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Judo in Action

Softsoap[1]

Entrepreneur Robert Taylor founded Minnetonka Corporation in 1964. The company, which sold a variety of soaps and other personal care products to department and specialty stores across the country, went public in 1968. By the mid-1970s, sales were starting to slow. In late 1977, Minnetonka developed the Incredible Soap Machine, which dispensed liquid soap in a pump-operated plastic bottle. With this development, Taylor saw a way to crack the mass market for bar soap, which was dominated by a few large players (Armour-Dial, Procter & Gamble, Lever Brothers, and Colgate-Palmolive) by the late 1970s.

Minnetonka launched Softsoap, its $1.49 liquid soap, in 1980 with a $7 million national advertising campaign. This figure was sizeable, given that Minnetonka's total sales the previous year had been only $25 million. Softsoap's marketing push paid off; Softsoap sales reached $39 million that year. Taylor believed that the liquid soap market would grow to $400 million and that Minnetonka would be able to keep half of the market even after the major bar soap manufacturers launched their own versions of the product.

The U.S. bar soap industry, which had total retail sales of about $1.5 billion in 1977, had experienced little growth or innovation for years. Unsure of consumer enthusiasm for liquid soap from pump-gun dispensers, the big soap manufacturers decided to conduct private trials of liquid soap products rather than go ahead with public launches. In fact, they decided to market the products under different names than that of their flagship bar soap products. Procter & Gamble (P&G), for example, was marketing its liquid soap product under the name "Rejoice."

In 1981 Minnetonka announced a decision to spend $30 million on the promotion and advertising of Softsoap in an attempt to raise sales to $70 million. In comparison, Minnetonka's major liquid soap competitor, Yardley, spent $5 million that year on the launch of its second liquid soap product.[2] In 1981 and 1982, Softsoap remained the market leader, although it began to struggle as the liquid soap segment seemed to plateau.[3]

In 1983, P&G rolled out a liquid soap product carrying the Ivory brand name. With extremely aggressive pricing, trade promotion, couponing, and advertising, Ivory rose quickly to take 30% of the liquid soap market. Meanwhile, Armour-Dial launched a liquid soap under the name "Liqua 4," and it failed. By 1985 Minnetonka still held the lead in what had become a $100 million market.

Professor Kenneth S. Corts and Research Associate Deborah Freier prepared this case from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

In 1987 Taylor decided to sell Softsoap to Colgate-Palmolive for $61 million. That same year, Armour-Dial re-entered the market with Liquid Dial, which quickly overtook Softsoap as the market leader and boosted sales of the segment to $200 million.

Red Bull[4]

"When I stopped university I was 28. But it was a great time. . . . Everybody said I would never finish," laughed entrepreneur Dietrich Mateschitz, founder and chief executive of energy drink sensation Red Bull. Mateschitz first launched Red Bull in his native Austria in 1987. Initially, nightclubs and bars would not take the drink because they perceived it to be a diet product, forcing Mateschitz to focus on traditional retail outlets and then filling stations. Red Bull's popularity took off when he began marketing it to discos where alcohol was prohibited. Soon, snowboarders, windsurfers, and other adrenaline junkies were drinking it in droves.[5]

Rumors began to spread about the drink—that it was made from bulls' testicles and that it was a stimulant akin to ecstasy when mixed with vodka. Mateschitz couldn't have been happier, beaming, "Without the old high school teacher telling his students Red Bull is evil—probably even a drug—it wouldn't seem as interesting."[6] In fact, Red Bull was packed with as much caffeine as a cup of coffee and laced with taurine, an amino acid alleged to make its consumers more energetic and alert. Health experts were split on whether the drink was bad for a typical consumer. The debate took on a more grave nature after three Swedes died after consuming the beverage in 2001, two after mixing the drink with vodka and a third after drinking several cans after a workout.

Already sold in Europe for a decade, Red Bull didn't enter the U.S. market until 1997, when it was test-marketed in California. Red Bull's Emmy Cortes commented, "By the time we actually entered the market, there was a huge underground following."[7] The company took its time to expand and didn't achieve national distribution until 2002. In entering a new market, Red Bull's team would focus on only five accounts in an area instead of pursuing every potential vendor. They sought out the venues frequented by the so-called "in crowd" and connected with colorful locals, such as deejays. The company also employed "consumer education teams" that would drive around in a vehicle emblazoned with the Red Bull logo to provide free samples. In addition, it developed and sponsored "extreme" sporting events, such as Red Bull Cliff Diving and Street Luge competitions.

