Hartmann Luggage Company

Case Study

A

Prepared by
Glen Cooper

General

The specific question in this case is whether or not Hartmann Luggage Company (HLC) should continue its price promotion advertising strategy. In a more general sense the question relates to whether HLC should pursue a push or pull marketing strategy. In order to analyze the company's strategy a review of the following internal and external factors will be conducted: company objectives, consumer demands, industry and competitor situation, company distribution channel, company product line and pricing strategy, and company communication program.

Company Objectives

HLC is a manufacturer of high quality and durable luggage. In keeping with the high quality image HLC manufactures a limited product line. In 1980 the company offered only nine men's and women's styles of luggage (total pieces available within these styles totaled 93).

Mr. Katz, the company's president, established three company goals: 1. increase share of high-quality luggage market, 2. produce an earnings growth rate of between 25% to 30%, and 3. establish pricing policies that will "...make each piece stand on its own two feet."

Consumer Analysis

Findings from a market research study conducted in 1977 by Luggage and Travelware indicated that a large portion of consumers (i.e. 75%) purchased luggage in either department stores or in specialty luggage stores. Additional findings showed that about half (i.e. 41%) of luggage owners received their luggage as a gift and 69% where motivated to purchase because their current luggage was the wrong size and not because it had an "out-of-date appearance." Consumers appear split on the importance of price with 31% citing it as most important and 21% citing it as least important. Finally, about half (i.e. 48%) believed they would purchase based on advertising or brand recognition.

HLC conducted its own survey based on warranty cards on file in 1976. This survey generally followed the Luggage and Travelware study in relation to where purchases were made and that luggage was often received as a gift. In addition HLC survey identified its customers as between 26 to 55 years old and having a consciousness for style and durability.

In 1979 HLC conducted a telephone survey which showed a HLC awareness of about 5% as compared the American Tourister and a Samsonite awareness of 90%.

Industry statistics indicates that luggage sales are vary seasonal with most sales occurring between May and June, (HLC 1979 percentage 19.2) and between November and December (HLC 1979 percentage 28.6).

In summary it appears that the average HLC customer is between 25 and 55 years old, is purchasing luggage as a gift item about half the time, is shopping in department stores or in specialty luggage stores, is concerned about quality, and is making their purchases either in May, June, November, or December.

Industry and Competitor Analysis

The industries total luggage sales for 1980 were $664 million of which HLC had a market share of 3.74% (see Exhibit 1). The industry is forecasted to grow by 9% in 1981.

Imported luggage captured 29% of 1980 luggage sales but these were generally of lower quality which is a market segment in which HLC does not compete. However, many retailers are beginning to praise the quality of certain Italian and South American luggage.

Other trends in the industry indicate that soft-sided luggage is becoming increasingly popular and that women, who are generally more fashion and style conscience, are increasing their purchases of luggage.

The industry's dominate competitors are Samsonite and American Tourister (AT) with 1979 sales of $140 million and $85 million, respectively. Both these firms price their luggage at about 75% of HLC's highest priced line and about 14% of its lowest priced line. Both Samsonite and AT send approximately 2.5% of sales on national and other advertising. Additionally, Samsonite and AT held several promotions per year by offering retailers discounts on some or all pieces within their lines.

HLC competes directly with two producers of high quality luggage, Lark and French. Lark had estimated 1979 sales of $20 million and French had 1979 sales of $6 million. Generally these firms did less advertising than HLC. Both Lark and French held vary few price promotions. French did not advertise nationally. Lark had an estimated advertising budget of 3% of sales compared to HLC's 5% budget.

Another foreign competitor with estimated 1979 sales of $8 million was Louis Vuitton. This firm competed primarily with HLC's ultrasuede line.

Hartmann Luggage Company's Distribution Channel

HLC distributed its products through 100 leading department stores and 485 (1600 separate outlets) luggage specialty shops.

