"The Evaluation of Marketing Strategies for the Sale of Sports Goods in Europe"

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SUMMARY

The objectives of this thesis are to examine and evaluate the process of marketing as practiced by an established and successful company in the sports trade, Dunlop Sports Company Ltd. (D.S.C.). In particular the field of strategy formulation for exporting is considered in an operational context, and compared with existing literature and theory on the subject.

Market intelligence has been gathered by visiting European territories and pursuing available sources in the United Kingdom. The data now available is intended to act as a base for developing a more effective market research function within D.S.C. At various stages reports have been submitted on specific topics to the Company and this thesis represents the culmination of these reports and an outline for future policies which are open to D.S.C.

The thesis chooses certain aspects of marketing and examines the way in which the marketing strategy of the Company appears to act upon these. In particular the topics of Pricing, Distribution and Market Research are considered. Initially a series of alternative market postures are postulated and assessed within the European strategy of D.S.C. Where no explicit strategy is available an implied strategy is identified and evaluated. In chapters on Pricing and Distribution some of the problems being encountered are given detailed consideration and preferred policies are suggested.

In the final chapter the major strengths and weaknesses of the Company are brought together and the various recommendations summarised in the context of a marketing strategy which would meet some of the current difficulties. The emphasis throughout is on the effect of strategy formulation, whether or not this appears adequate, and how each of the various operational elements of the marketing mix depend upon this.

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I.H.D. THESIS

"The Evaluation of Marketing Strategies for the Sale of Sports Goods in Europe".

INTRODUCTION

In a project of this type several factors have to be simultaneously met. The academic content must be adequate to satisfy rigorous standards. The practical element must be sufficiently clear to enable ready assimilation at various levels of the sponsoring organisation. External academic interests have to be briefed on the background situation and problems. Clearly these constraints each demand a different approach and a single presentation will always lack something when measured by any one of the yardsticks mentioned. The whole exercise hinges on producing a piece of work which will be acceptable to every interest involved and the form of the thesis is dictated by this need.

The result of these various forces will therefore reflect this mixed parentage and consist of an amalgam of description, analysis, comparison with available research and recommendation. In this it will differ somewhat from a traditional thesis. The approach is less restricted and the format determined by wider considerations than those felt in a laboratory or a library. The situation is also different from much research in the Social Sciences, for here the sample is a single organisation dealing with specific difficulties and hardly subject to a host of statistical tools of great value elsewhere. Against this background a brief introduction to the various chapters is useful.

SYNOPSIS

Chapter One details the objectives of the research and outlines the salient points of the project. It establishes the marketing strategy areas to be examined and the unique features of the research.

Chapter Two supplies the background data on the particular industry, the sponsoring firm and the export situation.

Chapter Three deals with the theoretical basis of strategy formulation and the role it should play in marketing. The special features of export strategy and of the European markets are introduced. The implied objectives and strategy of D.S.C. in the European export field are introduced and alternative market postures discussed.

In Chapter Four the actual performance of the firm is described and evaluated.

Chapter Five deals with pricing. Relevant price theory is discussed and the pricing policy of the firm identified and evaluated

Chapter Six considers the distribution alternatives open to the firm.

Chapter Seven analyses the overall marketing strategy alternatives available and consolidates the previous recommendations on price and distribution within a consistent European marketing strategy.

CHAPTER ONE

1:1 One of the main criticisms levelled by marketing theory against actual business practice is the weakness of the strategy formulation process in many cases. Where the basic objectives have been inadequately laid down the strategy is often weak and results in ineffective or even contradictory policies. A good deal of marketing consultancy work consists of little else than establishing the most elementary objectives setting system within the client. This project examines in detail some of the reasons why strategy formulation is often apparently poor, whether this really matters to the firm and how the position could be changed.

There are two classes of reason for poor strategy. One involves such factors as poorly set financial and other objectives and a misunderstanding of the need for basic strategic marketing guidelines to indicate policies. This is most common in production orientated firms which have always regarded marketing as a non-productive overhead. The most glaring marketing errors often result in such situations. The second type of difficulty results from some structural problem of the firm. The subject here may well be much more marketing orientated and yet the structure of the business, or of the market, has resulted in persistent difficulty in forming strategy or testing the effectiveness of its implementation.

The subject matter of this project concerns such a case. The Company itself is a marketing organisation. It has clearly been successful in a competitive and rapidly expanding market and the export side of the operation has been particularly strong. In examining the export operation however several features immediately appear suggesting that success has occurred without an overall strategy being implemented. Neither distribution arrangements, nor pricing nor resource allocation are discernibly part of a European marketing strategy. When the distribution pattern is correlated with the pattern of results in terms of growth, market share, turnover and value margin it is seen that resources deployed do <u>not</u> depend upon the success achieved. The form of the present marketing strategy only becomes apparent when the historical distribution structure is examined and corporate organisational features are included. The brief of the researcher is to examine whether such a process of strategy formulation, consisting as it does of many different considerations, is necessarily as inadequate as strict theory would suggest and if it is, what effective alternatives are there?

The necessary steps in identifying D.S.C. strategy are undertaken in detail in Chapter Three. At this stage it is appropriate to present the "prima facie" objectives of the Company and to define the objectives of the research and methodology to be employed.

<u>Objectives of the Research</u>

1:2 The main objective of this research project is to identify and evaluate the present marketing strategy of D.S.C., as employed in Europe, and to suggest modifications both in the strategy itself and in the formulation process.

The suggestions which emerge are intended to stimulate new approaches within the firm and form the basis of a practical European Programme.

The degree to which the actual suggestions for a D.S.C. strategy can be generalised to other cases naturally depends upon common ground with these. The Company possesses a certain degree of uniqueness and this will limit application of specific recommendations elsewhere. The approach used, however, shall be such as to enable an evaluation carried out on similar lines to widely applicable. From even a brief investigation of the problems of exporting to Europe it soon becomes clear that many of the difficulties involved will be a common feature to many companies and situations. The solutions and methods presented in this specific example are therefore applicable to some extent in other cases.

The main objective is to develop an approach which can be of lasting value within the Company, even when conditions change drastically. It is the systematic approach which, it is hoped, will be of use in solving some of the universal export marketing difficulties, not the specific solutions to D.S.C. problems.

<u>Hypothesis</u>

1:3 Although the project subject matter precludes the use of a testable hypothesis as such, it is appropriate to present a hypothesis for the research against which to consider the eventual thesis. Thus while the eventual marketing analysis and recommendations may be evaluated and judged against the project objectives in (1:2), a secondary level of assessment is also present. This is the question of whether or not the hypothesis as defined below has been supported.

The basis of the hypothesis is that:-

- Since present approaches to marketing overseas are often either ineffective (and often clearly so) or inappropriate, and yet are continued, and since the level of analysis which is generally applied in export matters is considerably less detailed than on home marketing, it is suggested that:-

1. Marketing strategy in selling to Europe can be greatly improved by systematic evaluation of the strategy formulation process and of the elements of the marketing mix.
2. That this is applicable even in cases where the performance of the company has been good.
3. That it can often be done largely by using existing information and resources.
4. That the basic re-evaluation of export activity (compared to the home effort) which is encouraged by this evaluation is applicable to a variety of exporters.
5. That the type of qualitative analysis which is used is an appropriate methodology to employ in a commercial setting of this kind. The suggestion is that the level of "returns on effort" reaches a plateau when plotted against "detail of analysis" and that over a wide range, the exclusive quantitative element can add

very little to the effectiveness of strategy formulation.

Methodology

1:4 A mathematical modelling approach was initially considered and was rejected for two main reasons. First, the sponsors felt that such a model would be of very limited lasting value to their particular needs. Second, the models examined were found to be unsuitable for the exercise. Marketing models of necessity require up to date knowledge of a number of market factors such as price, advertising revenue and distribution expenses. They also require a facility for varying these and estimating the result. The great difficulty in most export marketing is that the distributor stage insulates the exporter from the ultimate customer and indeed from even the retail or wholesale level. In many cases the company is unaware of competitors' prices in detail, and as shall be shown, has very little control over its own eventual price. The very structure of exporting through a third party reduces both the Company's knowledge of all marketing factors, and greatly limits the control and ability to vary elements in the marketing mix. Even such a basic feature as sales to a territory may have been the result of allocation to a distributor of supplies, as well as a reflection of the underlying demand in the market. The remoteness of the company from the consumer interface is thus a sever constraint on the influence it can exert. While such limitations do not define completely the scope of the project it was felt that a realistic approach would have to be sufficiently non-mathematical to employ the tools available.

In fact the research situation is such that the dynamic commercial background precludes certain typical research approaches. Tests and experiments are largely ruled out (both by the expense involved in export research and by the speed of change in the market). Simulation is only appropriate if the scale and resources are adequate. In this case they are not. Consequently the quantitative elements are severely restricted. However, it is held that qualitative evaluation can be sufficiently rigorous for effective decisions to be reached.

This qualitative evaluation begins with the theory of strategy in marketing and how the theory applies in exporting activity. Then the elements of the marketing mix are examined. In the short term price is often the only variable which can be used as a policy lever, all other elements are to a large extent fixed. In the long term these become available as tools for implementing the strategy of the firm:

- market posture in general can be changed
- a long term pricing strategy can be developed
- different distribution systems can be used
- range changes can be made.

The approach employed in this thesis is to some extent semi-classical in that a specific factor (such as distribution) is evaluated in several alternative forms, "ceteris paribus." A preferred course of action is selected for recommendation. The analysis is then repeated for the other factors and recommended approaches selected in each case.

The final stage is to relate the various recommendations to each other and to the overall selected marketing strategy, and to evaluate the resulting marketing approach in terms of the original objectives specified.

The level of subjective analysis is clearly high in such an approach and this can only be realistically related to the firm by constant collaboration with the Company's executives. In particular the firm's needs were clarified by discussion with the Marketing Director and Export Director, and the policies evolved by analysis under the Regional Manager, Europe. This approach seeks and ensures relevance of the thesis to the requirements of the company.

Market data were collected by visits to European markets and correspondence with distributors; relevant macro-economic data by research at Aston University and Export House, Ludgate Hill, London.

<u>Introduction to the Objectives of the Company</u>

1:5 A detailed analysis of the Company's objectives and strategy in Europe will be undertaken in Chapter Three. It is based upon an "implied" European objective since formal objectives for the region are not available as such. Before moving on to this specific topic, a general introduction to the Management Plan Objectives of the Company is required and an initial investigation of the marketing strategy difficulties and requirements seems appropriate.

The Management Plan System

1:6 The Dunlop Sports Co. Ltd. is a wholly owned subsidiary of International Sports Company, which in turn is part of the Dunlop Group. Further corporate details will be presented in Chapter Two, here it is only necessary to introduce those features of prime importance for an initial look at the strategy formulation process involved.

As a holding company, I.S.C. produce a three year Management Plan to detail their manufacturing activity and a Consolidated Plan encompassing the Plans of the subsidiary selling companies including D.S.C. The Plans are updated in the Autumn of each year giving a three year rolling system. I.S.C. targets are set by aggregation of the forecasts of individual members of the group. I.S.C. match these requirements to capacity available, level of costs projected etc. D.S.C. pay a transfer price to I.S.C. for U.K produced goods and then market the goods at home and abroad, setting prices, advertising and so forth.

As far as D.S.C. forecasts are concerned these are made in consultation by the heads of department (Tennis, Golf, Squash, Export) and are based on a notional free supply situation at a competitive price.

Before considering the merits and deficiencies revealed within this system a statement of the various stated objectives is required.

I.S.C. Management Plan 1975/7

Objectives

1. States planned home profit increase and maintains return on Average Net Funds Employed at 30%.
2. States planned increase in profit in Overseas Companies.
3. To maximise productivity and output from existing facilities consistent with demand.
4. To implement full Product Management in Europe with improved co-ordination on supplies and brand policies world wide.
5. To maintain quality, performance and acceptability in all product ranges.
6. To complete movement on equal pay.

The I.S.C. business definition is set as:-

> "The business is to design, manufacture, or factor and market, on a world wide basis, items of sports and leisure equipment, sports footwear and sports clothing which have potential for profitable growth and are handled through normal sports distribution/retail channels including professional shops."

