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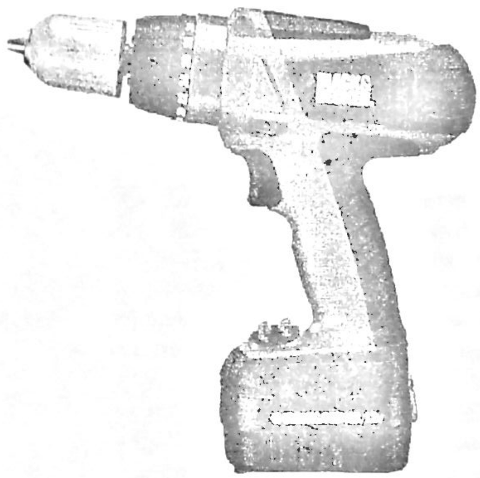

Archibald's Black & Decker (A):

Solving a Classic Marketing Problem in the Power Tools Division

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This case was written by Hernàn Bruno, Assistant Professor of Marketing, Markus Christen, Associate Professor of Marketing, and Hilke Plassmann, Assistant Professor of Marketing, all at INSEAD. It is based on publicly available information and conversations with former managers in the industry. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

The Beginnings

Black & Decker (B&D) had pioneered the power tools market when it launched the world's first portable power drill with pistol grip and trigger switch in 1917 (Exhibit 1). The founders, S. Duncan Black and Alonzo G. Decker, had a keen entrepreneurial sense and understanding of customers. From the beginning they invested in product services and educating the market, realising that an ingenious product alone would not suffice. The company's first service centres were opened in Boston and New York in 1918. B&D organized clinics to teach distributors how to use and sell the tools, and embarked on a mass media campaign in Baltimore's Saturday Evening Post in 1921.

Home Utility

Paying close attention to customers became a key part of the company culture. For example, after learning that factory workers were taking drills home for personal use, B&D launched the *Home Utility* line of drills and accessories in 1946, starting the DIY (do-it-yourself) revolution. Other tools were added to the *Home Utility* line. In the late 1950s, B&D entered the lawn and garden care business by launching electric lawn edgers and hedge trimmers. The first electric lawn mowers were unveiled in 1966, and a cordless model followed three years later. In 1974, B&D was the first company to offer a one-year customer satisfaction guarantee. Driven by international expansion and the strength of its product innovation, the *Black & Decker* name became synonymous with power tools all over the world—and beyond. The *Lunar Surface Drill* used on the Apollo missions to remove core samples from the moon had a power head built by B&D.

Name of Strategy

1979 was a key year for the company. For the first time its sales exceeded $1 billion and with the introduction of the *Dustbuster* cordless vacuum cleaner (Exhibit 2) it created a whole new category of small household appliances. This was part of an overall growth strategy to move B&D "from the garage into the house", aiming to leverage the *Black & Decker* brand name, its technology and innovative capabilities in developing and producing high-quality small appliances (especially small electrical motors), as well as its distribution network, which extended from local hardware stores to mass merchandisers like Wal-Mart to large industrial distributors like W.W. Grainger.

Competition GE

However, the 1980s brought declining growth rates and intensifying competition from Japanese and German power tool manufacturers offering lower priced, high-quality power tools. This prompted B&D to diversify still further into household appliances. In 1984, it acquired the small appliance operations of General Electric, the largest U.S. producer of irons, toaster ovens, portable mixers, coffeemakers, popcorn poppers, and hairdryers. This line was subsequently expanded to include the *Spacemaker* series of under-the-cabinet kitchen appliances and additional cordless appliances including a mixer and an electric knife. Financially, however, the diversification strategy did not pay off and in 1985 B&D posted a \$215.1 million restructuring cost and a \$158.4 million loss on revenues of \$1.7 billion (Exhibit 3).[1]

diversification didn't work

1 Source: Company website

The Turnaround[2]

When Nolan Archibald became President and CEO of B&D in 1986, he took over a company that was seemingly unable to keep up with changing market conditions and increasing competition, especially from Japan. Worse than the financial woes, in its core business – the power tools market – B&D had lost market share to Makita of Japan, Bosch of West Germany and Emerson Electric's Skil for five years in a row. On the small appliance side, Archibald inherited a messy portfolio. When B&D purchased the General Electric line of small appliances for $300 million, it only got the *GE* brand name for five years.

