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HBR CASE STUDY

What's the best marketing strategy for Rose Partyware?

A Rose by Any Other Name

by Daniel B. Stone

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Rose Partyware's largest retail customer has decided to create a private-label line of party goods—and wants Rose to manufacture it. Should Rose put its efforts behind its own brand instead?

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Tom Rose hated to go to a meeting with ice cream on his pants. But Rose Partyware's after-school party—a monthly gesture of goodwill to the local community and, not incidentally, a field trial for products the company was developing—had confirmed his suspicions that one of the new ice-cream bowls was just too shallow. The five-year-old who had demonstrated that fact had been sitting right next to him.

So here he was getting ready to listen to a major presentation, with paper towels in his hands. "Go ahead, Cassie," Tom said to his marketing director. "It'll dry or harden—or something. Thankfully, it's my last meeting of the day!"

He could tell that Cassie Martin was excited about the presentation she was going to make to the top management team. Tom had personally recruited her about a year ago to spearhead the biggest strategic initiative in Rose's history: the launch of a branded line of party ware. In fact, it was the first time a company in the party goods industry had contemplated a branding effort, at least in the 30 years Rose had been in business.

Party Lines

Rose manufactured a wide variety of paper goods—plates, bowls, cups, napkins, tablecloths, favors, crepe-paper streamers, and so forth—for birthday and holiday parties and other social events. Tom's uncle, who had worked for one of the largest paper companies in the United States, had started Rose in the 1970s. He had personally driven the company's growth until eight years ago, when he died suddenly, victim of an automobile accident.

A few years before the tragedy, Tom had joined the company—never expecting to stay long. He was freshly graduated from a liberal arts college and intended to work for a year

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while considering options for graduate school. Because he'd minored in art, Tom chose to work in Rose's design and graphics department. But as the year wore on and turned into another year, he was drawn more and more to the management issues Rose faced. His uncle soon had him spending time in the field, going on sales calls to better understand the needs of parents and brides and grooms to be, as well as those of the shop owners who helped make their parties happen. Before long, Tom was making his mark in Rose's sales department and was clearly being groomed to take on more responsibility.

When the company's patriarch and chairman suddenly passed away, the Rose family found itself turning again and again to Tom, the only family member who worked for the company. As they slowly absorbed the shock, a consensus emerged that he should take over the top slot. Tom reluctantly agreed. He persuaded his college roommate, Jerry Davis, who was then working for one of the country's largest accounting firms on the West Coast, to join him as chief financial officer but otherwise left the senior management team unchanged.

After a challenging first year learning the ropes as head of the company, Tom got Rose back onto the growth path disrupted by his uncle's tragic death. Over the next five years, he helped it realize annual gains in revenues and profits. That was not an easy achievement in the party goods industry, which was one of the last frontiers of entrepreneurship. Hundreds of small companies sold full partyware lines or a few specialty products at throwaway prices, and new competitors appeared and disappeared regularly. They all competed for the attention of mass retailers, drugstore chains, and big regional grocers, as well as for independent retailers that sold party products through storefronts, catalogs, home-based distributors, and Web sites. The independents ranged in size from a few superstore chains with many outlets focused solely on party supplies to lots of owner-managed single stores that got by on sales of a few thousand dollars a month. Rose, with its high-end printing capabilities and great trade relations, was one of a handful of big players in the industry. It employed 300 people in its single plant and distribution centers around the country, and it was a pillar of the upstate New York town where it was headquartered.

Brand-New Capabilities

It was during a visit to Drupa, the German printing and paper trade fair, that Tom spotted his opportunity to break out of the pack. A vendor at the show was talking up its next-generation digital imaging technology, which took color files from the pre-press network and put them directly onto the printing press, thereby eliminating the expensive filmmaking process. That approach was still in prototype, but it held out the promise of speeding up production, making shorter print runs viable, and bringing down costs. Best of all, Tom thought, it might actually enhance the printed product's quality.

