renaissance has a business division for Apple products within its organisation structure. The decision to run the Apple dealership separately was based on the scale of the Apple business and historical management practice. Employees within the Apple division are responsible for both the product and related marketing activities.

The two companies have a standard distribution agreement that allows Renaissance some control over the New Zealand market and its responsibilities in marketing, sales and the technical side of the business. Within this, all of Apples specifications are adhered to. The relationship is reviewed every few years, dependent on the management changes within Apple Australia.

Revenue potential is the responsibility of Renaissance, but these figures are set with some guidance from Apple Australia. Renaissance consults with Australia when setting targets and basically works on one-tenth of Apple Australia's business. Apple Computers in the United States occasionally imposes targets.

A major influencing factor in the relationship has been the fact that Apple, on a worldwide scale, has moved to non-exclusive agreements. Apple Computers changed the distribution policy, from around 1997 to 1998. The mandate for the change in agreement structure originated from the United States, and it was based on the fact that many of the agreements in Asia were not working effectively. This re-engineering of dealerships has changed the supply model and its whole range of business. In line with this global policy change, Renaissance continues to be the sole distributor of Apple products though they no longer have an exclusive agreement.

After lengthy discussions, Renaissance were granted a new distribution agreement but the word 'exclusive' is no longer used. The distribution agreement between the two companies is for New Zealand only, though the product bundles that are made for the local market would have a reasonable level of saleability in Australia.

Renaissance is considered to be a value-added distributor performing sales and marketing functions for Apple Computers in New Zealand. The aim of Apple Australia is to maximise Apple's working potential in New Zealand, and ensure that customer satisfaction is optimised. Apple Australia continues with the distribution agreement because an excellent level of service is provided.

> "Commitment to the brand has a bigger impact on the relationship with the end user."

The main activities conducted by Renaissance are channel management, distribution, marketing, general brand awareness, major account management, development of new market segments and development of new channels. This includes purchasing and shipping, a financial relationship with Apple, and technical support. All activities are considered important and essential in maintaining customer relationships. Renaissance provides the greatest contribution in the sales and after sales areas, debtor collection, Internet solutions and customer service. The product remains the responsibility of Apple Computers.

Though Apple Australia is responsible for ensuring product and part availability, local customer satisfaction is based on the service provided by Renaissance. The level of experience that Renaissance has with Apple products is very high, and the enthusiasm of key employees is also considered crucial in maintaining an adequate level of sales.

On the whole, it is evident that the relationship between the two companies has played a large role in its continuance. However, this has been supported by sound marketing mix elements.

Product

The 'devotion' that many people demonstrate to Apple products is considered to have been crucial to Apple's worldwide recovery—people who use Apple products appear to have a wholehearted belief in them. Commitment to the brand has a bigger impact on the relationship with the end-user. This relates to image, reaching targets, quality of service and the resurgence of Apple around the world.

Product restructuring has resulted in new products being released every six months. The iMac and other innovative products have had a big influence on Apple's turnaround. iMac is a leader in terms of shape, colour and uniqueness, which appeals to a certain group of individuals. Product innovations are continual and secrecy surrounds the development process. Apple Australia does not receive new product information in advance, which often impacts on key account management.

The product is currently sourced directly from Singapore, and distribution becomes the responsibility of Renaissance, once it reaches New Zealand warehouses. This change in supply has resulted in a superior level of service for the New Zealand market. The product can now be purchased on a build-to-order basis (which had a major influence on the schools market in New Zealand), and stocks are not carried in large quantities.

Products can also be built to order through the online store. This service has been trialled in Australia but it is not offered in New Zealand.

Mass retail has also been utilised in the Australian market with less than satisfactory results. The retailer and Apple were unable to meet each other's expectations, consequently consumers suffered. The relationship with mass merchants has been maintained and technical staff and account managers provide training. Based on this experience Renaissance is hiring one person to be solely responsible for the training of mass merchants in the New Zealand market. The Apple Education Centre (within Renaissance) will also provide training for the entire channel.