HLC's sales force was made up of 16 territorial managers reporting to four regional vice presidents (2/3 of the V.P.'s time is devoted to selling) which in turn reported to Mr. Schuster, HLC's vice president in charge of marketing and sales. An estimated salary expense for the four regional V.P.s and 16 territorial managers is $680,000 per year (see Exhibit 2). Each manager made several visits per year to the customers within their regions as compared to Samsonite and AT sales people who visited their customers once or twice a year and acted primarily as order takers.

Product Line and Pricing

As was mentioned previously, HLC offers only a limited number of luggage lines and all lines are in the higher price category.

Exhibit 3 indicates that HLC has a marginal income ratio of .67. Thus HLC should expect some response to share gaining attempts but not necessarily strong responses. HLC has an estimated contribution margin of 44% compared to the industry average of between 25% to 30%.

Current Communication Strategy

Push Strategies

HLC has a two pronged push strategy. First it has involved 482 retail outlets (50% of HLC's sales) in a retail merchandising program. Second it distributes a luggage retailer cost structures sheet comparing HLC's retailers margins to the competition.

The retail merchandising program sets jointly determined sales goals for the retailer and when these goals are reached rewards the retailer and sells people with trophies and free luggage. HLC estimates this programs cost at .25% of factory sales or approximately $62,000 for 1980 (based on estimated sales of $24,811,000 see exhibit 1). Additionally, HLC offers the retailer training programs which suggest that sells people start by attempting to sell customers the higher priced luggage first and work downward to the lower priced luggage.

The luggage retailer cost structures sheet is simply a flyer distributed to retailers showing them how their profit margins on HLC luggage compares with the competition.

Pull Strategies

HLC has two approaches to its pull strategies. One approach is to advertise and the other is to offer price promotions (including gift with purchase and purchase with purchase promotions).

HLC estimates that it spends 5% of sales on national advertisements, cooperative advertisements, trade ads, merchandising sheets, and other sells ads. In 1980 HLC took out ads in 10 publications during the spring at a cost of $708,840, and ads in 6 publications during the fall at a cost of $941,160. The total cost for 1980 was $1,650,000.

HLC also offers coop advertising. Generally, HLC controls the content of the ads and requires that HLC name be featured in the headlines. Unlike Samsonite and AT, HLC does not reimburse retailers for newspaper ad. The estimated 1981 cost of coop advertising is $130,000. HLC does not aggressively promote its coop advertising program.

During May and June of 1976 and 1977 HLC offered purchase with purchase promotions. These generally appeared successful however retailers complained about having left over promoted items which were difficult to sell at standard prices.

During April and May of 1978 HLC offered retailers a 20% discount on the 4200 series. This sales was not advertised national by HLC but retailers ran newspaper ads. Of the 75,788 sold to retailers during this promotion 99% were sold at discounted prices to the consumer. During April and May of 1979 HLC again offered retailers a 20% discount on four of HLC's most popular carry-ons. Backorders on this sale were filled as late a June and it was estimated that production would have to begin six months in advance to have enough inventory to cover increased demand if such a promotion was offered again.

During June of 1980 HLC manufactured speciality nylon pieces and offered a 20% to 25% discount from the similar 4400 series. Only 14,400 of these promoted items were sold.

Conclusions and Recommendations

Consumer, Product Line and Pricing Analysis

It appears that HLC has properly identified its customers and is suppling them with the type of high quality luggage they desire at the locations where they prefer to shop. Additionally, HLC's current pricing appears appropriate. Although, the disparity between HLC's margin and the industry average provides HLC with the opportunity to lower its price to retailers and thus provide both a push to retailers who will benefit from the higher margins offered to them and a pull to customers as some retailers will surely reduce their retail price. However, I do not recommend this approach as it does not fit with the firms high quality image.