The reference in (4) above to Product Management in Europe is concerned with the evolution of I.S.C. as a co-ordinating body for all Dunlop/Pirelli sports interests in Europe. These are made up of:

1. I.S.C. and subsidiaries in U.K.
2. Erbacher Hammer in West Germany: skis, garden furniture, distributors for Slazenger.

3. Dunlop A.G. in West Germany: Sports Division, produce and market tennis balls; distributors for D.S.C. in West Germany.

4. Dunlop S.A. in France: Sports Division produces and markets tennis balls; distributor for D.S.C. in France.

5. Union Sports SPA in Italy: Produces and markets Pirelli tennis balls, inflatables and sub-aqua; distributor for Slazenger in Italy.

Executives from these units form European Union Sports Committee and under I.S.C. chairmanship set guidelines for P.B.I.T. and A.N.F.E. for the members. They have now reached the stage of setting some strategic objectives as well. A Union Sports meeting in April 1975, for example, suggested two guidelines:-

a) That the major thrust shall continue in racket sports and golf where the best opportunities for profitable expansion still lay.

b) That the base should be broadened from tennis balls to other areas of racket sports and golf, including footwear and clothing.

This then is the background for D.S.C. objectives and strategy. The two constraints so far emerging are the I.S.C. objectives and the European Union Sports requirements.

<u>D.S.C Management Plan 1975/7</u>

<u>1:8 Business</u>

The sale of sports goods.

Objectives

1, 2, and 3: Detail planned turnover and profit performance targets over the three years.

4. To further strengthen the Company's role in Sport Product Management in Europe.

5. To maintain the quality, value and performance aspects of the Company's product range in both Home and Export markets.

6. To ensure that all promotional expenditure is directed most effectively and economically to increasing the Company's turnover and profitability.

7. To keep levels of Debtors and Finished Stock inventories at the minimum consistent with the attainment of Plan turnover and net profit.

8. A breakdown by main product of market shares in the home market.

Evaluation of these objectives

1:9 Having introduced the stated objectives for the Company several questions are raised initially:-

To what extent do these represent an adequate basis for D.S.C. strategy in Europe?

Is the actual Product Management approach consistent with the past experience of D.S.C. in Europe?

What improvements are possible to enable more effective strategies to be evolved?

The first two of these questions are closely linked. From the objectives given for both I.S.C. and D.S.C. the concept of making a co-ordinated Europeean marketing effort through the Associated Companies is put forward as the path of development in Europe. For D.S.C. this produces some grave difficulties because the best markets are in areas supplied through Independent Distributors and not Dunlop Associated Companies. Thus the first inconsistency to emerge seems to be that while management effort is concentrated on the A.C. areas via the Product Management apparatus, the areas of real importance to D.S.C. are left inadequately served. The justification for this point of view is expanded in the examination of distribution in Europe. Here it is only necessary to indicate that a prima facie case exists for suspecting an imbalance in the use of resources in Europe. This question is in fact a result of the lack of a well defined set of export objectives for D.S.C. It is basically an inconsistency between operating and strategic levels of the sort which should be eliminated if the strategy setting process were truly effective. Analysis of this question in some depth is certainly required and raises many matters pertinent to the assessment of existing strategy.

The case for increased involvement in Europe

1:10 Operating success in Europe has been largely the success of the I.D. areas and has been achieved with the minimum of D.S.C. involvement. Thus a discrepancy appears between the historical operating success achieved by leaving marketing to (good) distributors and the strategic, theoretical, advantages which are available if D.S.C. improve their own marketing involvement.

Relevant features to this discrepancy are:-

The time period involved; strategic advantage may be longer term than operational.

The manpower resources etc.

But these are precisely the kind of questions which should have been firmly settled at an earlier stage of planning. <u>If</u> clear objectives have been set at higher levels they have <u>not</u> been communicated to the operational (Export Department) stage within D.S.C. The Department will naturally pursue a line closely linked to historical success and failure patterns and to attempt to encourage a different viewpoint naturally leads to friction and confusion.

Thus in the case of involvement in European marketing and whether or not D.S.C. should extend their activity in this, the following questions should ideally have been asked and answered:

1. How will D.S.C. gain by the change?
   - will market share rise
   - will sales rise
   - how much will costs rise
2. What manpower requirements will arise?
   - how are these to be met
   - will this result in a fundamental change in the importance and work of the Department
3. What control mechanism to register performance will be employed?
4. How will the increased market research requirements be supplied?
5. How will the change in D.S.C. policy be reflected in the rest of the group?

- is it in fact appropriate to use D.S.C. attributable profit as a yardstick
- will others in I.S.C. group follow suit.

These considerations should form the basis of a policy and an ideal sequence for the operation would be:

A Detailed explanation of the reasons why increased marketing in Europe is being considered.

B Due registration and consideration of the Export Department view on this.

C Timetables, budgets, forecasts, control guidelines laid down for achieving any change in the marketing system which was decided upon.

D Recruitment, provisions etc. to achieve the programme.

E Implementation of the measures.

Instead there has been a largely unexplained, "directive-type" approach to increasing involvement with ill-defined objectives for the operation, and consequent problems in a consistent strategy. The actual result places increasing emphasis in A.C. areas, directly opposite to operational experience and results in dissonance between the strategy and operational levels (for example on pricing, priority of supplies etc.).

Part of the reason for this difficulty must be the split in function between D.S.C. and I.S.C. It is almost certain that a corporate structure where market research, overall co-ordination etc., are reserved for I.S.C. as a "holding company" would produce problems.

The difficulty of formulating a D.S.C. strategy

1:11 The examination of the particular case of marketing involvement in Europe has shown up difficulties in D.S.C. strategy formulation which are very wide ranging in effect. They stem from the fact that D.S.C. have exercised very little marketing responsibility in Europe.

1. In a situation of supply shortage there has been little effort needed beyond delivery to a distributor.
2. What market research data are gathered are done so at an I.S.C. level.
3. Even financial objectives are determined by I.S.C. transfer prices. These determine D.S.C. profit margins and consequently undermine D.S.C. margins as distinct "objectives". Moreover, the Standard Costing system used by I.S.C. gives periodic large price increases which furtherreduce D.S.C. pricing flexibility.

   Consequently even turnover targets are based upon a suspect costing and price basis.

Strategy has been largely out of D.S.C. control therefore - each territory behaving in a manner suited to local requirements at the time. For example: what strategic influence in the area of pricing can D.S.C. possibly exert in view of the following limitations?-

1. I.S.C. costs are the crucial manufacturing base
2. No competitor prices are available in detail
3. European Product Management would exercise an overall control on pricing policy.
4. Overall product development control rests with I.S.C.

5. Local distributor margins, retail margins, tax rates etc. vary considerably.

Clearly the scope for a D.S.C. price policy at present is very narrow. Other aspects of marketing are similarly restricted. This makes the need for an effective strategy in export marketing even greater. The steps which such a strategy would require are broadly as follows:-

1. Decide export objectives in each territory on the basis of the market potential as reveal by M.R. of the area. Set these in consultation with the distributor.

   These should include:-

   a) turnover
   b) gross margin and expenses
   c) market share
   d) the major market segments aimed at.

2. Apply a rational pricing policy to achieving the objectives above. Link this with a system to allocate and evaluate promotional expenditure in the markets and ensure consistent promotional and advertising themes.

3. Decide upon the other operational measures which are needed to achieve the objectives:-

   a) possible concentration between markets
   b) systematic product development
   c) distribution assessment and changes
   d) staffing required
   e) possible change in emphasis of the home as opposed to export operations.

These items are each dealt with in subsequent chapters. The complete recommended strategy is presented in Chapter Seven in which the various strands of export marketing strategy are brought together again in considering overall export profitability.

SUMMARY - CHAPTER ONE

The objectives of the research are to identify and evaluate the present marketing strategy of D.S.C. in Europe and to suggest improvements (1:2). The major hypothesis is that a need exists for systematic analysis to improve marketing strategies used in exporting and that such analysis can be fairly simple, very effective and appropriate even in cases where the exporter is apparently already successful (1:3). The Methodology is basically qualitative analysis through evaluation of existing and alternative strategies and policies (1:4) and involves a micro examination of the Company, a macro examination of the environment and application of the (small) existing body of relevant literature. To introduce the project the Management Plan System of the firm is described (1:6) and general objectives laid down. Evaluation of these is begun and a specific topic (the case for increased involvement in Europe) pursued to illustrate some of the problems encountered in the research.

CHAPTER TWO

DUNLOP IN SPORT

EARLY HISTORY

2:1 The involvement of a major tyre manufacturer in the sports goods business is based upon the use of rubber in many articles of equipment in sport. The connection arose around 1910 when a Dunlop golf ball was produced and sold in many garages alongside the tyres. Both the golf ball and the new tennis ball which appeared in the early 1920s were developed and produced at Fort Dunlop, outside Birmingham. Surplus rubber at the tyre plant was utilized and the tennis ball promoted as "The only ball with an inner tube." These products prompted a move into the sports trade proper and away from the tyre based distribution system. The firm of F.A.Davies at Holborn was acquired and the existing facilities for racket manufacture formed the base for Dunlop's move to the non-ball field. From 1925 the involvement of the firm in sport expanded continually both on the product development side and by acquisition of competitors.

Product Development

2:2 The solid ash steam bent frames of the 1920s were superseded by cold bent laminated frames in the next decade. These were introduced by Dunlop from the United States and by 1936 a "Maxply" tennis frame was on the market. The Dunlop tennis ball appeared in 1925 and obtained tournament adoption throughout Europe. In 1934 a "Dunlop 65" golf ball was introduced, named to commemorate Henry Cotton's historic round of 65 strokes in the Open Championship.

These products have continued to be the main elements in the Dunlop range. By 1936 half a million dozen golf and tennis balls were each produced and 80,000 rackets and frames.

<u>Corporate Developments</u>

2:3 The Dunlop Sports Co Ltd (D.S.C.) appeared as such in 1930 and after a brief period when merged with the main Dunlop Co., was established as an operating subsidiary of the latter. A range of sports firms were acquired prior to 1964. These included: Slazengers (golf, tennis, cricket, hockey)

Carlton (badminton)

Litesome (clothing)

Sealey (angling)

John Letters (golf).

In 1964 the International Sports Co. (I.S.C.) was formed as a holding company for the whole sports interest. Manufacturing for DSC and Slazenger became an I.S.C. responsibility and these firms became marketing organizations. The I.S.C. group involves some 4,500 people and 9 factories in the U.K. and is part of a world wide Dunlop Group of 28 sports good factories which had a turnover of £85 m. in 1974.

2:4 The Group's current strength in the U.K. and Europe has come about as a result of two factors:

1. The successful innovations of the inter-war years on the main lines; golf balls, tennis balls and rackets and frames.
2. The acquisition of competing sports interests in the U.K.

The current position on distribution is that D.S.C. have a marketing responsibility for product ranges in tennis, golf, badminton, squash and table tennis. About half of total sales are to the home market through a sales force of Area Managers. The export sales are handled either by Independent Distributors (I.D.) abroad (usually with a Sole Agent agreement) or by the Sports Divisions of Dunlop Associated Companies (A.C.). The distribution pattern in Europe has arisen from historical factors in each territory as opposed to a planed distribution strategy for the region.

The production position is that wooden frames are produced at Waltham Abbey (Essex) and Horbury (Yorkshire). Golf balls are made at Speke (Liverpool) and Normanton (Yorkshire). Tennis balls are produced at Barnsley and golf clubs at Horbury and Glasgow. The administrative head office for both D.S.C. and I.S.C. is at Allington House in London and a central depot has been opened in Leeds. This fragmentation of activity is once again a historical feature of the development of the company.

In 1974 D.S.C. employed 50 operatives and 164 staff - the proportions reflecting the administrative and marketing bias of the company. Turn-over figures are given in detail in Chapter Four.

Figure One illustrates the various factory and warehouse functions in the D.S.C. operation and the location of these is given in Figure Two. In Figure Three the positions of the Dunlop group and of D.S.C. in the world and European markets respectively are introduced. These are taken from I.S.C. marketing research data. Three points emerge initially:-

1. The large market shares in both tables held in the golf and tennis ball markets.
2. The substantial share held in the tennis frame market

and the large share of the very fast growing squash market in Europe.

