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The Black & Decker Corporation (A): Power Tools Division

Joe, I like you guys. But, look, I give Makita 10 feet of space. I give you 10 feet of space. They outsell you 8 to 1. What are we going to do about that?

In January 1991, statements like this no longer surprise Joseph Galli. Black & Decker's (B&D) vice president of sales and marketing for power tools had heard similar sentiments expressed by many trade accounts. Makita Electric of Japan had practically taken over the professional power tools for tradesmen business since it entered the United States market a decade ago. "Tradesmen" was one of the three major segments of the power tools business—the others being "Consumer" and "Industrial." "Consumer" represented "at home" use, while both "Tradesmen" and "Industrial" covered professional users. The distinguishing characteristic of the Tradesmen segment was that these buyers, such as a carpenter, bought tools for their own use on a job site. In Industrial, the buyer was generally a corporation purchasing tools for use by employees. By late 1990, Makita's success in the Professional-Tradesmen segment was such that it held an 80% share in cordless drills, the single largest product category, and a 50% segment share overall. B&D had virtually created the portable power tools business in the United States beginning in the early 1900s. While it maintained the #1 market share position in the Consumer and Professional-Industrial segments, its entry in the relatively new Professional-Tradesmen segment held only about a 9% share.

The trade was asking for advertising allowances and rebate money on B&D's Tradesmen products and profitability in this segment was near zero. B&D's senior management resolved to put an end to this "no win" game, and Galli set about developing and gaining corporate support for a viable program to challenge Makita for leadership in this segment. He could not help but see the irony of a 9% Tradesmen segment share and no profitability against the results of two recent research studies: one showing B&D to be among the powerful brand names in the world, and the second establishing B&D's professional tools to be the highest quality in the industry.

Black & Decker

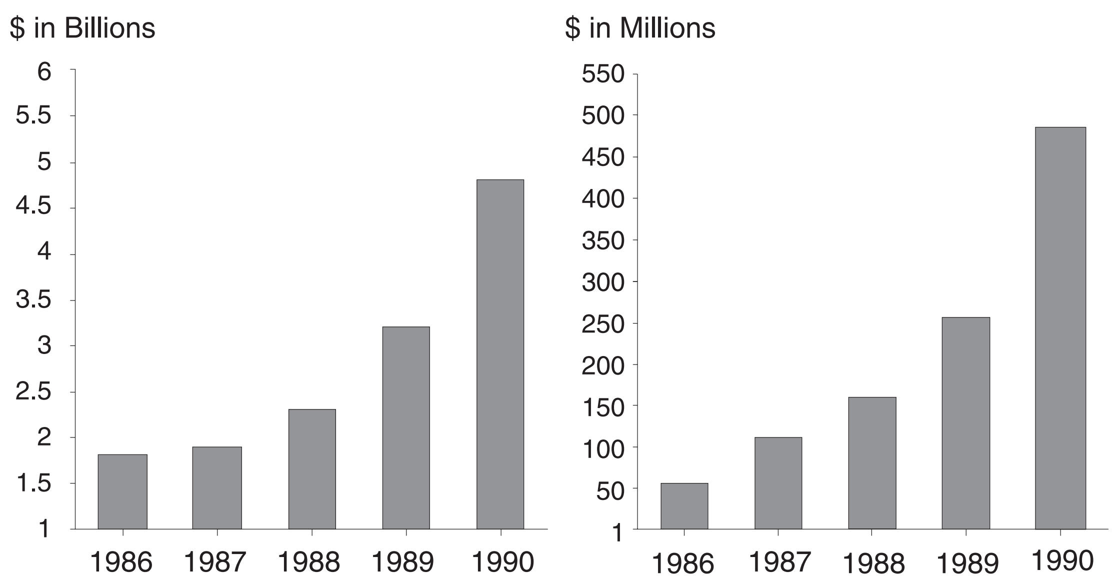
In 1910, Duncan Black and Alonzo Decker, Sr., started a machine shop and, in 1917, received a patent on the world's first portable power drill with pistol grip and trigger switch; 73 years after receiving its first patent, B&D was the world's largest producer of power tools, power tool accessories, electric lawn and garden tools, and residential security hardware. Headquartered in

Professor Robert J. Dolan prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Certain non-public data have been disguised.