He decided to go with his hunch, and with the help of some expert consulting engineers, his production team modified the new machines to work with some of the trickier—and more eye-popping—inks and finishes. The results proved to be better than Tom had hoped: Abstract designs on the party ware seemed to glow, and popular characters, like Harry Potter and Frodo Baggins, acquired a near three-dimensional effect. When Rose test-marketed the new party-ware designs, consumers loved them, and all participating retailers said they would give the new line a lot of display and merchandising support.

That emboldened Tom, who had become increasingly concerned about the fact that Rose sold its party ware under generic labels like Your Birthday, Your Wedding, and Your Anniversary. The company's name—*his* name—appeared only on a small sticker on the back of the plastic packaging, almost as an informational afterthought. Tom felt that the new line presented a great opportunity to undertake a major branding effort. Having a strong brand, rooted in a quality advantage, would allow Rose to stay ahead of its rivals even when, sooner or later, they caught up with its printing capabilities.

When Tom asked around at conferences and trade shows about a person to lead his branding initiative, Cassie's name kept cropping up. People praised not just her creativity but also her business grounding: She had left a fast-track career in a market research firm to get her MBA. After B school, she joined a high-end toy-store chain, Toy Pile, and was credited with turning it into one of the top five in the industry.

Everything's Coming Up Roses

Tom was now seeing the evidence that his instincts had been right; Cassie's slides told a great story. She'd spent the better part of a year putting together Rose's fledgling marketing department and preparing for the launch of the branded line. She had researched customers, trade partners, and retail chains and established relationships with advertising and market research agencies, promotion houses, and merchandising firms. Customers loved the brand concept, Cassie was able to report with authority. They saw it as bringing a trust factor to party ware—as Crayola had done to crayons and Elmer's to glue.

"Virtually all our retailers, too, responded positively," crowed Cassie, as she moved on to the next slide. "The party stores and retail chains saw branding as bringing order and excitement to what is pretty much a hodgepodge today. The independents loved the idea of advertising behind a brand they could feature."

"The only bad news," Cassie continued, "is that establishing our brand is going to be more expensive than I had budgeted for. After conducting the advertising and promotion tests, we've found that we need to deliver the message more often in the first two years. In the toy business, I could concentrate communications around the holiday season. To make a party goods brand click in people's minds, we have to appear in a variety of magazines—for parents, brides, teens, and more—throughout the year. We have to grab people whenever they're thinking about throwing a party." Cassie passed the ad agency's creative presentation around the table to all the meeting members. Most of the group had seen one or two of the ads, but the reality of the full campaign created an instant buzz.

"My recommendation would be to fund this additional expenditure with a small price increase on all the branded items." She put up a new slide. "As you can see, my figures show that we should be able to accomplish our objectives with a price hike in the range of 6% to 7%. In your presentation books, after the cost estimates, I have included studies of half-a-dozen brands that sell at premiums to nonadvertised competitors and still lead their markets. Our price differential would be less than all those cases."

"I don't know about that, Cassie." It was Jerry Davis, the CFO. "Party ware has always been a commodity business, and pricing above the market scares me. When people are hurriedly comparing paper items for a party, they will always opt for the cheaper product."

"Customers say that isn't true," Cassie countered. She switched to a slide that underscored the point. "In our studies, they consistently indicated that they were willing to pay even more for our branded products than I'm suggesting."

"What they say can be different from what they do," Jerry replied. "Sure, they'll take a stand on quality when speaking to a researcher, but when they're buying disposable stuff for 20 little kids, it's easy to say, 'Who'll notice the difference?'"

Tom interceded. "Jerry, you've put your finger on a key decision point. But I want to give everyone a chance to digest what Cassie's presented. As you know, we're reconvening next week to wrestle this to the ground." He thanked Cassie for her excellent presentation and adjourned the meeting.