3. The very impressive growth in volume of the golf, tennis and squash sectors.

FIGURE 1

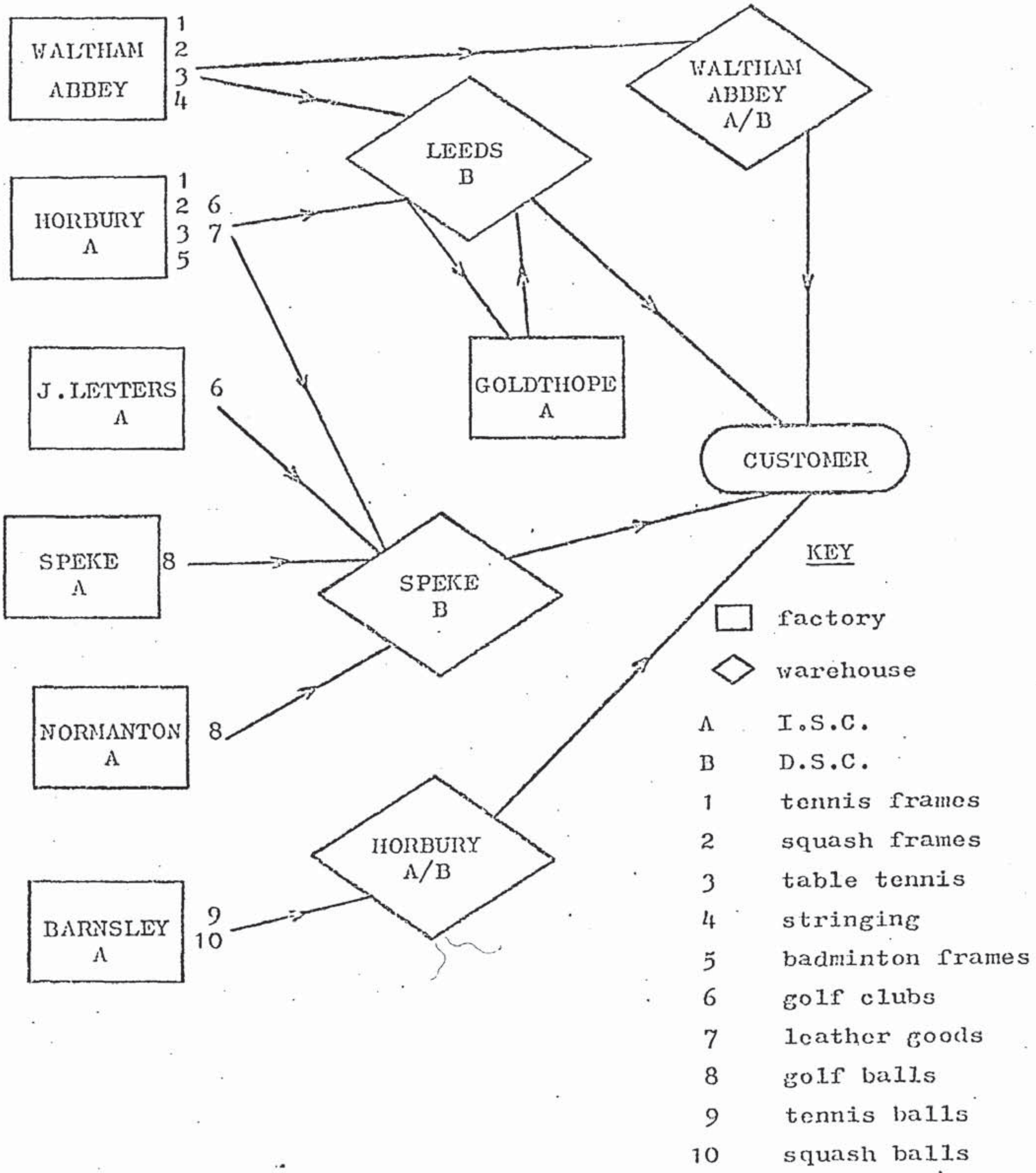
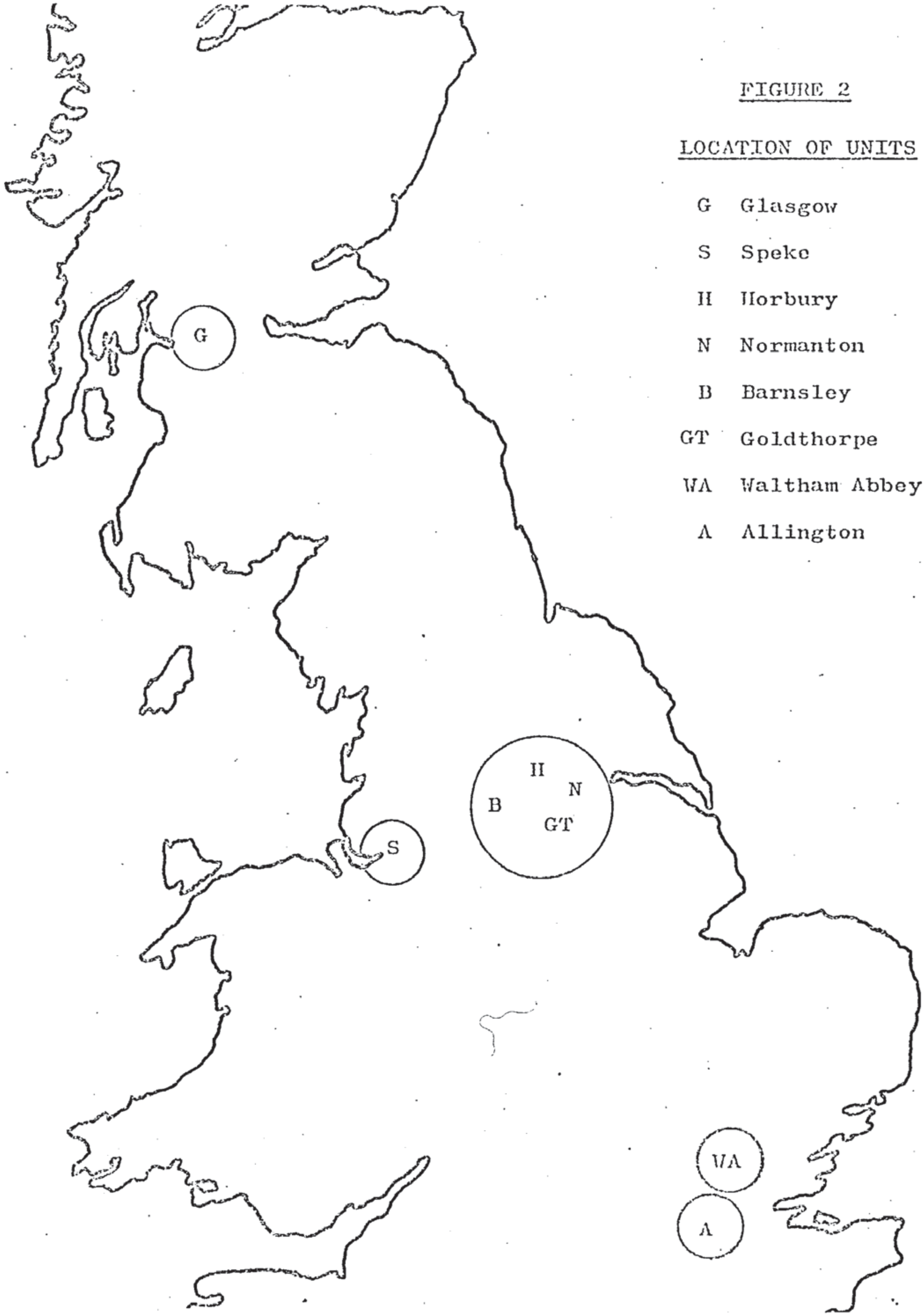


FIGURE 2

LOCATION OF UNITS



G Glasgow

S Speke

H Horbury

N Normanton

B Barnsley

GT Goldthorpe

WA Waltham Abbey

A Allington

FIGURE 3*

DUNLOP GROUP WORLD-WIDE 1974

	WORLD OUTPUT M	GROUP OUTPUT M	GROUP % WORLD	NO. OF MANUF. NATIONS	GROUP MANUF. NATIONS
GOLF BALLS	25 doz	6.9 doz	24	10	8
GOLF CLUBS	33	1.38	4	10	7
TENNIS BALLS	11 doz	3.85	35	17	8
RACKETS & FRAMES	14	2.17	16	29	4

D.S.C. SALES IN EUROPE 1000 UNITS

INCLUDING U.K.

	SALES 1969	SALES 1974	% GROWTH	% MARKET SHARE
GOLF BALLS	580 doz	920 doz	59	40
GOLF CLUBS	130	215	65	11
TENNIS R & F	260	415	60	18
BADMINTON R & F	24	15	-30	4
SQUASH R & F	32	120	275	30
TENNIS BALLS	560 doz	1060 doz	89	38

*SOURCE: I.S.C. Market Research data

Special features of Europe

2:5 The European markets show sufficient common features as a group to distinguish them from the U.K. or the rest of the world. The most marked is the importance of tennis as opposed to golf. In the U.S., Far East and U.K. markets tennis is less important in total sales terms than golf whereas for Europe the reverse is true.

TABLE 4*

U.K. SPORTS EQUIPMENT MARKET

	£M		
	1971	1972	1973
GOLF	6.0	6.9	8.9
RACKET GAMES	3.5	4.5	5.9
TABLE TENNIS	0.6	0.7	0.8

W. GERMAN SPORTS PARTICIPATION

	1972	1973
GOLF	23,410	24,706
RACKET GAMES	477,079	533,521
TABLE TENNIS	362,042	387,056

The emphasis on tennis is common to most European markets. In Sweden a sizeable golf sector has grown as has been the case in Spain and always been evident in Eire. The very rapid growth of squash in Britain has not yet been seen in European market (the only exception is again Sweden where 300 courts were in use by 1975).

*SOURCE: E.I.U. SPECIAL REPORT NO 3 MAR/FEB 1975

Trade flows in sports goods in Europe

2:6 A considerable amount of difficulty has been encountered in estimating market sizes in sports goods in Europe. Where government figures are available they often include toys and other articles which are outside the scope of the sports goods market. Besides official statistics, the local federations in each sport often keep market size data. In the U.K. the situation is improved by the existence of the Business Monitor figures and of Federation of British Manufacturers of Sports and Games. The problem of market estimation in Europe can only be resolved when detailed figures for local production in each territory are available. Until that time the import and export estimates may be used to advantage in one of two ways:

1. D.S.C. can compare its own exports to each territory with the total figures for imports in each case. This comparison with other competing exporters may be of special significance where a market is for some reason anomalous. In the tennis frame field for example, there is an advantage in comparing D.S.C. exports to total imports in the case of Belgium because extremely large manufacturers are based there. These companies dominate the Belgian market completely and export on an enormous scale. A very low market share in the Belgian market is therefore to be expected. But an analysis of Belgian imports indicates a low D.S.C. share of these and this is independent of the strong local producers.

2. A figure for imports less exports in each case gives the total market size after deducting local production. This net figure of imports automatically excludes goods imported for re-export:-

FIGURE 5*

IMPORTS MINUS EXPORTS: TENNIS FRAMES

VOLUME TRADE STATISTICS:

(1 metric tonne = 2350 frames)

	1970	1971	1972	1973	1974
BELGIUM	-594	-751	-1132	-1615	-1860
FRANCE	235	223	321	289	320
W. GERMANY	259	298	374	400	505
HOLLAND	108	92	89	88	
ITALY	239	224	327	378	315
DENMARK	7.8	12.7	8.9	14.3	

THOUSAND FRAMES

At this stage it is necessary merely to indicate trade flows qualitatively:-

1. Tennis Frames:

The major European net importers are France, Italy and W. Germany. Belgium is a very substantial net exporter. Non European sources are the United States for top quality and price and the Far East for the cheaper models.

*SOURCE: TRADE STATISTICS - DEPARTMENT OF TRADE

2. <u>Tennis Balls</u>:

The Dunlop group produces in Britain, Italy, France and W. Germany. The other manufacturing areas are Sweden (a major competitor), Eire, and Czeckoslovakia. European sources are predominant.

3. <u>Golf Clubs</u>:

Only Eire and the U.K. manufacture in Europe. The main source is the U.S. with a large number of companies selling to Europe. The Far East supplies cheaper clubs.