Towson, Maryland, B&D's sales reached $4.8 billion in 1990, with nearly 50% of product revenues from outside the United States. Alonzo G. Decker, Jr., was honorary chairman of the company and a member of the board of directors. He had been chairman of the board and chief executive officer from 1968 to 1975. Prior to his becoming CEO, the CEO post had always been held by his father or co-founder Black. From its roots in power tools, B&D began a move "from the garage to the house" in 1979 with the introduction of the very successful Dustbuster® hand-held vacuum. This "into the house" thrust led to the purchase of General Electric's Housewares Division in 1984 for $212 million. As part of the sale agreement, B&D could use General Electric's name on products only until 1987.

Nolan Archibald, a Harvard Business School graduate and a former group president at Beatrice, became president and CEO in 1986. The early 1980s had been volatile years at B&D. It began the decade with a 19% net revenue increase to $1.2 billion in 1980, but sales stagnated at this level through 1983. In 1985, with net revenues at $1.7 billion, B&D posted a $215.1 million restructuring cost and a $158.4 million loss. For the 5-year period from 1981 through 1985, the company lost money. B&D's $2.8 billion acquisition of Emhart Corporation in 1989 more than doubled B&D's revenues and brought new strong brands, including Kwikset® locks and Price Pfister® faucets, but raised the company's long-term debt to $4.2 billion, representing about 84% of total capital. **Figure A** shows the growth in B&D sales and net income since Archibald became CEO.

Figure A Black & Decker Revenues and Operating Income, 1986-1990



The five largest product groups and their percentage of B&D's 1990 sales were:

• Power Tools and Accessories	29%
• Household Products	15%
• Information Systems and Services	11%
• Outdoor Products	9%
• Security Hardware	9%

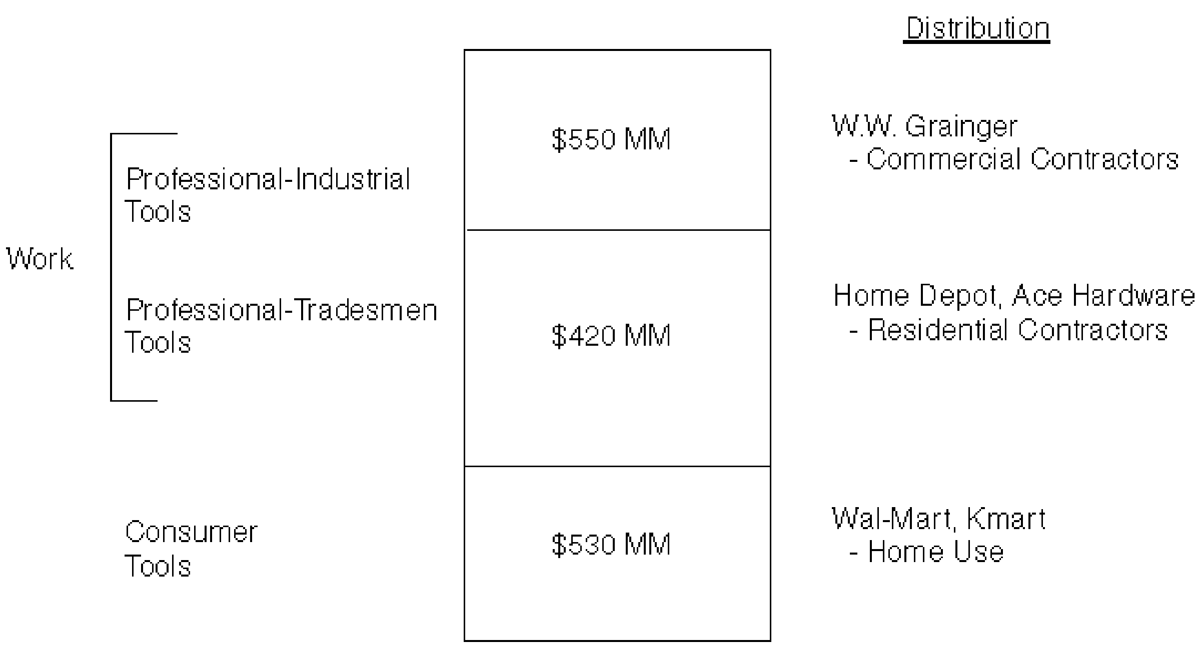
Household products included hand-held vacuums, irons, mixers, food processors and choppers, coffee makers, and toasters and toaster ovens. The well-known Dustbuster and Spacemaker® (under-the-cabinet appliances) brands were part of this group. The B&D franchise was especially strong in cordless vacuums, irons, and toaster ovens, each holding over a 50% market share in the United States. In 1990, 29 new household products were introduced, including the Power Pro™ Dustbuster® heavy duty cordless vacuum. The household products line was heavily supported with media advertising.