Just as unique as its marketing strategy was its strategy for distribution. Red Bull decided to build its own distribution network so that it wouldn't be just another drink in a distributor's portfolio. Small distributors created their own warehouses and delivered the drinks in Red Bull vans. Distributors that did carry other products agreed to have a staff dedicated to distributing Red Bull alone.[8]

In the late 1990s, Americans consumed more carbonated soft drinks than any other beverage. The dominant carbonated soft drink producer was Coca-Cola, whose U.S. soft drink sales of $7.5 billion in 1999 cast a long shadow over Red Bull's *worldwide* sales of $483 million.[9] In 1999 the entire U.S. energy drink segment was $75 million, a relatively small percentage of the over $50 billion-dollar soft drink industry in the U.S.[10] Yet, as one analyst pointed out, "Just because a market is small doesn't mean Coke and company aren't watching it." Another analyst concurred, with her assessment that "Coke and Pepsi have a tendency not to create a category like this. . . . But, if they thought a drink maker was threatening a small part of their market, they'd take it over."[11] The segment also appealed to the soft drink manufacturers because it promised high margins and premium prices, while two-liter bottles of soft drinks sold for 99 cents. Regarding the threat of the entry of the cola powerhouses, Red Bull's Cortes remarked, "By the big boys coming in, it really just validates and justifies the category. . . . One of the things we pride ourselves in is we have one focus. We have one flavor, one formula."[12]

In October 2000 Coke announced that it would introduce an orange-colored citrus-flavored energy drink by the end of that year in some states. Called KMX, the drink would target active 19- to 29-year old males.[13] A month later Coke launched another high-energy drink, dubbed Burn, in the U.K. and Australia. In contrast to Coke's huge and wholesome marketing strategy for its cola, it decided to rely on secrecy and mystique to create buzz for its energy drinks. It wouldn't discuss the details of the ingredients of these drinks and wouldn't say exactly where the drinks would be sold. For example, a fact sheet on KMX provided by the company explained that the name "has no definitive meaning," but "connotes energy, music, and technology."[14] "We're trying to keep it very low-key," said Coke's Andrew Coker.[15]

In addition to Coke, several others, including Anheuser Busch and Arizona Beverages, had plans to roll out new energy drinks. Anheuser Busch hoped to enjoy an advantage because energy drinks were sold in many of the same outlets as its beer; the brewer's exclusive distributors, which generate 60% of its annual beer sales, would have a product to counter Red Bull.[16] Anheuser's Busch's name would appear only in small type on the back of the can of its energy drink called One-Eighty.

By 2001, the energy drink industry in the United States had grown to a $275 million industry; it had virtually doubled in *each* of the previous five years.[17] Red Bull controlled about two-thirds of the energy drink market but accounted for a mere 0.1% of the carbonated soft drink market. Coke and Pepsi continued to dominate this category with respective shares of 43.7% and 31.6%.[18] Nonetheless, Red Bull's U.S. sales in 2001 grew by 118% from the previous year,[19] while overall soft drink volume only grew by a dismal 0.6%.[20] Coke and Pepsi suffered market share declines of 0.4 points and 0.2 points, respectively, and both experienced declining shares for their flagship cola brands.

U.K. Petrol Price War[21]

In the 1980s, three types of companies owned retail gasoline stations in the United Kingdom: vertically integrated oil companies (e.g., Shell, Esso, British Petroleum); supermarkets; and independent retailers. Each group occupied a distinctive market niche, with the latter two groups focused on suburban and rural markets, respectively. Thus, competition was mostly within a group rather than between groups. Even within groups, players had been careful not to start price wars because margins were so low to begin with.