In regards to product line decisions, I suggest that HLC consider dropping its ultrasuede line due to the declining sales of this line. As this product line is in the higher end price range I do not believe it would be within HLC's image to replace it with a lower priced line. Therefore, I suggest that HLC not offer the brightly colored casual luggage designed by Gloria Vanderbilt. Perhaps an up scale designer luggage piece would help fill the ultrasuede market. By dropping this line HLC also allows its foreign competitor, Louis Vuitton, to continue servicing this market which appears at the end of its life cycle. This strategy may keep Louis Vuitton from introducing newer products while freeing HLC's resources to invest in such newer more fashionable merchandise.

Communication Strategy

In order to meet Mr. Katz's goal of between 25% to 30% earnings growth rate in an industry that is forecasted to grow at only 9% in 1981, HLC will need to attract customers away from the competition. In a market were strong efforts to increase market share through price reductions may be met with competitive responses it appears that HLC would profit most through advertising. As HLC's major direct domestic competitors do not appear to be focusing on brand recognition, an opportunity exists for HLC to gain market share through product promotion. It should be noted that foreign competition does not appear to be a current treat but HLC should closely monitor these firms' activities. Finally, although HLC does not directly compete with Samsonite or AT, the strong brand recognition of these two organizations is probably pulling many of HLC's potential customers away from HLC's product line.

In order to change HCL's merchandising strategy to a more pull oriented approach, I recommend that HCL offer two precentage off price promotions per year, increase its emphasis on advertising, and decrease its emphasis on retailer push strategies.

In order to increase its advertising effort HLC will need to cut back in other areas. I suggest that HLC reduce its number of territorial managers. It is not necessary for the managers to visit customers as often under a customer pull strategy. Such a reduction in sales force would free up money for advertising.

Additional resources can be saved through the de-emphases of the retail merchandising program. Although retailers appear receptive to this program, as I suggest above, the focus of HLC's marketing should be on brand recognition strategies (i.e. advertising and price promotions) and not on retail pull strategies. However, I do view the cost structure sheets as an inexpensive pull strategy and suggest their continuance. HLC may want to consider developing additional sales support material which can be distributed by HLC's sales people when they visit retail customers. The retail sales training program also appears to be an effective inexpensive pull strategy and HLC may want to continue it.

As part of a brand recognition campaign I suggest that HLC liberalize their advertising program by supporting newspaper coop ads and, in general, begin more aggressive promotion of coop advertising.

Because HLC has limited experience with purchase with purchase promotions and because of the retailers complaints, I suggest discontinuing this alternative at this time.

In regards to the consultants study of the most recent 4200 price discount promotion, I disagree~~s~~ with Mr. Katz that the fixed overhead should be included in the analysis as these costs will be incurred under any situation. However, I do agree that the incremental advertising and selling expense, the cannibalized 4400 unit sales, and the inventory savings should be included in the analysis. Assuming that the actual incremental unit sales is somewhere between Mr. Schuster's and the consultant's estimates, say half way between, the price reduction promotion still produced substantial contribution (see Exhibit 4). Thus the discounted price promotions appears to be HLC's best strategy. I suggest that HLC only offer in-line promotions thereby reducing retailers concerns about the ability to sell new product lines and maintaining HLC's image as a high quality limited line manufacturer.

Mr. Schuster believed that promotions on narrower selection of luggage targeting specific consumer groups would increase profits. I concur. I suggest running two price promotions. During the Christmas season the higher priced lines should be discounted while during the wedding and graduation period the lower priced lines should be promoted. I suggest running one promotion during either November or December and the second promotion during March and April. The latter dates avoid conflict with the AT and Samsonite May through June promotions.

It appeared that retailers were overbuying at discounted prices and than selling excess inventory at regular prices after the promotion. I suggest that any price promotion limit the quantity orders of retailers at discounted prices to the forecasted increase in sales due to the promotion and that HLC produce enough inventory to fill these projected orders.