The key weakness, as Archibald saw it, was B&D's product strategy. The plan he put in place addressed costs, quality, products, advertising, channel relations, and competitive advantage. B&D invested $100 million in advertising to strengthen the *Black & Decker* brand name and integrate innovative products like the *Dustbuster* with more ordinary irons, coffee makers and toasters. Internally, the company invested in the sales force to handle the larger product portfolio and strengthened its key account management to build a closer partnership with distributors and wholesalers.

Organizationally, the company had been a confederation of near-sovereign fiefdoms. Power tools were separated into two units—high-priced professional tools and low-cost consumer tools—each with its own factories and product development teams. British managers developed their own products in Britain, as did their French and German counterparts. Archibald abolished the geographical fiefdoms and demanded products that could be sold worldwide and across all segments to achieve economies of scale and lower costs. Under his leadership, the company learned to act Japanese and implemented just-in-time production and TQM methods.

By 1990, B&D had reengineered almost all of its power tools to improve quality and reduce costs. Whereas the company had previously made 100 different motors worldwide – the most expensive component of power tools, by 1990 this was reduced to fewer than 20. Internal performance tests indicated that the quality of B&D's power tools was at least as good or better as those of competitors like Makita. The only real weakness was in belt sanders, a category dominated by Ryobi.

People noticed the changes. "Yes," said Harry Suzuki, corporate vice president of Makita U.S.A., when asked if Archibald had made a difference. "They are getting the industrial professional tool market back by restructuring their organization." Steve Simony, general manager of Dixie Construction Products, a big Atlanta wholesale distributor of professional tools to the construction industry, said: "We were doubters at first, but we've become believers. They put out a quality product, their people are great, and their service is now acceptable. With us, Black & Decker has gone from being No. 3 and going backward [sic], to No. 1." One consulting firm rated the *Black & Decker* brand name as the seventh most powerful brand in the U.S., behind Coca-Cola and Kodak but ahead of Levi's and Hershey's. B&D was the world's largest producer of power tools, power tool accessories, electric lawn and garden tools, and residential security hardware. Its power tool business became the fastest growing in the industry – it grew at about 20%, twice the rate of the overall market.

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2 Source: "The New Power in Black & Decker – CEO Nolan Archibald and his whiz kids are taking their market back from the Japanese and thoroughly enjoying it," Fortune Magazine, January 2, 1989.

While the product lines were streamlined, the diversification strategy continued. In 1989, B&D acquired the Emhart Corporation, which more than doubled revenues. This acquisition not only landed 'home improvement' brands like Price Pfister faucets and Kwikset locks, it also added information systems and services and various other industrial products to B&D's portfolio. (Other takeovers failed, like the acquisition of the American Standard Company.) Even though the acquisition of Emhart added substantial debt, Archibald improved B&D's financial performance. Under his leadership, revenues and earnings climbed steadily. In 1990, B&D posted an operating profit of $500 million on revenues of $5 billion (Exhibit 3).

1990 $500 mill $5 bn

A Cloud in the Sky

Good awards

Market Share

B&D's turnaround and Archibald were celebrated in newspaper articles and magazine stories; its products won awards for their high quality. B&D dominated the consumer market for power tools with a market share of 50% and was the overall leader in the U.S. power tools market with a market share of 30%. The impressive turnaround, however, remained clouded by a problem in the power tools division. While 'Jim and Jane Consumer' loved the *Black & Decker* brand, making it a top-ten US brand with a brand awareness of well over 90%, 'Joe the Plumber' considered B&D's power tools to be low quality and told anyone willing to listen to avoid them. Professional tradesmen loved Makita power tools. The Japanese company had entered the U.S. market only in 1978, but by 1990 it was outselling B&D in the professional segment by a staggering ratio of 5:1.

Trade Marketing Sucks

Influencers

Was this the 'price' B&D had to pay for its success in extending the brand beyond power tools, or was it a weakness that called for urgent corrective action? Should B&D be worried about Makita's success with Joe the Plumber, or was its overall market share lead based on its strength in consumer and industrial markets safe? If not, how could B&D change the mindset of professional tradesmen to increase its market share in this segment?