The integrated oil companies had traditionally accounted for a vast majority of retail gasoline stations. By the early 1990s, however, supermarkets had begun to expand their retail gasoline operations aggressively, using low gasoline prices to lure customers into their stores. As the supermarkets attracted customers formerly loyal to the integrated firms, their share of the market rose from less than 1% in 1980 to over 6% in 1991.[22]

As the largest player in the market with 21% market share, Esso had to decide whether to accommodate the expansion of the supermarkets or to fight them. Fighting would entail lowering its margin from the current 6 Pence Sterling per Liter (p/L) down to 4p/L. On the other hand, Esso thought that by fighting, it could prevent its share of the market from falling below 18%. Esso worried that fighting the supermarkets might inadvertently cause a price war within the group of integrated oil companies. Such a price war meant that margins could drop to as low as 2p/L. As Esso pondered its decision, the supermarkets kept expanding due to their substantially lower prices, reaching a 20% share in 1995.[23] Esso's share of the market dropped to about 16%.[24]

In August 1995, Esso responded by launching a program that was dubbed "Pricewatch." Launched only in the northeast of England and in Scotland, the program was a promise that prices at Esso's sites would match the lowest price being offered by supermarkets within three miles of the site concerned, and by roadside sites (integrated firms or independent retailers) within one mile. Esso would check over 10,000 fuel prices every day to ensure that it offered a better deal than its rivals.[25] By September, pump prices had plummeted, with margins falling by over 5p/L. Bruce Petter, director of the Petrol Retailers Association (PRA) warned, "It is an out-and-out price war which will only end in tears. It is the sign of a company desperate to buy back lost market share." Newly elected PRA president Paul Sykes assessed the situation as follows: "Experience shows that such campaigns cannot be confined to specific areas. I expect other oil companies will react to protect their market share and the only long-term effect of Esso's action will be to drive down prices that are already depressed."[26]

Esso's Pete Szanto insisted that the program was in response to a dramatic shift in consumer preferences. "There has been a change in the balance between the importance of location and the importance of price. Location used to be the most important criterion in buying petrol but people are showing a tendency to drive further and further for lower and lower prices." [27] In January 1996, Esso decided to extend its Pricewatch program to all of its 2100 filling stations.

The program triggered an immediate price-cutting reaction from rivals Shell and BP. Shell announced an overnight price cut of 4p/L. BP cautioned that it would do "whatever it takes." Unable to withstand the price competition, independents started closing at a rate of about 1,000 per year.[28] The Pricewatch program was estimated to have cost Esso £200 million in profits (about one-third of its profits) in 1996. Esso did claim that it was able, however, to recapture about one million customers.[29]

AOL vs. Freeserve[30]

Steve Case had a vision when he founded AOL in 1985: to make the Internet easy and fun-to-use, and as central to modern human existence as the television and the telephone. By the late 1990s AOL offered its users interactive news, entertainment, information, shopping, buddy lists, e-mail service, electronic chat capabilities, and parental controls—all for under $30 a month. Distributing millions of free trial disks and CDs, AOL had the world's largest Internet Service Provider (ISP) membership base, at 8.6 million members, by the end of 1997.[31] Membership fees represented well over two-thirds of AOL's revenues, as it only collected $4 to $5 per user in advertising and e-commerce revenues, a sum that would not even cover the $5 to $9 AOL spent in direct network costs per user each month.[32]

After 10 years of serving the U.S. market, AOL ventured out into the international scene in the mid 1990s. Its foray into the European market came in the form of a joint venture with Bertelsmann, the world's third largest media company. By the fall of 1998 AOL held up the British market as an example of one of its international success stories. With about 800,000 subscribers, AOL (including its CompuServe subsidiary) was the leading ISP there. Most European users spent only a fraction of the time online that U.S. users did, because they had to pay for local telephone calls by the minute, in contrast to the flat, monthly rate charged in the United States.[33]

In September 1998, AOL Europe's dominance in the British market faced a major threat, in the form of the launch of a new "free" ISP that enabled users to go online for just the cost of a local telephone call. Dubbed Freeserve, the service was launched by Dixons, Britain's leading electronics retailer, who offered every customer who bought one of its computers a free CD that contained the online service. "The current level of e-commerce is insignificant for most retailers, but it might become significant . . . if it does, we have to be there playing a dynamic role," said Dixons' John Pluthero.[34] To sustain itself without collecting any fees from its members, Freeserve exploited the British telecom regulation that required a company that originated a call (usually British Telecom) to share a portion of its revenues with the company that terminated the connection.[35] In exchange for the massive increase in traffic expected from Freeserve's customers dialing up to the Internet, Energis, a company that terminated telephone connections, agreed to transfer a portion of its call revenue back to Freeserve.