The B&D name enjoyed substantial equity in both the United States and Europe. An independent survey of 6,000 brands showed Black & Decker's brand-strength ranking to be #7 in the United States and #19 in Europe.[1] This put Black & Decker in the company of Coca-Cola, Campbell's, Walt Disney, Pepsi-Cola, Kodak, NBC, Kellogg's, McDonald's, and Hershey—the other firms rounding out the U.S. top ten.

Power Tools Market

In 1990, portable power tools in the United States was a $1.5 billion market. Products ranged from an electric screwdriver for the consumer who might use it once a year at home to heavy-duty miter saws used continually throughout the day at construction sites. Segmentation of the market was as shown in **Figure B**.

Figure B Segmentation of the U.S. Power Tools Market



Nonprofessional users accounted for $530 million or 35% of the market. In this Consumer segment, consumers bought tools at mass merchants, such as Wal-Mart and Kmart, and hardware stores for their own home use. The "for work" market was divided into a Professional-Industrial segment and a Professional-Tradesmen segment. The $550 million Professional-Industrial segment was made up primarily of commercial contractors working on large projects (e.g., office buildings,

[1]Landor Associates Survey.

bridges, etc.) and company assembly lines (e.g., automobile plants). In this segment, distributors (of which W.W. Grainger of Skokie, Illinois, with over 300 branch offices, was by far the largest) played an important role in providing technical expertise and service. For a given job, the distributor could both specify the contractor's tool requirements and recommend specific brands. Grainger stocked more than 32,000 items to provide prompt delivery. In the Professional-Industrial segment, tools were typically purchased and owned by the company rather than the individual users.

The Professional-Tradesmen segment was targeted largely at tradesmen such as electricians, plumbers, carpenters, framers, roofers, and general remodelers working in residential construction. These tradespeople were expected to show up at the job site with their own necessary tools of the trade in working condition. These buyers tended to patronize newly emerging retail distribution channels including home centers such as The Home Depot and Lowe's, in addition to the traditional hardware stores, such as Ace. While the smallest of the three segments in 1990, at $420 million (28%), Professional-Tradesmen was growing fastest at 9% compared with a 7% growth rate for Consumer and no growth for Professional-Industrial. Some "heavy do-it-yourselfers" bought tools in the Professional-Tradesmen segment, but this segment primarily comprised people who made a living with their tools.