A Thorny Issue

As Tom made his way back to his office, his national accounts manager, Hank Lewis, caught up with him. "Got a minute?" he asked.

"This may complicate things a bit," Hank said, as he shut Tom's office door behind him. "Remember I was out calling on Party! yesterday?" He was referring to one of Rose's largest customers. "I got back just in time for Cassie's presentation. The thing is, Party! has decided to get into private labeling in this category. It's planning to offer customers a complete line of party goods under its own name."

Seeing Tom wince, Hank hastened to continue. "Yeah, that's the bad news. But the good news is, they want us to do the production. They'd just be doing the designing and setting the specs."

"But that's not our business, Hank," Tom replied, a little sharply. "We've always been marketers and designers, not just pressmen."

"Better listen to the full story," advised Hank. "Party! is going to do this with or without us. The company plans to give its store line lots of space and merchandising support and sharply reduce the number of other party-ware lines it carries. If we're the supplier, we're guaranteed one of the remaining positions. If we're not, there are no guarantees. I don't need to remind you that's about 20% of our sales."

Having Tom's full attention now, Hank filled in more details. The retailer, he reported, would initially test the line in 100 of its stores. If it did well, the company would roll it out to all 300 outlets. "Party! will price the products on a par with the other lines, including ours, but it's proposing to pay us 15% less than it does now. Still, we wouldn't have to spend any promotional dollars on those sales, and the volumes could be huge. The price difference and the promotional spending about balance out, and, net-net, I figure it would be a good-sized win for us."

"Okay," countered Tom, "but you're not thinking of our setup costs to do it. And it sounds to me like you're counting on sales of our own lines holding steady. Won't Party! be cannibalizing a lot of them?"

Hank pressed the case again. "No question, Party! will be a gorilla of a rival, but like I said, the stores will carry fewer other lines. I think we could hold our own," he said, getting up to go. "Maybe even do a little better."

Behind Every Successful Brand

As Tom drove home that night, it struck him that he faced an either-or proposition; Rose didn't have the capacity, he was sure, to undertake Cassie's branding initiative and respond to the Party! opportunity at the same time.

Lost in thought, he nearly forgot the promise he'd made to his daughter to pick up supplies for her school project. He ended up backtracking a mile to OfficeMart rather than going home without the requisite three colors of poster board and markers.

On his way to the register, Tom stopped short in front of a section devoted to writing tablets. Six brands were on display, but the top shelf and the two bottom rows all bore the same name: OfficeMart. Tom also saw a neat display of OfficeMart scratch pads when he got to the end of the notebook aisle and a stack of smaller OfficeMart notepads near the register. He thought back to something Hank had said as he left Tom's office: "You're always saying we should look for the opportunity in every setback. Maybe there's a bigger business for us in this private-label stuff than just this one account."

It was hard to argue with Hank's assertion. If the Party! store brand caught on, all the other mass and party chains might want to launch private-label brands, too, and quickly. In that case, Rose could be the supplier of choice—the one that had already figured out how to do it and represented the lowest-risk partner.

The next morning, Tom decided his first conversation should be with Marge Dinson, Rose's sales director for the independent stores. In truth, his heart had always been with this group, the small retailers who focused on providing their customers with a little more personalized service along with their partyware purchases. They were an idiosyncratic bunch: mothers looking for a career after the kids had left home, caterers and liquor distributors who sold party goods as an important adjunct to their businesses, some Internet-only sellers—all were great sources of ideas and encouragement. Tom always looked forward to meeting these folks at the shows and in their shops; he felt he owed them a debt of gratitude for Rose's success over the years.