Quality

Archibald saw it as "a classic marketing problem".[3] To address it, he looked to Joseph Galli, 31-year-old VP of sales and marketing for power tools. Galli and his team went to work. True to Archibald's principle that marketing started with the customer, the team spent three months visiting more than 200 job sites and stores all over the U.S., observing, listening and soliciting feedback about every single aspect of power tools and their use on job sites. Next, Galli needed to distil the data and translate these customer insights into a new marketing strategy for professional tradesmen that would achieve Archibald's target: to at least double the market share to about 20% within three years, with the additional share being captured from Makita.[4]

?

The Professional Tradesmen

The market size for power tools in the U.S. in 1990 was estimated to be worth $1.5 billion in annual retail sales. B&D segmented the market into three different customer groups—consumers, professional tradesmen, and industrial companies—each served by different types of channels (Exhibit 4). B&D served the groups using three separate lines: Black & Decker, Black & Decker Professional, and Black & Decker Industrial (see Exhibit 5 for logos).

3 groups

3 Source: *ibid.*

4 Source: "Black & Decker New Selling Tool: The Acura Concept," Fortune Magazine, February 24, 1992.

Consumers 35% 45% B&D

Industrial 35% 20% B&D 19% Milwaukee

Consumers or home users accounted for about 35% of the market and bought tools at mass merchandisers such as Wal-Mart, Kmart and Sears, and hardware stores and chains. B&D's market share was about 45% and key competitors included Skil, Craftsman (Sears), Wen, and various private label products. To home users, the Black & Decker brand was synonymous with highest quality power tools.

The 'for work' market was segmented by the size of the buying firm. Large firms – the *industrial* segment – included commercial contractors which worked on projects like office building, roads and bridges, and factories (like car manufacturers) which used power tools on production lines. These firms bought and owned tools that employees would use on job sites. They purchased power tools primarily from industrial distributors like W.W. Grainger. Such distributors played an important role in providing expertise, services and fast delivery. They also advised on tool requirements and made recommendations. Industrial buyers accounted for about 35% of the market. B&D was the leader with a market share of about 20%, followed by Milwaukee Electric (19%), which focused on the high end of the professional market. Other key competitors included Bosch and Makita as well as product specialists like Skil (saws) and Hilti (concrete drilling and cutting).

Fastest growing

The remaining 30% of the market – the *professional tradesmen* segment – was made up of electricians, plumbers, carpenters, framers, roofers, general remodelers, and other professionals and semi-professionals primarily in residential construction. They bought and used their own tools, which constituted a major investment of several thousand dollars. They would spend $300 to $500 annually on tools and related accessories. They bought tools at local hardware stores, and in increasing numbers via retail channels like The Home Depot. These channels carried 5 to 10 times as many items as traditional hardware stores and offered superior customer service and prices up to 30% lower. This part of the market was growing at almost twice the rate of the market overall.

Accounting for almost 30% of its revenues in 1990, the Power Tools Division was still B&D's largest division. Revenues from professional tradesmen were approximately $39 million, resulting in an operating income of about $3.5 million. Makita had focused on professional tradesmen and was the undisputed leader in virtually all product categories and channels (see Exhibits 6 and 7) despite a price premium of 10% over B&D. Its overall market share of 50% in this segment was well ahead of Milwaukee (10%) and B&D (9%). These top producers all offered broad product lines with up to 200 SKUs each.

Quality ↑

Consistent with B&D's internal research, Galli's market research found that product quality did not explain B&D's market share problem with professional tradesmen. 'Blind' tests with tradesmen (without brand names or logos) indicated that the quality of B&D's power tools was competitive with or superior to Makita in 75% of product categories, including major categories like cordless drills and circular saws.

Awareness

He found that brand awareness of *Black & Decker* (98%) was ahead of Milwaukee (95%) and Skil (93%). Makita had the highest brand awareness of all foreign brands with 89%, just ahead of Bosch (87%) and Hitachi (72%). However, when people were asked to indicate the best power tool brand, *Black & Decker* was mentioned only 12% of the time, far behind Milwaukee (35%) and Makita (33%). Many professional tradesmen viewed B&D power tools as for home use, not for professional use. There had also been instances of B&D power tools designed for consumer markets being used on job sites and failing.