4. <u>Golf Balls</u>:

Dunlop manufacture in Eire and the U.K. D.S.C. have a strong position in Europe with the main competition coming from a variety of U.S. concerns.

The tennis market therefore has U.K., European, U.S. and Far East suppliers. The golf market is served by U.K., Eire and the U.S. with some Far East involvement.

<u>CHOICE OF MARKETS FOR THE STUDY</u>

2:7 Certain aspects of strategy formulation will require attention to the whole European scene (for example in discussing concentration, or prospects in Eastern Europe - chapter seven). However, to enable a manageable comparative approach to be made it was decided to focus attention on the largest European markets of D.S.C. The five largest A.C. customers and five largest I.D. customers were chosen. These are:-

A.C.	I.D.
W. Germany	Holland
France	Spain
Belgium	Sweden
Denmark	Italy
Eire	Switzerland

In discussions of distributor performance and considerations of pricing, market share and competition these are the territories in the sample.

CONCENTRATION ON PRODUCTS

2:8 Further focussing became advisable when the product breakdown by sports for D.S.C. was considered. From Table Six the predominance of tennis and golf in D.S.C. export business is quite clear. The main emphasis is therefore on these sports.

TABLE 6

D.S.C. PERFORMANCE BY SPORT IN EACH MARKET

% OF TOTAL GROSS T.O. 1974

	Golf	Tennis	Badm^{n}	Squash	T.Tennis	Sundries
HOME	53.3	14.2	0.9	10.5	3.5	17.6
DIRECT EXPORT	19.0	70.6	0.4	2.7	6.6	0.7
A.C. EXPORT	18.7	70.2	1.8	3.9	5.0	0.4

% OF TOTAL GROSS MARGIN 1974

	Golf	Tennis	Badm^{n}	Squash	T.Tennis	Sundries
HOME	58.5	14.8	1.3	11.5	3.4	10.5
DIRECT EXPORT	17.4	74.5	0.4	2.6	4.9	0.2
A.C. EXPORT	19.2	71.0	1.7	3.6	4.4	-

Pricing structures and details of competitors' activity were collected for the golf and tennis sectors in the ten markets chosen for the sample. The three minor sports and the other European territories are included in the discussion as and when the analysis so requires, and their specific requirements are largely considered with respect to the impact on the overall sports operation.

THE SUCCESS OF D.S.C.

2:9 The initial impression suggested by the figures on Dunlop's market share as a group is that of a successful penetration of the sports goods market. This impression is certainly supported by internal records of performance and profitability which will follow. The market shares in golf and tennis have been built upon the innovations which the Dunlop 65 golf ball, the Dunlop tennis ball and the Maxply Fort Frame represented when introduced. The high level of acceptability of these main products is confirmed by their position in the market today. There is also no question that the developments which have been made to the initial brands have been successful. There is, however, a note of caution raised by the observation that the company is so concentrated upon products which appeared in the 1930s, and that the major recent innovations (steel, plastic and fibreglass frames, new club technology, even new dimple shapes on golf balls) have come from competitors. An effective response must include careful development of the potential of new sports (in particular consolidation of the favourable trends for the company in squash) and a pro-active rather than re-active policy in new product development.

Besides good quality and distinctive products, two other factors helped the development of Dunlop in sport. There was the acquisition of U.K. firms already possessing technology necessary for manufacture. Secondly the great growth of leisure industries and sports in particular since the 1950s. Once again these trends have placed the company in a strong position while also indicating the source of possible future problems. The growth of the market has attracted many large scale competitors. These have come from groups allied to the sports sphere (e.g. sports clothing manufacturers) and from large horizontally expanding conglomerates. The competition represented is international and often very marketing orientated.

The innovation and acquisition processes which Dunlop used to such effect in sport have now been taken up by new and professional competitors. The ability of the firm to react to the new situation will largely depend on whether certain restrictions which have developed on its operations continue.

The structure of the firm may be no longer appropriate for example. This is best seen in the attempt to maintain both D.S.C. and Slazenger as brand leaders in golf and tennis. There is also the question of the functions performed by I.S.C. and the split between manufacture and marketing in general. Restrictions specific to exporting concern the use of A.C. abroad in cases where attributable profit to D.S.C. would be improved by the use of a distributor. Head office policy may also be responsible for the situation where more markets than the optimum are served. The strategic policies which the firm employs are naturally affected by constraints from the parent company. Some of the responses to particular difficulaties which shall emerge may stray beyond these constraints (which are often implied and not stipulated), but as possible alternatives they shall be considered in later sections. What this chapter aims to do is to outline the development and present position of the firm concerned.

CHAPTER THREE

Marketing Strategy and the Theory of Objectives

3:1 Ansoff identifies three types of business decisions: corporate strategy decisions determine such matters as overall product mix; administrative decisions structure resources; and operational decisions seek the realization of a target potential. Pricing and marketing strategies are part of the operational decision sphere and it is on operational decisions that business units habitually concentrate their attention. (Bibliography, 1 :i, for example).
All three of these decisions are very closely concerned with business objectives. Marketing strategies require operational objectives which arise from the strategic objectives set for the firm as a whole. The usual strategic objective is that of profit and can be analysed as having:-

- an attribute (profitability)
- a yardstick (rate of return on investment)
- a goal (a desired or target rate of return)

At this level there is usually formal evidence of objective setting by a firm in the shape of Management Plans (sections 1:7, 1:8) and financial objectives in general. To discover a set of operational objectives appropriate for evolving a marketing strategy is far more difficult. At a marketing strategy level the inclination is to concentrate on implementing policies which do <u>not</u> show a direct relationship to the corporate objectives. There seems a need therefore in the case of marketing to develop a set of objectives on market posture and intentions which will act as a link between corporate financial objectives and the operation at the marketing level.

For a marketing strategy therefore an objective can be analysed as having:-

- an attribute (market posture for example)
- a yardstick (market share)
- a goal (a desired share of a market).

The link with the corporate objective of profitability is the hypothesis that higher profit will result from a higher market share.

This thesis is concerned with marketing strategies and as such has to leave corporate strategy in the role of a backcloth against which marketing is carried on. Thus while marketing objectives naturally are constrained by corporate objectives, it is the former which form the main subject for discussion in this thesis.

<u>Objectives, strategy, policy and action</u>

3:2 To avoid some of the confusion often found between various links in the marketing process an elementary division of this (idealised) process is appropriate here. The chain begins with <u>objective setting</u> (for example a target market position to achieve a target profitability). The next stage is to develop a <u>marketing strategy</u> (the overall marketing approach which will dictate the specific policies).

Policies are then evolved to reach the objectives as outlined by the strategy for various elements of the marketing mix (price, product, promotion, distribution, service). The policies are implemented as action and the results monitored for analysis and feedback along the chain. At the strategic and policy stages consistency with the original objectives should be checked and corrective adjustments made.

The gap between the eventual results of the marketing effort and the original objectives (there inevitably will be one) will indicate the degree of success achieved and the extent of refinements necessary in the chain. In the least successful extreme it may require a complete rejection of unrealistic objectives or strategy. In the more successful a change of specific policies or implementation tactics may be all that is required.

Export marketing

3:3 The general marketing outline given above is applicable to home or overseas operations. Export marketing does have certain features which should be separately identified. Export marketing is usually carried out with far less relevant information available than in home activity. The degree of control and influence on price, channels of distribution and sales effort is usually lower, being often restricted through a distributor presence. The level of analysis of results is often lower than for home sales, again reflecting the firm's increased remoteness and hence sense of isolation from the market place. Marketing activity in general is carried out by fewer personnel, in less detail, and greater uncertainty for overseas markets. On the other hand many companies find that the export field holds the greatest potential for growth and that resources diverted to it enjoy increasing returns.

3:4 The particular case of marketing to Europe offers scope for a distinct European approach. Because of the proximity of the markets, the links with the E.E.C. and the better than average level of market information available, the case for a more positive and active marketing approach is far stronger than in many other regions. A European analysis is therefore the logical first stage for a business which is evaluating its export performance.

Many other specific points of difference exist between home and export marketing and these will emerge as the marketing strategy of D.S.C. is now considered.

<u>Present implied export objectives</u>

3:5 It was mentioned in (3:1) that a definite set of export marketing objectives is usually unavailable for evaluation. The usual step is then to generate a set of export objectives <u>by implication</u> from observations of the policy of the firm. In the case of D.S.C. the major export objective as applicable in Europe seems to be:-

> "To capture BOTH volume and high percentage margin on sales of traditional products and thereby seek higher profits."

There is also an implied set of sub-objectives:-

1. To have a market share in each territory in tennis consistent with being a market leader or a major force, and to seek opportunities in other sports as a secondary goal.
2. To have a physical market presence in each territory for each sport offered.
3. To promote wood as the long term preferred material for racket and frame manufacture.
4. To support I.S.C. production, but to sell factored lines and accept local production where circumstances dictate.
5. To support the Dunlop Associated Companies in preference to Independent Distributors both on price and in supply questions.

Implied European strategy

3:6 In order to achieve these objectives (which are given here in the qualitative terms appropriate to implied objectives) the chosen strategy appears to have been to delegate all distribution, most promotion and all consumer pricing activity within a territory to a sole third party, with volume sales being determined more by production capacity than by market conditions. (In a very few cases the distribution within a single territory is entrusted to more than one party, but these operate in different sports.) The policy towards any changes in capacity which could be occassioned by market demand is somewhat obscure but appears to have had a large element of caution involved.

Control

3:7 The strategy outlined above clearly abdicates a large measure of control to the distributor. A policy of use in retaining a partial hold on the overall marketing approach has been to use a predominantly home oriented product range. Thus the same products can be sold at home and abroad and the Company can find a ready alternative outlet for export goods. This supply lever has been a constant feature of the Company's strategy and has not proved ineffective as a control measure in a situation of supply shortage in the whole sports industry. This supply situation appears to be changing quite markedly at present and the validity of a home oriented product range must be reviewed.

Contact between the Company and the distributors can also be used to enhance control of, or at least influence on, the marketing carried out in Europe. In some cases contact is very good but because of manpower limitations it has tended to be sporadic in view of the large abdication of decision making responsibility which the European strategy brings about.

Historic base

3:8 Historically, the strategy has come to be based upon two products in export to Europe. These are the Maxply Fort tennis frame and the Dunlop Fort tennis ball. This reflects the position on tennis which represents the largest volume potential of D.S.C. activities in export to Europe (2:5; Fig. 3, Chapter 2). A secondary product has been the Dunlop "65" golf ball.

These main products represent such a concentration of activity and turnover that nearly all remaining lines are to some extent merely "filling out the range", providing an illusion of business spread over five sports and many products.

Implied market posture

3:9 The above set of main and sub-objectives, with the strategy it leads to, has an implied market posture arising from it. The implied market posture has both macro and micro aspects associated with it and can be summed up as:-

> "Second hand contact with the market through intermediaries, with supply consistently behind demand in expanding segments of the sports market, coupled with a low profile promotion impact."

This has implications on each in turn of the elements in the marketing mix. In each case the posture implied here can only be effective if certain criteria are met. In pricing, an awareness and critical appraisal of home and export price levels, export retail levels and competitive trade and retail prices may be impaired by such a posture.

Product innovation and competitiveness in terms of design requirements for market conditions, product life cycles, and product quality requirements (both inherent and cosmetic), are another area where the implied posture could prove inadequate. Service levels on supply, support facilities and information provision are hardly encouraged by the posture implied above. Nor are a critical assessment of either the intermediary's performance or D.S.C. utilization of information. In fact, the market posture seems to be a somewhat negative feature as a whole and it does nothing to prevent inconsistencies arising between individual policies.

Dissonance caused

3:10 These inconsistencies have been instrumental in helping to create dissonance within the European marketing effort. The approach of D.S.C. has been a basic low posture effort (apart from tennis to a large extent) supported by the fact that the Company possessed large scale plant and the appropriate products in tennis. In general, economies of scale are important in racket and ball production and D.S.C. capitalized on the growth of tennis in Europe to attain economies (without a parallel marketing effort to seek increasing returns in this sector). Problems have arisen both from market factors and from internal reasons as the strategy, objectives and market posture have suffered persistant inconsistencies to continue. How, for example, can any long term hope for the main objective of both volume and margin be guaranteed under such a level of abdication of marketing activity? Or how can distributors remain content with their prices when U.K. trade prices become completely out of line due to a continuing demand for margin from export during price restraint periods on the home market?