Freeserve offered consumers unlimited Internet access, an unlimited number of e-mail addresses, and 5MB of Web page capacity. Freeserve also launched its own home page, which initially contained news content, along with search features and other content from Lycos and retailing from shopping channel Scoot. However, its content and features paled in comparison to those of AOL.

AOL publicly tried to shrug off the competition. AOL president Bob Pittman remarked, "It's like Tiffany's saying it's worried about Wal-Mart."[36] AOL also attacked Freeserve's definition of "free," saying that it masked the high charges that Freeserve users paid for telephone technical support, which was included in the AOL service. Managing director of AOL U.K. Jonathan Buckley remarked, "If I was a straightforward ISP, I would be more concerned. [With Freeserve] there is no support service, parental control facilities built into the software, or added-value content."[37]

Within three months of its launch, Freeserve overtook AOL Europe. By January 1999, Freeserve had one million customers, and 8,000 subscribers were signing up every day. With more than 1.3 million accounts, Freeserve was more than twice the size of AOL Europe by the summer of 1999.

In June 1999, AOL responded by cutting its British monthly fee of $27 by more than 40%. In September, AOL launched a free ISP service, Netscape Online, which would compete head-to-head with Freeserve at the low end of the market. Unlike the flagship AOL service, which was targeted primarily at mainstream consumers and families, Netscape Online was aimed at younger Internet users who were technically adept and did not require much support. Subscribers would receive Netscape's latest browser, e-mail client, and Web-page-designing program Netscape Composer, as well as 20MB of free space. While some content providers might have a presence on both Netscape Online and AOL, they would, most likely, not offer the same content. "We don't expect much switching over; this is a new slice of the pie," assured AOL Europe Chief Executive Andreas Schmidt.[38] By February 2000, 400,000 users signed up for Netscape Online. Over the same period, AOL U.K. added 200,000 accounts, while Freeserve grew by about 370,000 users. Freeserve had 1.7 million users, but AOL/Netscape was close behind with 1.6 million.[39]

In September 2000, AOL began offering unlimited online access via a toll-free number for a fixed monthly fee. Freeserve matched AOL by charging an even lower monthly fee. Unable to withstand the operating losses that ensued as a result, Freeserve announced on December 6, 2000, that it would be acquired by Wanadoo, France's largest ISP, for GBP 1.65 billion. The terms disappointed Freeserve investors because the offer valued each Freeserve share at 157p, well off the 921p high during the Internet share-price boom.[40]

Endnotes

[1] This section draws heavily from the following case: Adam Brandenburger and Vijay Krishna, "Minnetonka Corporation: From Softsoap to Eternity," HBS No. 795-163 (Boston: Harvard Business School Publishing, 1995).

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[3] "Liquid Soap's Bubble May Be Bursting," Business Week, March 1, 1982.

[4]This section builds on "Red Bull's Charge," by Kari Feldman, Jamie Herbstman, and Hunt Doering (MBA course paper for *Changing the Game*, Harvard Business School, Fall 2001).

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[7] Niz Proskocil, "Extending the Buzz," *Omaha World-Herald*, February 5, 2002.

[8] Kenneth Hein, "Red Bull Charging Ahead," *BrandWeek*, October 15, 2001.

[9] Monaghan.

[10] Proskocil.

[11] Monaghan.

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[16] Greg Johnson, "Energy Drinks Surge in Popularity Trends," *Los Angeles Times*, December 16, 2000.

[17] Kenneth Hein, "Red Bull Charging Ahead," *BrandWeek*, October 15, 2001.

[18] Proskocil.

[19] "Red Bull's Roar Heard in America," *Bangkok Post*, March 14, 2002.

[20] Scott Leith, "Cola Wars," *Atlanta Journal*, March 1, 2002.

[21] This section builds on "Esso Price-Watch," by Amee Chande and Elanor Hardwick (MBA course paper for *Changing the Game*, Harvard Business School, Fall 2001).

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[25] "ic24 offer—Price Watch," Mirror, 15 May 2000; David Steele, "Petrol Price War Fuelled By Supermarket Cut," *The Herald* (Glasgow), December 7, 2000.

[26] "Petrol Price War Will Hit C-Stores," *The Grocer*, September 9, 1995.

[27] Cope.

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