Give separate channels

Weak quality perceptions

Low level of recommendation

Exhibit 8 shows the results of a brand image study of Makita, Milwaukee and Black & Decker power tool owners, and the perceptions of B&D by owners of Makita and Milwaukee tools. Its weak quality perceptions relative to its competitors were hard to fathom given the actual quality improvements B&D had made in the late 1980s. Moreover, the same power tools that professional tradesmen perceived as inferior 'Dustbusters', were considered tools of superior quality by industrial distributors and buyers at large construction and manufacturing companies. Particularly worrying for B&D was the low level of recommendation by current owners. A further decline in market share seemed therefore likely.

Advantage

Makita's reputation with professional tradesmen was strong and the 'Made in Japan' label enhanced perceptions of its product quality. In contrast, retailers were not fully satisfied with (1) Makita. B&D had a better relationship with retailers, partially because of its long history with the channel. Moreover, traditional hardware retailers were unhappy because Makita offered (2) no channel protection: it sold the same products through a wide range of channels including those that offered substantial discounts like membership clubs. Notwithstanding, retailers sold more Makita tools than B&D tools to professional tradesmen.

Advtge

In addition, B&D had strong reputation for services among professional tradesmen. It had (3) more than twice as many service outlets as Makita. Fast and reliable servicing was rated the second most important attribute or key buying factor after product performance. B&D was also seen as a more trustworthy company than Makita.

What Should Black & Decker Do?

Galli and his team worked out three different strategy options:

Option 1

(1) New name

The first was to drop the *Black & Decker* brand name and develop a new brand name free of any negative associations just for the professional tradesmen segment. The team called it the 'Lexus' strategy (given the similarity with Toyota's strategy to enter the luxury car market). The only link to B&D that would remain was the use of B&D's service centre: '*xxx* – serviced by Black & Decker' since it was impossible to develop a separate, nationwide service network in a short period of time.

(2) Subbrand – (Spacemaker)

(3) Endorsed brand

A second option proposed re-establishing the *Black & Decker* brand as the pre-eminent power tool brand for *all* segments, notably by using a sub-brand for professional tradesmen. B&D had been successful with this 'sub-branding strategy' with the *Spacemaker* line. It had also used an 'endorsed brand' strategy for replacement parts like 'Piranha by Black & Decker' for replacement saw blades. Many companies (from Lever Brothers to Yamaha) use their corporate name on a large variety of products. This had two advantages over the first option. (1) It would require less time and money to implement. Moreover, it would avoid the possibility that the market interpret the creation of the new brand as an admission by B&D that its power (2) tools were inferior. On the other hand, to many people at B&D, especially the sales force, it was inconceivable that the inventor of power tools remove its name from its line of power tools. (?)

The third option was to focus on B&D's strengths in the consumer and industrial power tools markets and pursue a harvesting strategy in the professional tradesmen market. This option

harvesting strategy

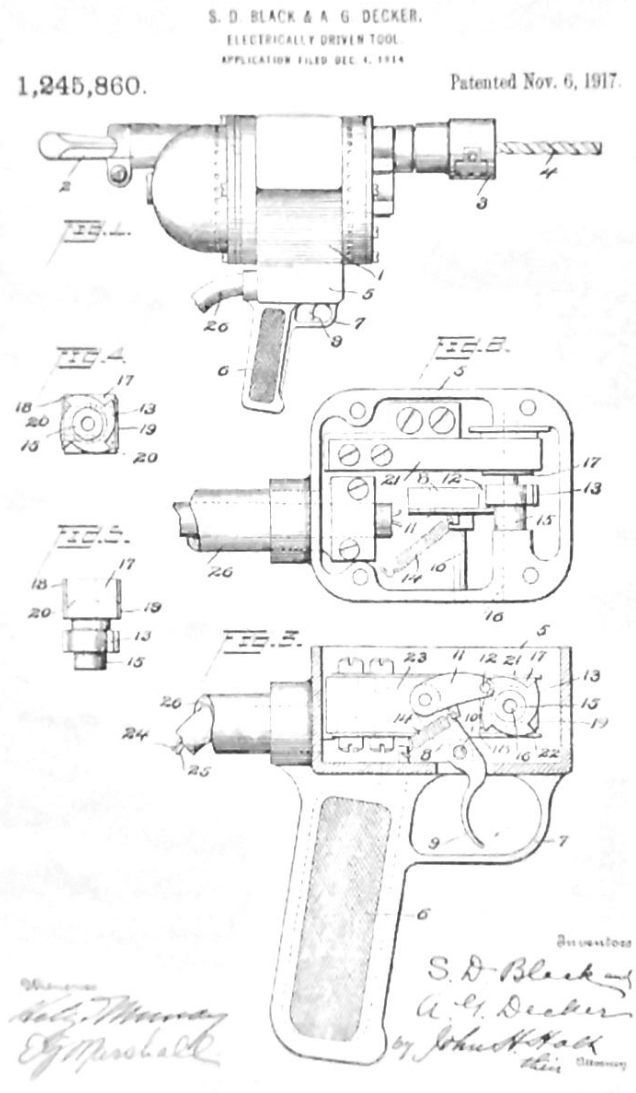
had the least support because it was feared that it would give Makita an even stronger position, which it then could leverage into the two adjacent market segments.