B&D participated in all three segments. Black & Decker®-brand power tools held nearly a 30% share of the U.S. market overall.[2] To serve these segments, B&D offered three separate lines and brand designations all under the Black & Decker family name, as follows:

U.S. Market Segment	Brand Logo	Product Color	Approximate B&D Segment Share 1990	Approximate B&D Segment Revenues 1990
Professional-Industrial • Size = $550MM	BLACK & DECKER Industrial Heavy Duty Power Tools	Charcoal Grey	20%	$110 MM
Professional-Tradesmen • Size = $420MM	BLACK & DECKER Professional Power Tools & Accessories	Charcoal Grey	9%	$35 MM
Consumer • Size = $530MM	BLACK & DECKER.	Black	45%	$250 MM

In the Professional-Industrial segment, B&D's share was near parity with Milwaukee Electric of Brookfield, Wisconsin. Founded in 1924, Milwaukee was a privately held firm, selling only in the high end of the market at a rate of approximately $200 million per year worldwide. The second tier suppliers in the Professional-Industrial segment were Bosch, Porter Cable, and Makita. The very knowledgeable purchase decision influencers in the Professional-Industrial segment viewed B&D as offering high-quality, differentiated products and excellent service. At the other end of the performance spectrum, in the Consumer segment, B&D's brand recognition and image helped it attain the #1 position in the marketplace with nearly a 50% share over suppliers such as Skil, Craftsman, Wen, and various private label products.

[2] In addition, it manufactured some professional power tools under the Craftsman label for Sears, which held an additional 4% of the Professional-Tradesmen segment.

B&D's strengths in the Professional-Industrial and Consumer segments did not transfer to the Professional-Tradesmen segment, where the approximate share positions in 1990 were as shown in **Table A**.

Table A Power Tools, Professional-Tradesmen Approximate Segment Shares, 1990

Makita	~50%
Milwaukee	~10%
Black & Decker	~9%
Ryobi	~9%
Skil	~5%
Craftsman[a]	~5%
Porter-Cable	~3%
Bosch	~3%

[a]Manufactured in part by B&D and marketed by Sears.

Three product types—drills, saws, and sanders—represented nearly 80% of the total sales in the Professional-Tradesmen segment. The top three manufacturers offered broad product lines at approximately 175 SKUs each. Since its entry into the market in 1978, Makita had staked out leadership positions in virtually all products and distribution types within the Professional-Tradesmen segment. **Exhibit 1** shows approximate shares for Makita, Milwaukee, and B&D for the largest categories in the segment. **Exhibit 2** shows shares of Makita and B&D by the five major outlet types: (i) Two-Step (sales through distributors to independent retailers, such as Ace and ServiStar), (ii) Home Centers, (iii) Warehouse Home Centers, (iv) Membership Clubs, and (v) Farm Outlets.

Professional-Tradesmen revenues of approximately $35 million in 1990 for B&D translated into about $3 million in operating income. Gross margins ran about 35%, but SG+A costs were about 25%.

These numbers had become even more vivid for Galli in a recent Monday morning conversation with his boss, Gary DiCamillo, B&D's president of Power Tools for the United States, who recounted this story:

> Joe, yesterday, I stopped by that new Home Depot. It was a nice afternoon; lots of people around. They had one of those woodworking guys out on the sidewalk giving demonstrations for a couple of hours. He was using all Skil saws, and he was just packing up to go home when I came by at about 4 o'clock.
>
> I said to him "What do you think of the Skil saws?" "Pretty good," he said. So, I said, "Who else do you like?" He said "Oh, Milwaukee makes a nice reciprocating saw; Ryobi's got some okay things." "What about Makita?" I said. He said, "Oh, they're okay—they're all pretty good really—you just have to stay away from that Black & Decker!"

Black & Decker and the Professional Segment Buyer

While the "just got to stay away from that Black & Decker" view was perhaps extreme, Galli understood that B&D's strength as a consumer brand was not necessarily beneficial for the Professional-Tradesmen segment. Some tradespeople viewed all B&D products as for use at home rather than on the job; and, conversely, there had been instances of a B&D product designed for at home use being subjected to the demands of the job site and failing.