The actual problems arising, to which the strategy appears to have little answer (and in some cases seems even to foster internal inconsistencies) should be itemized in some detail:-

Market Factors

3:11 a) Increasing competition: competition is very severe on golf, badminton and table tennis and becoming increasingly so on tennis and squash. A low posture marketing effort in Europe offers little possibility of effective counter measures.

b) An increasing awareness by distributors and agents of the price differential between their orders and home market trade prices. This has led to an impossible competitive position on golf and will become so on tennis also, with cross frontier transfer of goods by dealers and amateurs increasingly profitable.

c) The rising tennis market in Europe has allowed price increases by D.S.C. to be passed on. This will no longer be true in view of increasing supply relative to the demand, and distributor dependence and loyalty for D.S.C. will decline. *

d) Besides resentment of rising gross price lists all distributors object to arbitrary "currency surcharges" of the type imposed by D.S.C. in 1975 (discussed in Chapter Five). Independent Distributors also resent the pricing policy which gives them a higher base price list than that for Associated Companies.

Structural Factors

3:12 These are mainly the result of the I.S.C. corporate structure. There are in particular certain

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* See Note One, Page 52.

losses in incentive for D.S.C. occassioned by the transfer price system operating for their purchases from I.S.C:

a) The requirement for margins generated on the export side to offset restricted home prices and margins. Once I.S.C. transfer prices are set (according to standard cost estimates) for the year, and given a certain admissable home increase in price, export price flexibility is very strongly confined by the overall margin objective. Diverging home and export price lists, with a low market place acceptability result.

b) In the case where D.S.C. sell a greater volume than that used for the initial costing calculation, then I.S.C. average cost will be lower. D.S.C. however receive no direct credit for this - their margin per unit will be unchanged.

c) In the case where D.S.C. sell less than the standard cost volume, the lower plant utilization level will result in a higher cost of production. The standard costs for the following year may then be raised excessively to reduce the chance of a similar over-estimate of volume. The high standard cost will necessitate a high transfer price and high D.S.C. prices (particularly on the unrestricted export market), causing an actual restriction of volume and prolonging the price/volume spiral.

d) The effect of volume on I.S.C. production costs has a further aspect because of the common manufacturing facility for D.S.C. and Slazenger. If

Slazenger volume drops, the transfer price for the following year of both D.S.C. and Slazenger will reflect this in the manner described in c) above. This linking of D.S.C. costs and prices to the performance of an external unit hardly encourages a sense of recognition of enterprise.

Alternative objectives

3:13 It is not intended at this stage to present a complete alternative strategy for European operations. An examination of possible alternative objectives is appropriate, however. To a large extent it becomes a question of assessing different market postures and the resulting broad strategies and for this reason three posture oriented alternatives are examined (rather than a list of objectives classified by some other dimension such as financial requirements, turnover goals etc.). These three alternatives will then form a basis for a choice, and this choice will dictate the rest of the thesis. The posture recommended at this stage will directly impinge upon the pricing, distribution, and promotion elements considered in detail, and will form the initial phase of the combined strategy as developed in the final chapter.

The three market posture attitudes now discussed are defensive, neutral and aggressive in attitude.

Defensive posture

3:14 Major objective: to have a market share in each territory in tennis consistent with being a market leader or major force.

Sub-objective

1. To hold adequate margins at target volumes for tennis.

2. To let margins rise on other equipment with a view to maintaining absolute value margins irrespective of volume targets.

The strategy for achieving these objectives would be:-

To maintain intermediary distribution for all products, by territory, and allow intermediary preferences and market forces to determine which products are bought from D.S.C. D.S.C. would make some effort to sell the full range through the pricing policy and by limited personal contact.

When this approach is compared with the implied approach of the Company it is clear that the present approach has many features in common with a defensive posture. The latter recognises the preponderance of tennis in the European theatre and retracts effort and involvement in other sports. These would be allowed to decline in volume terms, being maintained only as small volume/high margin lines to preserve an illusion of a broad sports range. On tennis the emphasis is conversely on volume, the goal being that of market stature and the rationale one of concentration on the economies of scale available to D.S.C. in supplying the huge European market.

<u>Neutral posture</u>

3:15 <u>Major objective</u>: to have a market share in each territory in tennis consistent with being a market leader or major force and a significant presence in each territory (where applicable) in other sports.

<u>Sub-objectives</u>

1. To hold adequate margins on all equipment consistent

with target volumes to each territory.

2. To maintain (usually) sole intermediaries and supply to their requirements.

3. To increase the contact and involvement between D.S.C. and intermediaries in order to raise D.S.C. competance in areas of:-

    - product design and innovation
    - supply requirements of intermediary
    - export market promotion.

The strategy for achieving this would be:-

> To concentrate on historically successful distribution channels and on tennis preferentially but to actually defend a presence in non-tennis equipment sales.

A major element is the increased contact between the Export Department of D.S.C. and the distributor and the strategy largely depends on a successful and effective result from this increased contact.

This neutral market posture is if anything even closer to the implied posture of the firm than the defensive case in section 3:14. The emphasis here is less on recognising a product dimension for the posture (and concentrating on tennis), than on recognising a distribution dimension (and concentrating on the historically effective intermediary of an independent sole distributor).

It is the close identification of this approach with present D.S.C. behaviour which raises the distribution question to such importance in the policy of the Company. In (1:10) this question was raised as a specimen of the problems to which D.S.C. now has to define answers. A neutral posture, emphasising the role of the distributor and seeking improvements of the D.S.C. contribution to his marketing efforts is a defensible stance to propose. It does not, however, initiate the kind of re-appraisal of broad strategy and objectives which may well be required to solve some of the difficulties described in (3:10). For this a more aggressive base may be necessary.

Aggressive posture

3:16 Major objective: to have an overall European market share, in each sport, consistent with being a market leader, and to seek higher absolute profit levels through a realisation of higher market shares.

Sub-objectives

1. To treat all distributors on an equivalent and objective basis.
2. That source of supply decisions shall be made with strict reference to the main objective.
3. That the D.S.C. level of market place activity and involvement shall be decided by reference to the main objective.

This aggressive posture shows significant differences from the implied Company posture at present. The implications for the European export operation are widespread and it would substantially relax many of the marketing constraints at present in force. The various product strategies would evolve in different ways for tennis and squash, golf, badminton and table tennis.

To achieve the objectives on tennis and squash any strategy would have to include both D.S.C. operating changes and changes in the relationship with distributors. Among the former would be a competitor oriented pricing policy, measures to improve the service and supply record and possibly an export only inventory. On the distributor question territorial planning divorced from strict Management Plan requirements, a volume sales incentive and an improved distributor assessment procedure (in terms of their potential and actual performance) would be necessary. Golf is a special case in many respects among the five sports under discussion. The requirements for achieving the objective in this case include all those for tennis and squash plus further reappraisals. These would involve three areas:-

1. Reappraisal of product range, competitive ranges and consumer attitudes.
2. Production reappraisal to ensure costs (and prices) compatible with product image.
3. Extension of the distribution reappraisal to both distributor and other channel alternatives.

For badminton and table tennis the market posture requirements for achieving the objectives are as drastic as for golf. The product range, competitive ranges and consumer attitudes again need drastic re-evaluation. The analysis here has to be carried out in the light of market potential, D.S.C. potential, D.S.C. image and perhaps above all of the cost of re-establishing a market presence.

3:17 This aggressive posture then seems to be the appropriate means to establish D.S.C. in the European sphere as a market force across the five sports. A differential approach for specific sports is necessary but the market share and export appraisal elements are a common theme. The advantages and disadvantages of a market share oriented strategy will be considered in Chapter Seven. The implications of an aggressive market posture for pricing and distribution strategies and policies shall be explored in Chapters Five and Six. In conclusion it may be said here that the problems now arising for D.S.C. on golf, badminton and table tennis would become increasingly important in the tennis and squash areas as well unless effective strategies are evolved. To this end an aggressive market posture in Europe seems a necessary base and the introduction of this depends largely upon relaxation of marketing constraints and historical precedents by the Company and by I.S.C.

Note One: As a result of the various market trends mentioned in (3:11), and because of persistent inability to supply distributor requirements, the (almost traditional) 'loyalty' expected by D.S.C. of distributors is detectably declining.

SUMMARY - CHAPTER THREE

The structure of marketing theory was introduced in terms of three types of business decisions and the place of marketing strategy in these decisions. The elementary significance of Objectives, Strategies, Policies and Action was explained and the particular complications of Export Marketing were introduced. An Implied set of Export Objectives was postualted arising from the behaviour of the firm as observed in the export market field. An Implied European Strategy and Market Posture were derived which it was held lead to certain inconsistencies and problems. These problems were analysed as those arising from an inability to deal with Market Factors and those arising from the structure of the Company. Three possible market postures and sets of objectives were then examined which are alternative strategic possibilities open to the firm. Present policy seems to lie between the defensive and neutral market postures and it is felt that this does not constitute the optimum response to the situation. A more aggressive posture, therefore, appears desirable and this will be explored and tested for applications on price, distribution, and marketing strategy in general.

CHAPTER FOUR

D.S.C. PERFORMANCE ANALYSIS

INTRODUCTION

4:1 This chapter provides the mass of data on D.S.C. performance which is required to analyse the Company's European operation. Besides the body of this analysis there are several appendices on features arising directly from this phase. The chapter is presented in three sections:-

Part A

Part A examines the actual financial targets for D.S.C. In particular the adjustments in targets between successive planning periods, the relation between actual and planned figures and the inferences thereby applicable to the various D.S.C. markets are explored.

Part B

This section takes the most general classification of these markets: Associated Company, Independent Distributor and Home plus P.G.C.A. sales. The performance of these is compared and analysed as far as possible under the present non-consistent selling price basis.

Part C

Part C examines the European area itself and looks at the performance of individual territories in Europe down to the main product level. Once again a distinction is made between the A.C. and I.D. territories and overall contribution on sales, margin and volume compared. The whole flow of this analysis is from the general issues of financial objectives to topics increasingly specific to European marketing. At each stage the limitations of the data are presented and the conclusions drawn must be consistent with these.

The whole trend of the chapter is therefore to discover the basis of D.S.C. past performance and identify the operational difficulties in meeting the financial objectives. The Management Plan system was introduced in Chapter One and qualitative objectives implied in Chapter Three, here the formal quantitative objectives are assessed. If the financial objectives are to be met then certain levels are expected at home and abroad. The sources of growth and contribution are identified. Then the pattern within Europe is examined. At this stage significant differences emerge in the performance of D.S.C. in A.C. and I.D. areas. These differences are closely linked with the differential pricing and distribution policies for these accounts and they are pursued in the next two chapters.

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* To preserve the flow of the Chapter, the graphs for Chapter Four have been placed in a separate section, Appendix Nine, at the end of the thesis.

** P.G.C.A. is the U.K. Professional Golfers Co-operative Association.

PART A

4:2 The first requirement in examining D.S.C.'s stated financial objectives is to assess how these are presented within the Company. Each three year Management Plan begins with a set of Plan Objectives. The first three of these describe the planned improvement in D.S.C. net turnover and net profit. As a first step it is useful to see how these become changed from one plan period to the next. This indicates whether the objectives are generally met or are excessive.

TABLE ONE

PLAN PERIOD		1972	1973	1974	1975	1976	1977
1973/5	Turnover	6.9	8.3		10.5		
1974/6	£M		7.6	10.0		12.7	
1975/7				9.9	15.0		21.2
1973/5	Net Profit	0.79	1.05	1.40			
1974/6	£M		0.70	1.13		1.56	
1975/7				1.28	1.79		2.75
1973/5	Profit	11.5	12.6		13.6		
	div. by						
1974/6	Turnover		9.2	11.3		12.2	
1975/7	%				12.0	12.0	12.9

Actual performances were as follows:-

	1972	1973	1974 (est.)
Net Turnover	6.5	8.0	9.9
Net Profit	0.77	0.73	1.28
Profit div. by TO.	11.9	9.2	12.8

Few startling inconsistencies or changes are revealed by this comparison. It seems reasonable, therefore, to accept the company's planned objectives in this form as attainable within planning limitations.