In evaluating these three strategy options, Galli had to keep in mind that if he were to propose a market share building strategy (Option 1 or 2), the objective would have to be to at least double the market share within three years with this share being captured primarily from Makita. In other words, the chosen strategy would not only need to improve B&D's product quality image among professional tradesmen, but also offer a clear differential advantage over Makita to induce them to switch from their preferred brand. This would be a challenge because the market research had shown high satisfaction with the available tools – Makita as providing very good baseline options in all major categories and specialists like Skil, Hilti and Ryobi as excelling in addressing special needs.

Objective – 2x in 3 years
→ Quality perf
→ Clear advantage over Makita
→ high satisfaction in other brands

Exhibit 1

Patent 1245860 for First Electric Drill (1917)



Source: United States Patent and Trademark Office
(http://www.datamp.org/patents/displayPatent.php?pn=1245860&id=11047)

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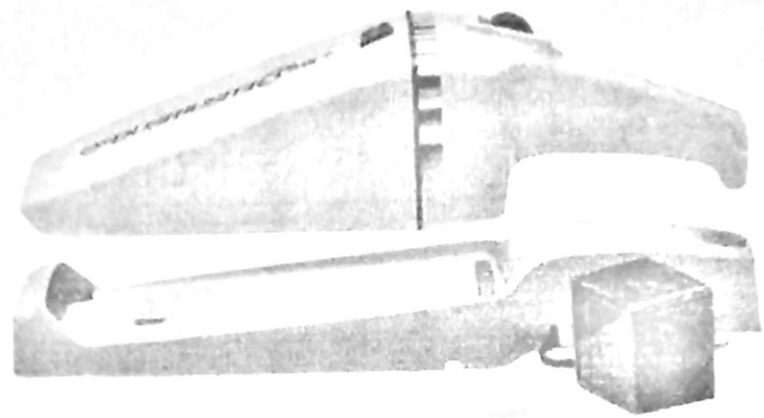
Exhibit 2