The typical plumber, electrician, or general remodeler working in residential construction had about $3,000 invested in 10 or so "tools-of-the-trade." He or she bought tools when a replacement was needed, spending on average $1,000 per year. Tools and their performance were a constant topic of conversation at the job site. Generally, tradespeople were satisfied with the tools available—the perception being that Makita provided a good baseline option in all major categories, and other suppliers had particular product strengths, e.g., Skil in circular saws.

As noted above in **Exhibit 2**, this buyer bought most frequently in independently owned stores served by distributors, i.e., the Two-Step in **Exhibit 2**. However, the Home Centers noted in **Exhibit 2** were growing in importance. For example, the largest single outlet of Professional-Tradesmen tool sales in 1990 was The Home Depot at approximately $5 million; second was Home Club at $3.5 million, compared to the largest of the Two-Steps, Ace and ServiStar, at $2 million each. The Home Depot was the largest of the rapidly growing collection of home improvement chain stores. With 145 stores and $3.8 billion in 1990 sales, The Home Depot's strategy was to stock 30,000 items in a 100,000 square foot location, with prices about 30% less than the traditional hardware store, while also providing superior customer service. Makita's rise to marketplace dominance was aided by the rapid development of this new type of distribution.

B&D's research on tradespeople's perceptions of suppliers' quality showed four tiers in the marketplace, as shown in **Figure C**.

Figure C Brand Perceptions of Professional-Tradesmen Segment Buyers

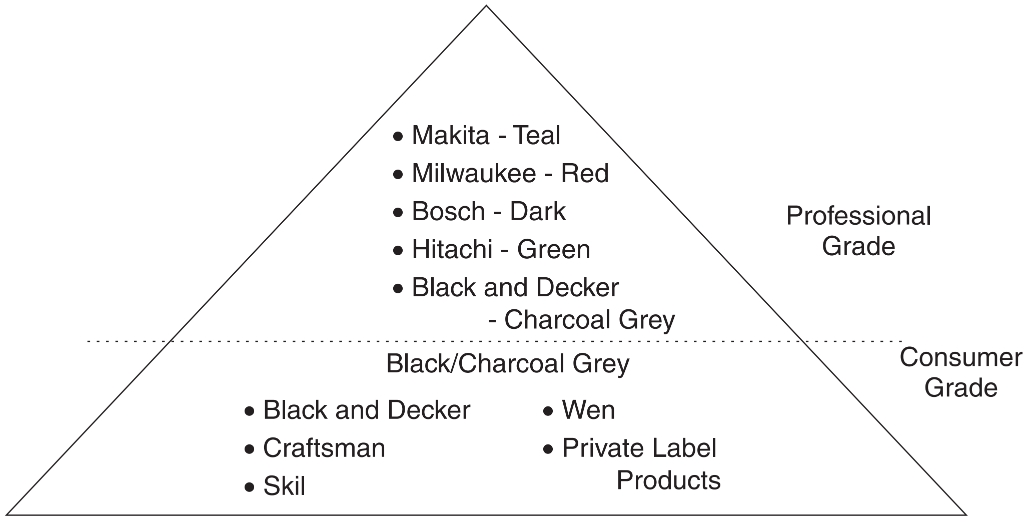
Highest →			**Lowest**
—Makita	—Bosch	—Black & Decker	—Wen
—Milwaukee	—Hitachi	—Ryobi	
	—Porter Cable	—Skil	
	—Panasonic	—Craftsman (Sears)	

Both Milwaukee and Makita priced at premiums over B&D, averaging 10% and 5%, respectively. Despite the price premium over B&D, Makita's prices on some products were less than half of what the product sold for in Makita's home market, Japan, where Makita was #2 in market share to Hitachi.

While Makita's position with tradespeople was strong, retailers were not uniformly positive toward Makita. Some regarded it as "arrogant and dictatorial." Makita offered no channel protection, selling the same products throughout a range of outlets including the discount oriented Membership Clubs, which B&D had decided not to include among its distributors of Professional-Tradesmen tools (see **Exhibit 2**). Some believed Makita to be "trading-down" its offerings by, among other things, positioning them as appropriate for Father's Day giving.