Product quality has been an important factor in the successful 're-birth' of Apple usage. Products included in this agreement are desktops, laptops, servers, powerbooks and spares. Portables and desktops are

> **"Senior management also support the channel relationship and Apple Australia is in touch constantly to ensure that the supply chain is sustained."**

tailored for both consumer and professional markets. Desktops are vital and would account for 90 per cent of the business. Renaissance has a high level of experience in all of these product areas—except servers, where continual improvement is required.

A simple 'in-house' product quadrant has been established. This consists of a desktop and portable in each of the consumer and professional markets (see Figure 9). Renaissance is most experienced in the professional desktop range, and it is least experienced in the professional portable and software areas. The market for portables has been developed extensively, and the contribution of portables is likely to increase in the near future. The iMac is an important product in the consumer education sector for desktops.

Apple Computers also has a specific market segment focus. Major segments are education, retail, publishing and commercial. This is again reflected within the local New Zealand market. Renaissance has most of its experience in education and publishing, while Apple Australia has the least of its experience in retail. The contribution of Renaissance to the education market in New Zealand is also very high. The government is an increasingly important segment in the Australian market.

Renaissance has a complaints procedure in place in order to maintain a strong customer focus. In addition, customer surveys and research are conducted with regard to the service offered or such things as the image of the company. Feedback is also provided at roadshows and via a Web site, which is maintained by an independent Apple product advocate.

Distribution

Renaissance sells Apple products through an established indirect channel, and it is, therefore, distanced from the consumer. Contact with end-users is through tradeshows, brochures and seminars. The divisions within Renaissance essentially mean that a reseller may see two sales people, one for Apple products and one for other brands that are sold through the company.

The company trades with a number of authorised resellers throughout the country. It deals with about 1500 computer retailers on a regular basis. Renaissance provides strong support to channel members, but it does not generally support the public in the first instance. Many resellers would be unhappy if direct trading relationships were established with their customers. Any problems that cannot be resolved through the channel are referred back to the Apple support centre within Renaissance.

While sales are typically conducted through resellers, schools are often approached directly. Experts are bought in to support resellers when necessary, and direct support is also provided to the schools in the form of professional development.

The relationship within the distribution channel is maintained through customer service personnel, account managers, product managers and the market manager. Senior management also support the channel relationship and Apple Australia is in touch constantly to ensure that the supply chain is sustained.

Marketing and account management in New Zealand are primarily the responsibility of Renaissance. The

Figure 9 The Apple computer project quadrant

	Consumer	Professional
Portable	iMac	G4
Desktop	iBook	Powerbook

experience of Renaissance is high in these areas, and it is recognised that Apple Australia would not be able to provide the same level of channel support in New Zealand.

As previously mentioned, mass retail has been trialled in the Australian market but it did not produce good results. Both Harvey Norman and Apple could not meet each other's expectations and consequently customers suffered. A relationship has been maintained with mass merchants but the large resource investment and training required for this strategy make it a prohibitive option.

Promotion issues

Internationally, Apple Computers utilises many forms of advertising and media to promote its product range. Brand awareness has been enhanced through product placements in local New Zealand programmes such as *Shortland St*, *5:30 with Jude*, and *Ice TV*. Overseas, placements have appeared in *Drew Carey* and *Sex in the City*. Placements are selected on the basis of fit with the company image. However, in line with international Apple policy, Renaissance does not pay for any of these placements. Apple Computers conducts a lot of Web advertising in its other overseas markets. This has not been a major emphasis in New Zealand. However, overseas marketing efforts and general consumer perceptions also affect the level of local sales. There has also been some local promotion in conjunction with Xtra (Telecom New Zealand's Internet service provider).

People—nurturing the relationship

An effort is made to maintain strong relationships between the two companies. An employee in Apple Australia is responsible for the overall relationship. Renaissance predominantly deals with two people in the Australian office. It has detailed knowledge of what products are sold in the Australian environment, at what prices and what margins.