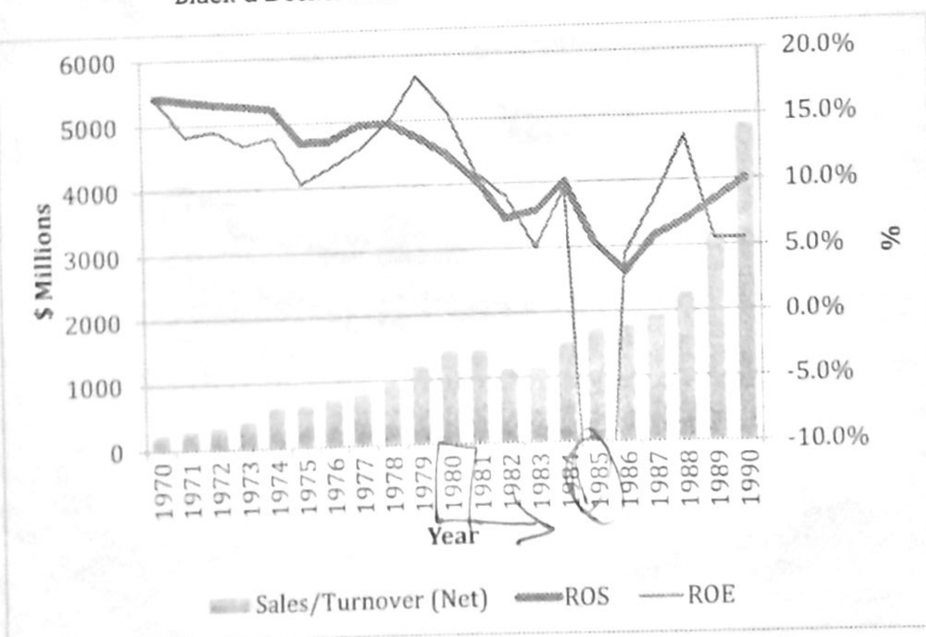
Black & Decker Dustbuster



Source: http://www.industrialdesignhistory.com

Exhibit 3

Black & Decker Financial Performance 1970–1990



Source: Compustat

Blind test campaign

Exhibit 4
Power Tools: Market and Channel Structure

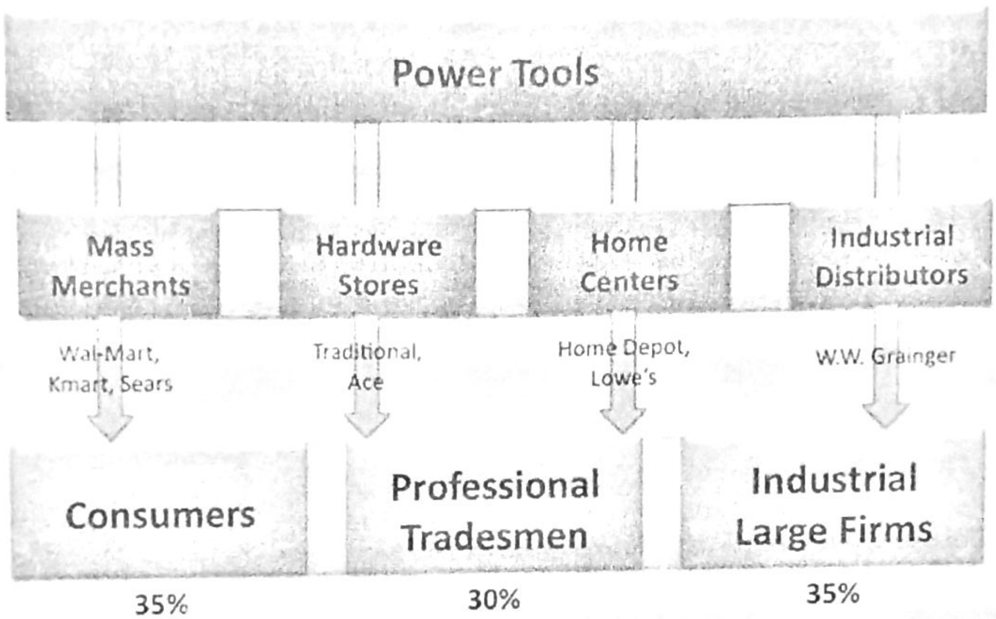


Exhibit 5
Black & Decker Logos

BLACK & DECKER

BLACK & DECKER | Professional

BLACK & DECKER | Industrial

Source: Company

Exhibit 6

Market Shares of Professional Tradesmen by Product Category (1990)

Category	Market Size ($ Million)	% of Market	Makita	Milwaukee	B&D
Saws	160	38%	44%	16%	13%
Drills	125	30%	67%	4%	7%
Sanders	75	18%	48%	3%	5%
Hammers	25	5%	53%	8%	8%
Others	35	10%	27%	24%	12%

Source: Industry data

Exhibit 7

Market Shares of Professional Tradesmen by Channel Type (1990)

Channel Type	Market Size ($ Million)	Makita	B&D
Hardware Stores	170	52%	9%
Home Centres	110	46%	8%
Warehouse Home Centres	65	45%	19%
Membership Clubs	40	85%	-
Farm Outlets	20	45%	15%

Source: Industry data

Exhibit 8

Perception of Power Tool Brands by Respective Brand Owners

- … makes high quality tools
- … makes reliable tools
- … makes durable tools
- … makes a broad line of tools
- … makes tools for professionals
- … offers good service
- … company can be trusted
- Proud to own …
- Fully satisfied with…
- Would recommend … to a colleague