While no tradesperson would explicitly note "product color" as a key attribute in the purchase decision, color was generally regarded as a significant product differentiator. Consumer tool manufacturers had largely followed B&D's 1981 lead of making consumer tools black or charcoal grey. B&D's policy was to use black as its consumer grade color and charcoal grey for its Professional-Industrial and Professional-Tradesmen grades. Competing brands of professional tools were more highly differentiated in color, as shown in **Figure D**.

Figure D Color Differentiation: Professional End Users



Black & Decker Product Research

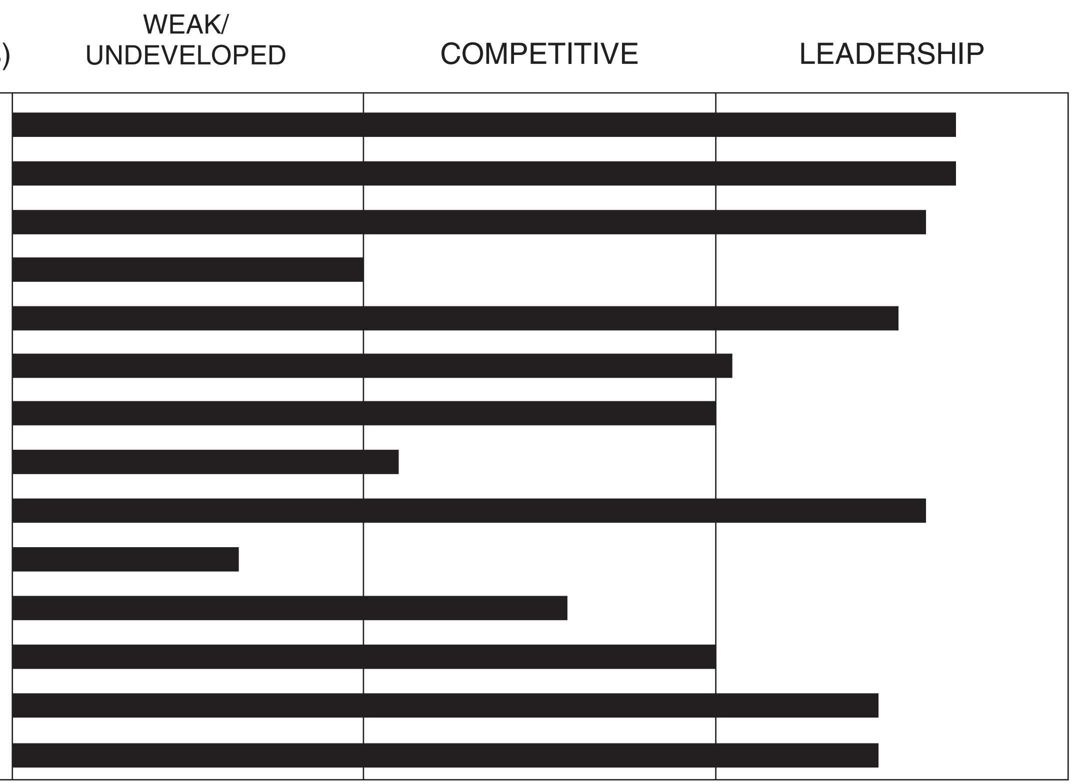
Product development had been a B&D focus since 1985 and B&D tools were highly regarded in the demanding Professional-Industrial segment, so Galli believed that the source of B&D's share problem in the Professional-Tradesmen segment was not inherent product quality. This belief was tested in two ways. First, B&D conducted laboratory tests on its own and competitive products to assess performance, reliability, and durability. **Figure E** summarizes the results for the 14 major Professional-Tradesmen products. B&D's offerings were characterized on a scale ranging from weak/undeveloped to competitive to leadership.