The two companies share good communication, and have a participative agreement. This includes daily email contact, phone conversations and face-to-face communication each quarter. The Renaissance team attends meetings in Australia once a quarter, and its top management attend Apple Australia executive meetings. Communications with the Apple group are strongly emphasised at a strategic level.

Shared values, the focus and commitment of key individuals, and a high cultural 'fit' provide a strong foundation for this relationship. This is demonstrated throughout the organisation. According to the managing director of Renaissance:

> *'…The whole culture…the way I do business is all tightly relationship based…*
>
> *'It is an open relationship where everyone is treated as though they are one of the "group"—Renaissance effectively became "Apple NZ". Comments made by employees of the two companies reflect this:*
>
> *"…We are all treated like part of Apple and are not treated as a customer…part of the organisation…very free and open kind of relationship…*
>
> *"…The supplier–customer relationship would be one of the most open I have experienced before…*
>
> *"…I see this relationship as better than anything I've ever come across…"'*

Trust, total and open disclosure, and long-term objectives are considered fundamental.

Personnel are considered to be an integral part of the success of Apple Computers. Staff require an understanding of Apple products, and the expectations of consumers. For these reasons Renaissance also specifically recruit a 'certain' kind of person to work on the Apple account.

Meeting expectations

General outcomes sought by the partners in this relationship are market share, sales volume, profitability and strong interactions within all levels of the organisation. Meeting targets while maintaining the Apple name, developing a relationship with the end-user and maintaining the quality of service, including order taking and order filling, are also important. Renaissance has achieved all these satisfactorily.

Success of the relationship is, in part, attributed to the ability of Renaissance and Apple Australia to generate demand and their ability to recruit and retain dedicated staff. The entrepreneurial nature of key staff at Renaissance has also been important in achieving this. As summarised by the finance director of Renaissance, 'What is becoming more important is a strong information system…leadership committed to the success of the relationship and…focus on the customer…'

Renaissance's financial services division uses its financial statements to look at risk assessment, profitability and the success of the company. In some financial years Renaissance has delivered in excess of 100 per cent in quota performance. Sales volume is considered to be the physical volume, in terms of both the transactions and the dollar measurement of units sold. Quarterly targets are also assessed.

Outcomes such as image are not measured formally, but through general feedback from the channel and end users.

Overall, Apple Australia has been highly satisfied with the performance of Renaissance, and do not demonstrate any desire to make changes. As summarised by the national manager of education at Apple Australia:

> *'…Apple Australia and Renaissance have had to struggle through the 1990s with dynamic changes in the IT environment and significant reduction in margins…Renaissance has done a pretty good job of getting hold of those issues and moving forward with them…'*

The success of Renaissance is, in part, attributable to the emphasis on Apple. As the managing director of Renaissance notes, 'We became Apple New Zealand'.

QUESTIONS

1 | Renaissance appears to have retained an arrangement that captures the spirit of an exclusive agreement. What factors have played a role in this?

2 | What general trends can you identify that are likely to impact on Renaissance and Apple?

3 | How important are mainstream promotional activities for Apple Computers?

4 | Can you identify any new market segments as potential targets?

5 | With the financial information provided, evaluate the marketing mix and strategy elements discussed in this case.

6 | Are there any general suggestions you would make to ensure the continuance of this distribution agreement?

endnotes

CASE STUDY 20

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12. David Ford, Lars-Erik Gadde, Haken Hakansson, Anders Lundgren, Ivan Snehota, Peter Turnbull, David Wilson, *Managing Business Relationships*, John Wiley & Sons, Chichester UK, 1999, p. 47.

13. Students should not contact Bangarra Dance Theatre by telephone. For further information, please visit the Web site (*www.bangarra.com.au*). If the Web site does not answer your questions, please write to Bangarra Dance Theatre, Case Study, Pier 4 Hickson Road, Walsh Bay, NSW, 2002.

CASE STUDY 21

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