Tom and Marge met over a cup of coffee in his office, where he proceeded to explain the Party! opportunity to her. It didn't take long to tell where Marge stood on it. "Madness!" she cut in, as soon as she got the gist of it. "This industry is like a small town, and the day any retail chain launches its own line, by 5 pm everyone will know who's making it. That's a loyalty check. Every party store, every supermarket, every drugstore is trying to eat the independents' lunch. You're either with 'em or against 'em. They realize we can't stop selling to the chains, but they sure don't expect us to make the wave that could wash them away. You'd lose 80% of their business in the first six months. That's almost 35% of our sales. You'll be better off telling the independents what Party! is planning and asking them to ratchet up their support for our products than turning the screw on them yourself. And you really think they'll get behind our branded line if we also manufacture products for Party!? Forget it."

What's in a Name?

The next day, the management team once again gathered in the party room; Tom had asked Hank to present Party!'s proposal to all the group members, after which they would hear Marge's point of view. Both Hank and Marge got caught up in their emotions and went further than either had earlier.

"Whether we like it or not, chains are the future," Hank declared. "We had better learn how to play their game, or we're going to be

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on the sidelines with a handful of independents, making a futile last stand. This business is changing, and we have to change with it."

"Hank, you've been living with those chains for so long, you've bought their story completely," Marge shot back. "The fact is, you simply can't trust them. Today, you'll be their favorite. Tomorrow, they'll want to pay you a dime less on their line, then a dollar less. You're not at the foot of a ladder; instead, you're at the top of a slippery slope."

The rest of the group didn't hold back, either. Jack Kuczinski, Rose's production manager for almost two decades, reminded Tom that they were in possession of a printing breakthrough. "Anyone can be a commodity producer," Jack stated flatly. "If your uncle had wanted to be in that business, he'd have stayed at United Paper. But the fact is, we manufacture products better than anyone else does. There's no way any retailer is going to toss us out of their stores. This branding thing is the way to go, if you ask me. It's about pride in who and what we are—not skulking around like the man behind the curtain. I bet that every person on the shop floor feels exactly the same way."

Charlotte Hann, the design director and another company veteran, seconded those thoughts. "We can do exciting things with both designs and the brand, but we won't have any impact—and I expect no one in the company will feel very proud—if we use someone else's brand."

"Sorry to be the party pooper here," said Jerry, jumping in. "But we're trying to choose between two bad ideas. On the branding issue, you simply have to scale it back to a point where our products can be competitively priced. A disaster awaits any premium-priced product in this market, whatever the reason for the higher price. As for Party!'s offer, I think we should pass. If it succeeds and we're part of it, it has a relationship downside in every other segment of our market. If it fails and we're part of it, the damage is even worse. Hank's numbers look good today, but once we get pressured to cut prices and have lost a chunk of the independents' business, we will be in trouble. I think this is a time to be careful."

The last speaker was Cassie, who summarized the key points from her earlier meeting, emphasizing her confidence that a branded line would be a major success. She was clearly disappointed that the team members doubted it would work. "Every test we carried out says that a brand can succeed," she repeated. "The rewards for being the first to brand will be tremendous for Rose—not just in terms of sales but also in the consolidation of our position with both customers and the trade. In the toy industry, companies with powerful brands call the shots. Commodity producers come and go."

She had plenty more to say as she walked back to her office with Tom. "I don't think that the branding opportunity will last forever, Tom," Cassie explained. "People are going to be talking about the fact that Rose has been doing research in this area, and someone is going to do it sooner or later. If it's not us, I'm sad, and it'll mean that there won't be much of a role for me here. Your sales guys can handle the maintenance ad and promotion spending—and that's pretty much all it will be—without me and my salary."

Rose on the Fence

Four weeks later, Tom was on a plane to Party!'s headquarters. On his laptop were two PowerPoint presentations. One explained why he was excited about Party!'s plans to launch a store brand and how Rose's lines could grow in tandem with it. The other argued that Rose's new branded line was important enough for Party! to hold off on its test launch and evaluate the impact of Rose's branded line on its sales before making a final decision. As the plane taxied down the runway, Tom was still not sure how he'd lead off.

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