EXHIBIT 1

MARKET SHARE ANALYSIS

MEN'S STYLES	UNIT SALES	'80 RETAIL PRICES	EXTENDED TOTAL	MFG PRICE 44% MARGIN
4700	11,688	415	4,850,520	2,134,229
4800	7,340	315	2,312,100	1,017,324
4400	73,248	215	15,748,320	6,929,261
4200	750	150	112,500	49,500
4200	89,998	140	12,599,720	5,543,877
		TOTAL MEN'S		15,674,190

WOMEN'S STYLES	UNIT SALES	'80 RETAIL PRICES	EXTENDED TOTAL	MFG PRICE 44% MARGIN
4800	5,402	295	1,593,590	701,180
4400	62,134	185	11,494,790	5,057,708
4200	15,756	130	2,048,280	901,243
4200	46,910	120	5,629,200	2,476,848
		TOTAL WOMEN'S		9,136,978
		TOTAL SALES		$24,811,169
		TOTAL INDUSTRY SALES		$664,000,000
HARTMANN'S DOLLAR MARKET SHARE				3.74%

EXHIBIT 2

ESTIMATED SALES FORCE EXPENSE

SALES SALARIES OF FOUR REGIONAL V.P.s	
ANNUAL SALARY	$45,000 (1)
NUMBER OF V.P.s	4
TOTAL	$180,000
PERCENTAGE TIME SPENT SELLING	67%
SUBTOTAL	$120,000
SALES SALARIES OF 16 MANAGERS	
ANNUAL SALARY	$35,000 (2)
NUMBER OF MANAGERS	16
TOTAL	$560,000
PERCENTAGE TIME SPENT SELLING	100%
SUBTOTAL	$560,000
TOTAL SALES FORCE EXPENSE	$680,000

(1) CASE PREPARES ESTIMATE
(2) BASED ON AN AVERAGE ANNUAL SALES OF $1.5 MILLION IN SALES.

EXHIBIT 3

CALCULATION OF MARGINAL INCOME RATIO

		UNIT SALES	'80 RETAIL PRICES	EXTENDED TOTAL
MEN'S	4700	11,688	$415	4,850,520
STYLES	4800	7,340	$315	2,312,100
	4400	73,248	$215	15,748,320
	4200	750	$150	112,500
	4200	89,998	$140	12,599,720
WOMEN'S	4800	5,402	$295	1,593,590
STYLES	4400	62,134	$185	11,494,790
	4200	15,756	$130	2,048,280
	4200	46,910	$120	5,629,200
TOTALS		313,226		56,389,020
		UNIT SALES		313,226
		WEIGHTED AVERAGE RETAIL PRICE		$180
		MARGIN		44%
		WEIGHTED AVERAGE MANUFACTURES PRICE		$79

MARGINAL	INCOME RATIO (MIR) =	
	MANUFACTURES PRICE	79.21
LESS	VARIABLE MANUFACTURING COST	25.75
DIVIDE	MANUFACTURES PRICE	79.21
		.67

EXHIBIT 4

ANALYSIS OF 4200 PRICE PROMOTION

UNIT COST PER CONSULTANT:

DIRECT LABOR		
AND RAW MATERIAL		$25.75
ALLOCATED:		
ADMIN AND OVERHEAD		4.79
AVERTISING		1.73
SELLING EXPENSE		2.42
TOTAL		$34.69
LESS ALLOCATED		
ADMIN AND OVERHEAD		4.79
		$29.90
DISCOUNTED SELLING PRICE		$41.60
RECALCULATED UNIT COUST		29.90
CONTRIBUTION PER UNIT		$11.70
INCREMENTAL UNITS SOLD		
PER CONSULTANT	26,828	
PER MR. SCHUSTER	49,760	
	76,588	
DIVIDED BY	2	
AVERAGE		38,294
SUBTOTAL		$448,040
LESS CANABLIZED 4400 SALES		40,366
ADD INVENTORY SAVINGS		16,068
TOTAL ADDITIONAL		
CONTRIBUTION		$423,742

excellent
analysis