Second, B&D did extensive field tests. All identifying marks and colors were removed from products (both B&D and competitors). The products were then used in actual work situations for one month. Users provided comments on product performance and their interest in buying the product when a replacement was needed. This user testing supported the findings of the laboratory tests of **Figure E**, i.e., B&D's product quality was very strongly competitive in the large majority of product categories.

Figure E Black & Decker Product Assessment

PROFESSIONAL POWER TOOL PRODUCT ASSESSMENT

RANK	PORTFOLIO	1990 SIZE ($millions)
1	CORDLESS DRILLS	$67
2	CIRCULAR SAWS	58
3	CORDED DRILLS	56
4	MITER SAWS	44
5	FINISHING SANDERS	36
6	ANGLE GRINDERS	23
7	RECIPROCATING SAWS	21
8	ROUTERS/TRIMMERS	19
9	SCRUGUNS	16
10	BELT SANDERS	16
11	JIG SAWS	12
12	HAMMERS/DRILLS	11
13	CHOP SAWS	11
14	IMPACT WRENCHES	7



Research on Brand Awareness and Perceptions

Telephone surveys and B&D's annual Image Study provided data on brand awareness, relative perceived quality, and ratings on specific attributes. Overall awareness of the major brands among the Professional-Tradesmen segment end users are shown in **Table B**.

Table B 1990 Total Awareness of Power Tool Suppliers Among Tradespeople

Awareness			
Black & Decker	98%	Hitachi	77%
Milwaukee	95%	Hilti	73%
Skil	93%	Porter Cable	67%
Makita	90%	Ryobi	50%
Bosch	87%		

Respondents were also asked to state their level of agreement with the statement, "*Brand X* is one of the Best." The data on percentage of respondents "agreeing" or "strongly agreeing" with the statement are in **Table C**.

Table C "One of the Best" Agreement Data

Milwaukee	80%
Makita	67%
Black & Decker	44%

The Image Study provided the same agree/strongly agree data at the level of specific attributes. In particular, **Table D** segregates those expressing a preference for Makita and those expressing a preference for Milwaukee and compares perceptions of those brands to perceptions of B&D.

Table D Percent Agreeing with the Statement

	Those Who Prefer Makita		Those Who Prefer Milwaukee	
	Makita	B&D	Milwaukee	B&D
Makes High-Quality Tools	82%	51%	91%	43%
Makes Durable/Rugged Tools	71%	48%	91%	42%
Proud to Own	78%	43%	86%	36%
Easy to Get Service	44%	67%	68%	66%
Stands Behind Products	56%	61%	69%	52%

As Galli reflected on the research data, he recalled some of the comments made to him by two tradesmen during site visits:

". . . Black & Decker makes a good popcorn popper, and my wife just loves her Dustbuster, but I'm out here trying to make a living . . ."

". . . On the job, people notice what you're working with . . . if I came out here with one of those Black & Decker gray things, I'd be laughed at."

Galli knew that a copycat strategy, e.g., paint it blue and spend some advertising dollars on a "Black & Decker as appropriate for the tradesmen" theme, would not receive internal support. Three options presented themselves:

Option 1. Harvest Professional-Tradesmen Channels

In this strategy, B&D would focus on the Consumer and the Professional-Industrial segments. In the Professional-Tradesmen segment, the focus would be on profitability even at the expense of market share.

Option 2. Get Behind Black & Decker Name with Sub-Branding

While there had been several half-hearted attempts to rebuild the B&D name in the Professional-Tradesmen segment, they had not been successful. One new aspect which might offer promise, though, was the sub-branding strategy, which had been so successful with the Spacemaker line and which Galli had used earlier in his career in the accessories business. Specifically, he had transitioned replacement saw blades from "Black & Decker" brand to "Piranha® by Black & Decker." (See **Exhibit 3**.) In 1990, B&D had introduced the Sawcat™ and Super Sawcat™ circular saws with some success. An intense sub-branding program could be developed in an integrated fashion.