4:3 The growth trend revealed by the objectives and by the actual results raise two questions:-

A) A comparison with the other I.S.C. units and the overall I.S.C. performance.

B) An examination of the areas which supply the growth element of D.S.C. business.

The first of these is readily available within the 1975/7 Plan. The Table Two shows turnover and P.B.I.T. for I.S.C. units. A reference to it will come later when the figures for W. Germany and France are examined (Appendix IV).

TABLE TWO

Turnover £1000	1974	1975	1976	1977	% Inc. 1977 over 1974
I.S.C.	21,500	30,630	37,000	44,000	105
I.S.C.Man.Unit	425	540	605	669	58
D.S.C.	9,969	15,029	17,912	21,230	113
Slazenger	7,705	11,991	15,231	18,434	139
Carlton	1,775	2,385	2,935	3,570	100
Litesome	1,404	1,675	1,981	2,319	65
J.Letters	453	673	846	1,021	125
P.B.I.T. £1000 I.S.C.	2,803	4,500	5,000	6,000	124
I.S.C.Man.Unit	(297)	899	716	948	-
D.S.C.	1,279	1,792	2,247	2,745	125
Slazenger	918	1,280	1,675	2,029	121
Carlton	440	617	755	884	100
Litesome	42	132	55	93	121
J.Letters	60	95	122	157	162

( ) indicates a loss

The figures put the D.S.C. growth into perspective within the group. They also raise a most important point about the transfer pricing procedure. The I.S.C. manufacturing unit transfers to D.S.C. on a Standard Costing basis. However, as this unit records a profit or a loss itself, the question arises, how can D.S.C. net profit be regarded as an objective in the strict sense? The level of the transfer price would seem to allocate profit between the manufacturing and marketing units. Thus although the objectives set for D.S.C. for profit may be reasonable and attained, in terms of return on funds employed and turnover of D.S.C., these profits in fact have to be seen in terms of the funds employed in I.S.C. as a whole. A chart of P.B.I.T. on A.N.F.E. illustrates this:-

TABLE THREE

	1974	1975	1976	1977
I.S.C.	28.9	34.4	32.1	32.7
I.S.C.Man.Unit	(6.0)	14.4	9.2	10.5
D.S.C.	71	67	68	68
Slazenger	44.4	44.1	46.1	46.8
Carlton	103.3	126.7	141.6	142.3
Litesome	7.3	19.1	8.1	11.8
J.Letters	78	74	86	68

The spread of return on capital within the group is very wide. The table clearly issustrates that for D.S.C. (a return of around 70%) the figure should not be taken in isolation but in conjunction with the manufacturing operation.

These three tables of I.S.C. units show several features worthy of further comment.

It has already been seen that D.S.C. financial objectives are fairly ambitious. In the I.S.C. picture the importance of D.S.C. growth in turnover and profit is clear. It would appear essential to identify the main sources of the D.S.C. growth in the past and assess the probability of these areas continuing to provide the required improvement in overall performance. These factors are considered in Parts B and C.

4:4 But before leaving the financial side of the objectives a brief summary of points raised seems useful:

1. D.S.C. has grown in the past and provided a consistently good return.
2. The role of D.S.C. as a marketing unit raises questions about the transfer price and about D.S.C. profit and return objectives.
3. The need to analyse the strong areas of D.S.C. trade is great if the high expectations are to continue to be met.

PART B

4:5 Turning to the sources of D.S.C. growth in margin and turnover the first matter to be examined is the breakdown between home and export sales. Besides the actual recorded performance a study of expected performances as predicted in successive years is indicated.

4:6 Tables Four and Five show how the Associated Company, Independent Distributor and Home markets have developed. Comparison is not completely equitable at the Gross Turnover level because different price bases are used for the different categories. Net Turnover is a far more equivalent basis as distributor discounts and various commissions have been deducted. Operating Margin depends on the efficacy of cost allocation and has to be accepted to some extent as a fair representation of margin in a study at this level. From 1973 an export surcharge and a home and export allowance for price increases appears and is added to Gross Turnover for the I.D., Home and A.C. totals.

The home contribution to turnover is approximately 50% and to operating margin around 25% with a very low 9% contribution in 1974. While accepting that for reasons of price control home expenses may be deliberately inflated (and home margins depressed) this seems an important imbalance. Implications on both the use of resources and of allocation of goods clearly flow from this. Undoubtedly there are many inconsistencies which complicate the home versus export comparison but the evidence suggests that the

TABLE FOUR

£1000

	1971			1972		
	A.C.	Dist.	Home	A.C.	Dist.	Home
G. Turnover	1,530	1,479	3,046	1,663	1,708	3,527
Surcharge	-	-	-	-	-	-
N. Turnover	1,517	1,317	2,944	1,646	1,518	3,372
Gross Margin	351	423	746	368	480	826
Operating Margin	136	226	99	167	282	150

	1973			1974		
	A.C.	Dist.	Home	A.C.	Dist.	Home
G. Turnover	1,962	2,012	4,411	2,290	2,878	5,852
Surcharge	26	15	-	-	-	-
N. Turnover	1,969	1,819	4,215	2,275	2,595	5,672
Gross Margin	470	599	1,001	630	956	1,568
Operating Margin	199	377	194	374	683	524

	1975 (PLAN)			1976 (PLAN)		
	A.C.	Dist.	Home	A.C.	Dist.	Home
G. Turnover	4,410	3,354	6,676	4,540	3,928	9,265
Surcharge	441	335	527	196	271	-
N. Turnover	4,809	3,307	6,912	4,695	3,750	8,903
Gross Margin	1,084	1,089	1,435	1,004	1,076	2,039
Operating Margin	684	741	153	549	651	457

TABLE FIVE

Percentage of Total

	1971			1972		
	A.C.	Dist.	Home	A.C.	Dist.	Home
G. Turnover	25	25	50	24	25	51
N. Turnover	26	23	51	25	23	52
Operating Margin	29	49	22	28	47	25

	1973			1974		
	A.C.	Dist.	Home	A.C.	Dist.	Home
G. Turnover	23	24	53	21	26	53
N. Turnover	25	23	52	21	27	52
Operating Margin	25	50	25	24	43	33

	1975 (PLAN)			1976 (PLAN)		
	A.C.	Dist.	Home	A.C.	Dist.	Home
G. Turnover	30	24	46	26	22	52
N. Turnover	32	22	46	27	22	51
Operating Margin	44	47	9	33	39	28

TABLE SIX

	As % of World I.D. Value		
	1975	1974	1973
European I.D. G. Turnover:	64.3	61.9	65.6
European I.D. G. Margin:	65.2	62.1	65.2

	As % of World A.C. Value		
	1975	1974	1973
European A.C. G. Turnover:	28.8	17.8	25.1
European A.C. G. Margin:	34.0	18.2	29.2

export side, and in particular direct export through Independent Distributors is increasingly important in providing operating profits for D.S.C. The trends shown in the tables and Graphs One and Two all illustrate the strength of the direct export business.

4:7 The European I.D. areas are a major part of this world-wide I.D. contribution. European A.C. areas are far less significant on the world A.C. level. Appendix Two puts the European territories of D.S.C. in a world market context and further illustrates the dependence overall upon European I.D. markets for both volume and margin.

4:8 Applying Break Even analysis to the three market types confirms the relative importance of direct export. Taking the 1974 figures to begin with and assuming all fixed costs are fixed and non-recoverable and allocating variable distribution costs by net turnover the following breakdown is found:

TABLE SEVEN

1974 £1000

	Home	Dist.	A.C.	Total
Net Turnover	5,672	2,596	2,276	10,544
Variable Costs:				
Cost of sales	4,104	1,639	1,645	7,389
Var. Distribution	96	44	38	178
Contribution	1,472	913	592	2,977
Fixed Costs	948	229	217	1,395
Operating Margin	524	683	375	1,582

From these figures four indicators may be calculated:-

1. <u>Break Even percentage</u>

   Fixed Cost expressed as a percentage of Turnover at the point when variable costs are exactly covered by contribution.

2. <u>Gross Margin percentage</u>

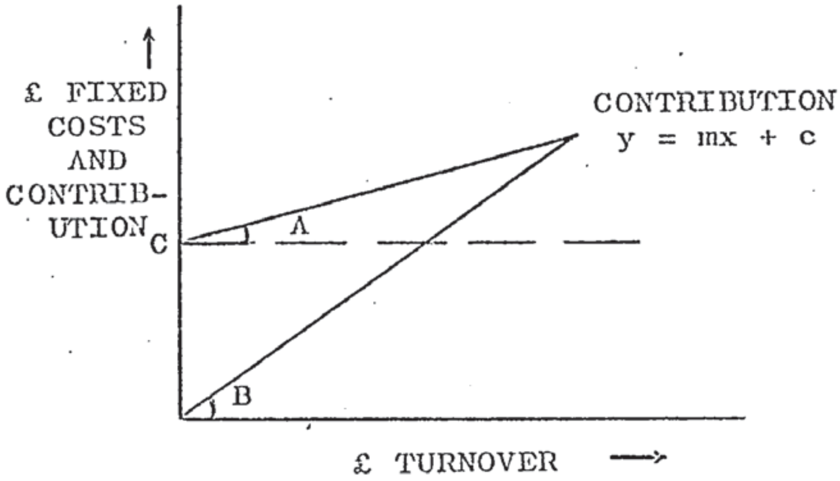
   Variable distribution plus contribution as a percentage of turnover.

3. <u>Operating Margin percentage</u>

   Contribution less fixed costs as a percentage of turnover (tan. A in the diagram below).

4. <u>Marginal Value of sales</u>

   Contribution as a percentage of turnover (tan. B in the diagram below).



y: Contribution
m: Operating Margin %; Tan. A
x: Turnover
c: Fixed Costs

A business will therefore seek to have (usually) the highest Gross, Operating Margins and Marginal Value which can be achieved and the lowest break even point.

The performance of the three areas according to the four indicators described is shown in Table Eight and the importance of the I.D. sector is once again apparent.

TABLE EIGHT

1974	Home	I.D.	A.C.	Total
Breakeven %	64	25	37	47
Gross Margin %	27.6	36.9	27.7	29.9
Operating Margin %	9.2	23.7	16.5	15.0
Marginal Value %	25.6	35.2	26.0	28.2
1975 (PLAN)				
Breakeven %	88	25	33	52
Gross Margin %	20.8	32.9	22.6	24.0
Operating Margin %	2.2	22.4	14.2	10.5
Marginal Value %	18.6	30.0	21.3	22.0
1976 (PLAN)				
Breakeven %	75	36	41	56
Gross Margin %	22.9	28.7	21.4	23.7
Operating Margin %	5.1	17.4	11.7	9.6
Marginal Value %	20.8	27.3	19.9	21.9

4:9 In Part A the planned and actual financial targets of D.S.C. were compared. It is appropriate to examine here how the predicted performance in the A.C., I.D., and Home markets is met by actual results. This is done by comparing how the figures for a single year, 1973, appear in three successive Management Plans.

TABLE NINE Estimated Performance 1973				£1000
Plan Period	A.C.	Dist.	Home	Total
1973/5				
N. Turnover	2,549	1,751	4,007	8,307
Operating Margin	394	310	312	1,016
1974/6				
N. Turnover	1,930	1,719	3,981	7,630
Operating Margin	199	316	139	654
1975/7				
N. Turnover	1,968	1,819	4,215	8,003
Operating	199	377	194	692

The adjustments seen between plan periods show that the expected operating margin of the A.C. markets drops from £394,000 to £199,000. The Home operating margin drops from £312,000 to £194,000. However, the I.D. margin rises from £310,000 to £377,000. There is thus a tendency to consistently overestimate the home and A.C. contribution at the planning stage (comparison for other years confirm the descrepancy). Projections for 1975 and 1976 should be viewed with this in mind. Not only do I.D. markets provide the bulk of operating margin as seen in actual historical performance, but they are also underestimated both relatively and absolutely at the planning stage.

4:10 It is the contention here that the I.D. areas tend to exceed their planned operating margin because of the strength of sales in these areas (rather than because of any D.S.C. effort in distributing profit for taxation or price control motives). It has been argued that home expenses are deliberately made to appear higher when costs are allocated and that this then gives improved justification when seeking U.K. price increases. But the size of the difference in operating margin is sufficient to make it most unlikely that any expense re-allocation could remove direct export from a pre-eminent position of importance.