Option 3. Drop the Black & Decker Name from the Professional-Tradesmen Segment

Galli imagined what internal reaction would be to such a proposal. Everyone had taken great pride in the #7 "brand power" position of the B&D name. As one of his colleagues commented to him, "Joe, it can't make sense to pull the name of the creator of the power tools industry from a power tool. You'd be saying that B&D can't make it in power tools. Besides, if General Electric can put its name on everything from jet engines to telephones, why can't we?"

If he were to propose dropping the B&D name, he would need an alternative. One possibility was to develop a new brand name free of any negative associations, similar to Toyota's creation of the Lexus brand. The other would be to use some other name already in B&D stable of brands. One of these possibilities was the DeWalt® brand from a line of stationary woodworking equipment. DeWalt was founded in 1918 and bought by Black & Decker in 1960. DeWalt was a leader in sales of large radial arm saws permanently installed at lumber yards. While sales of DeWalt products had reached $70 million annually at one time under B&D, the company had recently deemphasized the line due to the amount of product liability exposure that came with large, stationary woodworking equipment. The DeWalt name had never been used on a portable power tool.

The DeWalt name had been included in the awareness research described in **Table B** above. It received a 70% awareness rating, and most of those who knew DeWalt were positively disposed to it. Surprisingly, it had achieved an "Is One of the Best" agreement percent of 63% from tradesmen as compared to B&D's 44% (**Table C**). Further research on the DeWalt brand showed that 51% of tradespeople would have some "purchase interest." The "level of endorsement" by B&D impacted the "purchase interest" score. Specifically:

Identified As	% Purchase Interest
• DeWalt	51%
• DeWalt–Serviced and Distributed by Black & Decker	58%
• DeWalt–Manufactured, Serviced and Distributed by Black & Decker	53%

Galli felt that any plan involving investing to build market share—Option 2 or Option 3—would have to provide for a minimal objective of doubling B&D's Professional-Tradesmen segment share from under 10% to nearly 20% within three years, with major share "take-away" from Makita. Operating income would be expected to improve steadily from under 10% to at least 12%. He also knew that the Membership Clubs, which represented about 10% of segment sales for the industry were and would continue to be off-limits. Thus, he would not be able to attack the 85% share Makita held within that channel.

He wondered what type of reaction to expect from Makita if he pursued a "build share" option. Finally, he considered the risk. On the one hand, B&D was not making much money in the Professional-Tradesmen segment anyway, so financial risk was limited. On the other hand, there might be implications for the other two segments and embarrassment in the retail channels.

One of the color options he was considering was a bold "Industrial Yellow"—a familiar job site color associated with safety, but not yet used by any power tool brand. But, if the strategy was not success, Galli could not think of anything good that could come from his product being the same color as a lemon.

Exhibit 1 Market Shares of Professional-Tradesmen Tools by Product Type—1990

Product	Approximate % of Market	Approximate Shares: Makita	Milwaukee	B&D
• **Drills** (30%)				
- Cordless Drivers	16%	80%	<5%	<10%
- Corded	13%	50%	20%	25%
• **Saws** (35%)				
- Circular[a]	14%	55%	15%	<10%
- Miter	11%	45%	-	15%
- Reciprocating	<10%	30%	30%	25%
- Jig	<5%	25%	15%	<10%
- Chop	<5%	50%	<5%	20%
• **Sanders** (>15%)				
- Finishing	<10%	60%	<5%	<10%
- Belt[b]	<5%	20%	-	-

[a]Skil held approximately 20% of Circular Saws.

[b]Ryobi held approximately 45% of Belt Sanders.

Exhibit 2 Market Shares of Professional-Tradesmen by Channel Type—1990

	Approximate % of Professional Segment Sales in This Channel	Approximate Shares Within Channel Type: Makita Share	B&D Share
Two-Step	40%	55%	<10%
Home Centers	25%	45%	<10%
Warehouse Home Centers	15%	45%	20%
Membership Clubs	10%	85%	0%
Farm Outlets	5%	45%	15%

Exhibit 3 Piranha Sub-Brand