From a global point of view the direct export contribution is of prime importance and this is especially true when the comparison is made at operating margin level.

The next stage of the analysis is to focus the field of discussion once more and examine the performance of A.C. and I.D. markets in Europe. The overall impression of Part B is confirmed by the European analysis and the direct export trade becomes, if anything, even more significant.

PART C

4:11 To begin the analysis of the European business performance a series of Turnover and Margin statistics is required. These are provided in Graphs Two to Twelve and in the tables in this section.

An immediate problem arises because the selling price basis used by D.S.C. is not consistent for the A.C. and I.D. sectors. As was mentioned in Part B it is very difficult to arrive at a completely reliable comparison between these export sectors because the Gross Turnover figures are based on a price which includes a 10% distributor discount for I.D. areas. Thus quite apart from any further cash discounts or extra special discounts, the I.D. sales should be reduced by 10%. The effect this has on margins then has to be calculated in each case.

The object of this section is to provide an absolute as well as a comparative picture of the European territories. For this reason the graphical section involves:

A. Gross Turnover (Three, Four, Five)

B. Gross Margin (Six, Seven)

C. Turnover less Discount (Eight, Nine, Ten)

D. Percentage Margin on a discount included basis (Eleven, Twelve). (This involves the calculation: Gross Margin less 10% of turnover, divided by 90% of turnover for the I.D. markets.)

The figures are given in tabular form in Tables Ten to Fourteen.

TABLE TEN

Market Gross Turnover

A.C.	1971	1972	1973	1974	1975
Belgium	21,537	25,044	31,766	40,350	68,372
Denamrk	31,778	39,489	49,617	38,942	52,076
Eire	63,851	66,409	77,222	94,416	122,252
W. Germany	195,005	251,118	229,472	167,028	437,625
France	91,940	73,125	104,747	67,740	202,971
I.D.					
Holland	152,767	177,240	279,178	310,114	578,253
Italy	141,711	202,530	258,791	276,880	377,382
Spain	118,334	198,986	183,508	339,492	329,195
Sweden	135,334	166,633	210,954	295,265	316,331
Switzerland	82,171	106,281	114,692	161,344	162,686

Market Turnover Less Discount

I.D.					
Holland	137,490	159,516	251,260	279,102	520,427
Italy	127,539	182,277	232,911	249,192	339,642
Spain	106,821	179,087	165,157	305,542	296,275
Sweden	121,800	149,969	189,859	265,738	284,697
Switzerland	73,954	95,653	103,222	145,209	146,417

TABLE ELEVEN

Percentage Increase Over Previous Year

		1972	1973	1974	1975
A.C.:	Belgium	14	27	26	69
	Denmark	17	32	(22)	34
	Eire	3	16	22	29
	W. Germany	27	(7)	(27)	162
	France	(25)	54	(46)	200
I.D.:	Holland	18	57	11	86
	Italy	45	28	7	36
	Spain	61	(5)	85	(3)
	Sweden	24	28	40	7
	Switzerland	29	8	41	1

( ) INDICATES A DECREASE

TABLE TWELVE

Market Gross Margin

A.C.	1971	1972	1973	1974	1975
Belgium	5,746	7,180	9,387	13,723	15,951
Denmark	9,463	10,982	14,468	13,715	14,795
Eire	10,479	10,167	12,888	16,088	5,294
W. Germany	54,738	66,068	72,054	55,203	101,398
France	31,911	17,776	30,033	21,838	39,843
I.D.					
Holland	64,727	76,125	123,620	139,923	215,920
Italy	59,292	79,756	98,651	113,825	145,103
Spain	46,111	82,042	72,174	149,376	113,836
Sweden	43,063	57,471	61,746	107,240	88,067
Switzerland	32,844	42,714	47,907	74,154	59,629

Gross Margin Less Distributor Discount

I.D.	1971	1972	1973	1974	1975
Holland	49,450	58,401	95,702	108,911	158,094
Italy	45,120	59,503	72,711	86,137	107,364
Spain	34,242	64,143	53,823	115,426	80,916
Sweden	32,529	40,807	40,650	77,713	56,433
Switzerland	24,627	32,086	36,437	58,019	43,360

TABLE THIRTEEN

Percentage Increase Over Previous Year

		1972	1973	1974	1975
A.C.:	Belgium	25	31	46	16
	Denmark	16	32	(5)	8
	Eire	(3)	27	25	(67)
	W. Germany	21	9	(23)	84
	France	(45)	69	(27)	84
I.D.:	Holland	18	64	14	45
	Italy	32	22	18	25
	Spain	87	(6)	114	(30)
	Sweden	25	0	91	(27)
	Switzerland	30	14	59	(25)

( ) INDICATES A DECREASE

TABLE FOURTEEN

Percentage Margins on Discount Adjusted Basis

		1971	1972	1973	1974	1975
A.C.:	Belgium	26	28	30	34	23
	Denmark	30	28	29	35	28
	Eire	16	15	17	17	4
	W. Germany	28	26	31	33	23
	France	32	22	25	27	20
I.D.:	Holland	36	37	38	39	30
	Italy	35	33	31	35	32
	Spain	32	35	33	38	27
	Sweden	27	27	21	29	20
	Switzerland	33	34	35	40	30

4:12 The figures corrected for discount are a first stage in analysing the European picture. The problem of a non-consistent selling price basis is only partly removed by the removal of the discount - a true comparison would only be possible in the last resort if prices net of all discounts and commissions were used in the net turnover and margin data. Besides the 10% distributor discounts taken by I.D. customers from their export price list there are other "cash" discounts available and also special extra discounts in both A.C. and I.D. cases. For the purposes of comparative study at this point the basis used is a net turnover figure as defined to A.C. customers by their sterling turnover and to I.D. customers as sterling turnover less 10%.

This compromise makes a comparison between markets possible but the comparison itself quickly indicates problems in assessing performance. There is above all else a problem of consistency. Among the I.D. markets Holland and Italy have shown strong and consistent growth in turnover, as have Sweden and Switzerland. Spain has grown quickly in 1972 and 1974 and actually fallen in 1973 and 1975. West Germany declined in 1973 and 1974 and expanded sales very quickly in 1975 as did France. The smaller A.C. markets grew more consistently if slowly.

The behaviour of the ten markets has therefore shown a large degree of inconsistency. On the whole this has been more marked in the A.C. area where France and West Germany because of their large size have contributed a large share of the instability. The I.D. markets have grown faster and more consistently overall. In 1975 France and West Germany recovered to some extent but their growth should be viewed against a very low base line in 1974.

In the margin calculations the importance of the I.D. becomes stressed. I.D. have maintained a greater percentage margin to D.S.C. throughout the period and it is I.D. markets such as Holland and Italy which have given both high turnover and margin to D.S.C. which are the strength of the European sales. In 1975 D.S.C. percentage margins have been sharply reduced - increasing costs reached a stage where the rate of price increases on export could no longer keep pace. The I.D. margins maintain their position several percentage points, on average, above A.C. margins.

The erratic behaviour of individual territory figures suggests that two approaches are possible in using these:- A ranking scheme which lists the markets according to some attribute such as margin turnover etc.

A comparison of the total A.C. performance with the total I.D. figures over these markets. This at least enables conclusions about overall A.C. and I.D. performance to be made.

4:13 European Ranking Scheme

Using discount corrected figures for both turnover and margin the ten markets can be ranked in 1971, 1975 and also on a total sales basis for the five year period:-

TABLE FIFTEEN

	1975			1971	
Rank	Actual Turnover	Percentage Margin	Rank	Actual Turnover	Percentage
1	Holland	Italy	1	W.G.	Holland
2	W.G.	Holland	2	Holland	Italy
3	Italy	Switz.	3	Italy	Switz.
4	Spain	Denmark	4	Sweden	France
5	Sweden	Spain	5	Spain	Spain
6	France	Belgium	6	France	Denmark
7	Switz.	W.G.	7	Switz.	W.G.
8	Eire	Sweden	8	Eire	Sweden
9	Belgium	France	9	Denmark	Belgium
10	Denmark	Eire	10	Belgium	Eire

Average Over 1971 to 1975

Rank	Actual Turnover	Percentage Margin
1	Holland	Holland
2	West Germany	Switzerland
3	Italy	Italy
4	Spain	Spain
5	Sweden	Denmark
6	Switzerland	Belgium
7	France	West Germany
8	Eire	France
9	Denmark	Sweden
10	Belgium	Eire

This Table Fifteen shows how the relative positions of the markets has changed from the start to the end of the period and where each is overall. The overall column shows that for both turnover and percentage margin, four of the top five ranks are occupied by I.D. areas.

In deciding how highly to rank a distributor in terms of his value to D.S.C. three dimensions can be identified as a first stage:-

1. The gross margin in sterling which D.S.C. has on sales to the territory.
2. The turnover of the territory. A large turnover with a very small margin may be advantageous as compared to a small turnover and high margin since average costs will be kept down, for labour reasons, and to hold market share.
3. The consistency of the distributor's performance.

The first two of these can be combined in a diagram which yields a resulting rank based upon both turnover and margin. In Graphs Thirteen to Fifteen this is done for the 1971, 1975 and average cases. A combined rank is decided by the position of a market as read along the NW/SE diagonal. In this case the two variables are given equal weighting - one or other can be stressed by changing the scale of the grid (for example, to weight turnover twice the weight of percentage margin, the margin scale would be doubled). The scale can also be made proportional to the actual variable rather than to rank.

Other variables which can be used in such a ranking system are:-

- D.S.C. percentage margins (Graphs Sixteen to Eighteen).
- average prices charged by D.S.C. (for a sport or a particular product).
- distributor margins.
- estimated market shares.
- estimated share of imports.

At this point it is appropriate to concentrate on the two sets of diagrams produced. From these it appears that the ranking scheme supports the contention that D.S.C. has come to rely increasingly heavily upon the I.D. markets in Europe, even though 1975 saw a considerable recovery in sales to France and West Germany.* To examine this suggestion further, aggregates for the A.C. and I.D. territories have to be considered.

<u>I.D. and A.C. comparison in Europe</u>

4:14 Graph Nineteen shows the aggregate performance of the five A.C. and the five I.D. markets over the last five years. The I.D. turnover figures are seen to grow almost spectacularly and with excellent

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* While we have abstracted to some extent from specific features which could affect a single year's performance it seems necessary to point out that the recovery could be a reflection of preferential supply arrangements and the very low 1975 margins to these territories.

consistency. The growth on margins has been less dramatic but quite excellent over the period. The A.C. markets have grown erratically with a very poor year in 1974 and a good one in 1975. A.C. gross margin to D.S.C. has actually only risen from £100,000 to approximately £180,000 in the five years.

Tables Sixteen and Seventeen confirm the overall preponderance of the I.D. territories to D.S.C. In 1971 the A.C. area provided 37% of turnover and 38% of margin on a discount included basis. In 1975 these figures were 35% and 28% respectively and only 25% and 21% in 1974. Over the entire period A.C. sales accounted for 34.3% of turnover and 28.8% of gross margin.

This chapter so far has lead to the conclusion in Part B that D.S.C. has relied very heavily on the export market to maintain its overall profitability and performance. Within this export market the European region has been a major contributor and within Europe the performance of A.C. territories has been less consistent and effective than that of the Independent Distributors.

<u>Possible non-marketing causes of the divergence between A.C. and I.D. performance</u>

4:15 It would be wrong to take turnover or margin figures alone as the basis for evaluating a territory by D.S.C. There are many possible reasons for differing performance, some of which may be completely out of the control of either party. Some may also result from the policy of D.S.C. itself. These possibilities are now considered.

TABLE SIXTEEN

Associated Co. and Ind. Distributor

	1971	1972	1973	1974	1975
Gross Turnover					
Total Europe:	1,226,995	1,549,911	1,813,142	2,171,543	3,041,343
Five A.C.:	340,260	455,185	492,824	408,475	883,296
Five I.D.:	630,673	851,668	1,047,120	1,383,094	1,763,850
TOTAL:	970,933	1,306,850	1,539,940	1,791,560	2,647,140
A.C.%:	35%	35%	32%	23%	33%
Gross Turnover Less Discount					
Five A.C.:	340,260	455,185	492,824	408,475	883,296
Five I.D.:	567,604	766,502	942,409	1,244,790	1,587,470
TOTAL:	907,864	1,221,682	1,435,233	1,653,265	2,470,766
A.C.%:	37%	37%	34%	25%	35%
Gross Margin					
Total Europe:	431,088	544,009	652,039	869,389	940,369
Five A.C.:	112,337	101,620	139,130	120,567	177,281
Five I.D.:	246,037	338,108	404,098	584,518	622,555
Five less Discount:	185,968	254,940	299,383	446,205	446,167
TOTAL less Discount:	296,304	356,560	438,513	566,773	623,448
A.C.%:	38%	28%	32%	21%	28%
Percentage Margin					
Total Europe:	35.13	35.10	35.96	40.04	-
Five A.C.:	26.67	23.79	26.42	29.36	19.77
Five I.D.(less Discount):	32.68	32.94	31.73	36.11	27.73

TABLE SEVENTEEN

FIVE YEAR AVERAGES

	Ave.Gross T.O.	Ave.Net T.O.	Rank	Ave.Gross Margin	Ave.Net Margin	Rank	Ave. Net.% Margin	Rank
Belgium	41,611	-	10	10,397	-	10	28.36	6
Denmark	42,388	-	9	12,685	-	8	30.08	5
W.G.	256,000	-	2	69,892	-	3	28.29	7
France	108,104	-	7	28,340	-	7	25.22	8
Eire	84,830	-	8	10,983	-	9	13.96	10
A.C.:	-	532,933	34.3% of TOT.	-	132,297	28.8% of TOT.		
Holland	299,519	268,568	1	133,863	94,112	1	36.01	1
Italy	251,438	226,294	3	99,325	74,179	2	33.09	3
Spain	233,974	210,575	4	92,708	69,754	4	32.88	4
Sweden	224,902	202,411	5	53,904	49,626	5	24.88	9
Switz.	125,434	112,890	6	51,449	38,906	6	34.24	2
I.D.:	-	1,020,738		-	326,576			
A.C. + I.D.:		1,553,670			458,873			

Product Mix differences

4:15 Graphs Twenty to Twenty Nine record gross turnover sales to the ten markets according to the four main product groups: Tennis balls, tennis frames, golf balls and golf clubs. The scale for both sports is the same in order to draw attention to the predominance of tennis.

It is immediately apparent that because France and West Germany produce tennis balls locally D.S.C. sales are deprived of a line of major importance elsewhere. Were the French and German markets to be supplied from the U.K. the A.C. turnover for Europe would be far greater. In fact the sports divisions of Dunlop S.A. (France) and Dunlop A.G.

(West Germany) tend to concentrate a lot of effort on sales of the tennis ball and consequently sales of U.K. produced lines may be suffering because of this.

Because of their erratic performance and relative decline overall during the last five years these two markets seem to be different from the other A.C. (and indeed I.D.) markets in Europe. It is largely their results which are responsible for the poor comparative position of the European A.C. areas.*

4:17 A second class of possible reasons for the relatively poor A.C. area performance is that of overall macro economic factors. As a first stage the total population and disposable incomes may be examined.

TABLE EIGHTEEN **

	Population 1974 Million	Disposable Income 1973	D.S.C. Gross Turnover Less Discount 1975
Belgium	9.80	32.6 (1972)	68.3
France	52.51	177.1 (1972)	203.0
W.Germany	62.04	306.1	437.6
Holland	13.54	55.4	578.3
Italy	55.36	127.4	377.4
Eire	2.88	2.5	122.2
Denmark	5.05	25.4	52.1
Switz.	6.48	26.9 (1972)	162.7
Sweden	8.16	45.4 (1972)	313.3
Spain	35.22	44.2	329.2
	248.16	Billion $: 840.5	£1000: 2,471.0
A.C.%	52%	64%	35%
I.D.%	48%	36%	65%

* The question of local tennis ball production and the effect this may have on D.S.C. performance is further considered in Appendix Four.

** See Note One, Page 83.

4:18 The A.C. performance certainly does not appear to be explained by population or income aggregates. Another possible explanation may be sought in the international trade aspects. Two measures seem appropriate here, a comparison with U.K. exports in general and a consideration of exchange rate movements.

TABLE NINETEEN

	U.K. EXPORTS*		D.S.C. EXPORTS (GROSS)	
	1974 ** £Million	% Increase Over 1971	1974 ** £1000	% Increase Over 1971
Belgium	1,965	128	41	86
France	2,141	124	74	- 28
W.Germany	2,368	81	171	- 13
Holland	2,302	131	311	106
Italy	1,195	97	277	95
Eire	733	101	98	53
Denmark	998	77	39	22
Switzerland	1,408	150	164	100
Sweden	1,692	82	295	124
Spain	690	70	341	187

U.K. Average 105% D.S.C. Average 73%

U.K. A.C. Area Average 104% D.S.C. A.C. Average 24%

U.K. I.D. Area Average 106% D.S.C. I.D. Average 122%

These figures show that the A.C. and I.D. markets for British exports as a whole grew at approximately the same rate (approximately 105% over the three years). D.S.C. exports to the A.C. areas grew by only 24% while those to I.D. areas grew by 122% - well above the U.K. overall performance.

The movement of exchange rates could be one of the factors

* DIRECTION OF TRADE ANNUAL 1970 TO 1974

** Both sets of figures are not adjusted for rising prices.

which would encourage a preferential trading relationship with the I.D. markets.

TABLE TWENTY

Effective Devaluation of the £*

	Jan 1974 Over Jan 1975 %	Jan 1976 Over Jan 1975 %
Belgium	10	4.9
France	7.4	14
Germany	9.3	5.7
Holland	10.2	6.8
Italy	1.8	9
Eire	-	-
Denmark	8.4	6.4
Sweden	11.8	6.3
Switzerland	21.0	12.5
Spain	2.3	8.6

An aggregate approach would be almost without meaning here but it would appear that the A.C. currencies have been no weaker than I.D. currencies and consequently no preferential price advantage has been enjoyed by the latter. In fact two of the larger I.D. areas, Spain and Italy, have suffered considerable adverse movements at times throughout the period, and even stringent import control measures have not prevented a sound performance from a D.S.C. point of view.

4:19 Among the internal aspects of this comparative study of the European territories are several matters which should be considered.

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* CLOSING PRICES Jan 6th, 1974; Jan 6th, 1975; Jan 13th, 1976.

The sales by area figures used in the various comparisons have been criticised on the grounds that they are the result to a large extent of an allocation policy of the Company rather than a true indication of market potential or performance. This may have applied in a supply shortage situation which now appears to be at an end in many sectors. In any case, such a position would indicate a consistent excess of demand and the appropriate reaction would be a considerable increase in prices. Since considerable price pressure is now being experienced it appears any allocation based policy is becoming increasingly untenable and it therefore seems reasonable to regard territorial analysis as a fair reflection of each market and the efforts of the particular distributor therein.
The pricing policy of D.S.C. could be envisaged as another possible explanation of the different market performances. It will become clear in Chapter Five that if anything the I.D. areas have been at a slight price disadvantage relative to A.C. areas. The difference in net prices from D.S.C. is certainly not the cause of success in I.D. areas.
Another area of possible preferential treatment could be the granting of credit. Independent Distributors require credit (and often abuse their agreed limits). This could be cited as an advantage accorded to them by D.S.C. But A.C. areas remit money to Dunlop U.K. via Central Accounts. The latter generally takes a month of "credit" from D.S.C. while the A.C. may then take up to eight months' credit from Central Accounts. Their

business is therefore also being financed by a credit facility and they suffer no disadvantage against I.D. customers.

4:20 From this examination of macro economic factors, product mix, trade aspects and distribution terms, it would appear that a direct comparison between the A.C. and I.D. market performances in Europe can be justified. Problems of comparison do exist (because of the non equivalent pricing basis and distortions due to local production, for example) but it seems that the I.D. territories have performed better overall to the advantage of D.S.C. The A.C. areas are dominated by France and West Germany. When these markets recover (as in 1975) the A.C. performance improves dramatically, but overall a better D.S.C. position is apparent throughout the period in I.D. markets. Having seen the importance of export activity to D.S.C. in Part B and of the European export contribution in particular, it now appears that Independent Distributors have provided the basis for this contribution.

Note One: For the purpose of Table Eighteen, Page 79, total population data is sufficient. The need for more detail on population structures, age bands etc. is stressed in Appendix One, Page 156. The value of purely demographic data is however always tempered by the importance of the availability of facilities.

CHAPTER FIVE

PRICING

Introduction

5:1 Gabor and Granger have defined pricing strategy as:-

"The purposeful application of the selected principles to specific products and markets over a certain period of time. Ideally a complete strategy should include instructions for tactical moves to meet all certain and probable future situations, such as seasonal changes in consumer demand, temporary or permanent price cutting by competitors, and even the emergence of new products."

(1:ii and 1:iii in the Bibliography)

They then point out that the strategy should be under constant review and go on to overview the range of price policy and pricing procedures. The former is charged with presenting the desired image of the firm and matching this to market segmentation. The latter consist of cost based, competition based and customer oriented approaches. This three tier approach to pricing gives a good basis for beginning an orderly and systematic pricing programme - whichever pricing procedure is employed it has then resulted from the original strategic considerations.

5:2 In examining the present approach to export pricing within D.S.C. and suggesting possible improvements a note of caution should be raised at the outset. Price is only one element of the marketing mix. A temptation exists to

accord it too great a significance and to base strategic thinking too heavily upon it. It is often advantageous to emphasize non-price attributes of a product and move away from a basis of competing on price alone (as argued by Kotler, 1:iv). This has been selected as a policy especially applicable to the export pricing situation where selling on service, styling and quality rather than a preoccupation with price alone has much to recommend it. (Supported in the B.E.T.R.O. Report, 1:v).
In the case of the Maxply Fort, sales figures over Europe certainly do not follow the position of this racket either in the local competitors' price table, nor on a basis of comparing territories (Appendix Five). Thus the position of the Maxply Fort in the local price structure has only a partial effect on the market share and the same can be said of the total sales to territories compared to the prices charged by D.S.C. Non-price factors are clearly operating within the territories. One suspects that when all the analyses of market potential, competitors' prices etc., are marshalled, <u>the</u> significant feature of success in sales terms and market share will emerge as a quality of the distributor (who furnishes many of the non-price attributes of the product as perceived by the consumer). Pricing will be a major feature of the distributor's success but his record of contact and service will be a most significant input.

5:3 While keeping the importance of price in perspective, therefore, the following stages are undertaken:-

1. A review of price theory in general and of export pricing specifically.

2. An analysis of the pricing approach of D.S.C. at present and an appraisal of the problems encountered.

3. A suggested pricing procedure to avoid some of the present difficulties and an explanation of the points at which an overall pricing policy should have an effect consistent with strategic aims.

Price Theory

5:4 The origin of price theory in economics is concerned with the marginal approach to total costs and revenue. The elegant proof of the point of maximum profit was never really a description of how a price policy could actually be conducted. The original cost and revenue curves reflect the basic supply and demand theory which evolved in less complex days and relied heavily on largely homogeneous agricultural products. In dealing with industrial goods and non-homogeneous products the marginal theory quickly becomes suspect as a description of a credible process.

Hall and Hitch showed through interview research that a cost plus approach was often followed in reality and that marginal effects were usually unavailable for consideration in pricing decisions (1:vi). The marginal approach was not disproved, indeed it may be regarded as an overall macro description of the effect of numerous individual pricing decisions (price competition favouring the long run dominance of those firms tending towards marginal optimalization), but price theory has now progressed to include sufficient features of actual operating procedures to reflect reality.

The Hall and Hitch research may be viewed as a part of the neo-classical revision of macro economic theory initiated by Chamberlin and Robinson in the 1930's (1:vii and 1:viii). In a world where monopolistic and imperfect competition was now recongised the apparent conflict between a price theory supporting marginalism and an operating policy of full cost has faded away. Economic theory seems to accept that a full cost approach is the norm in practice and to largely lose interest in the topic. The work of Langholm has taken full cost pricing considerably further. By using simulation techniques he has illustrated how

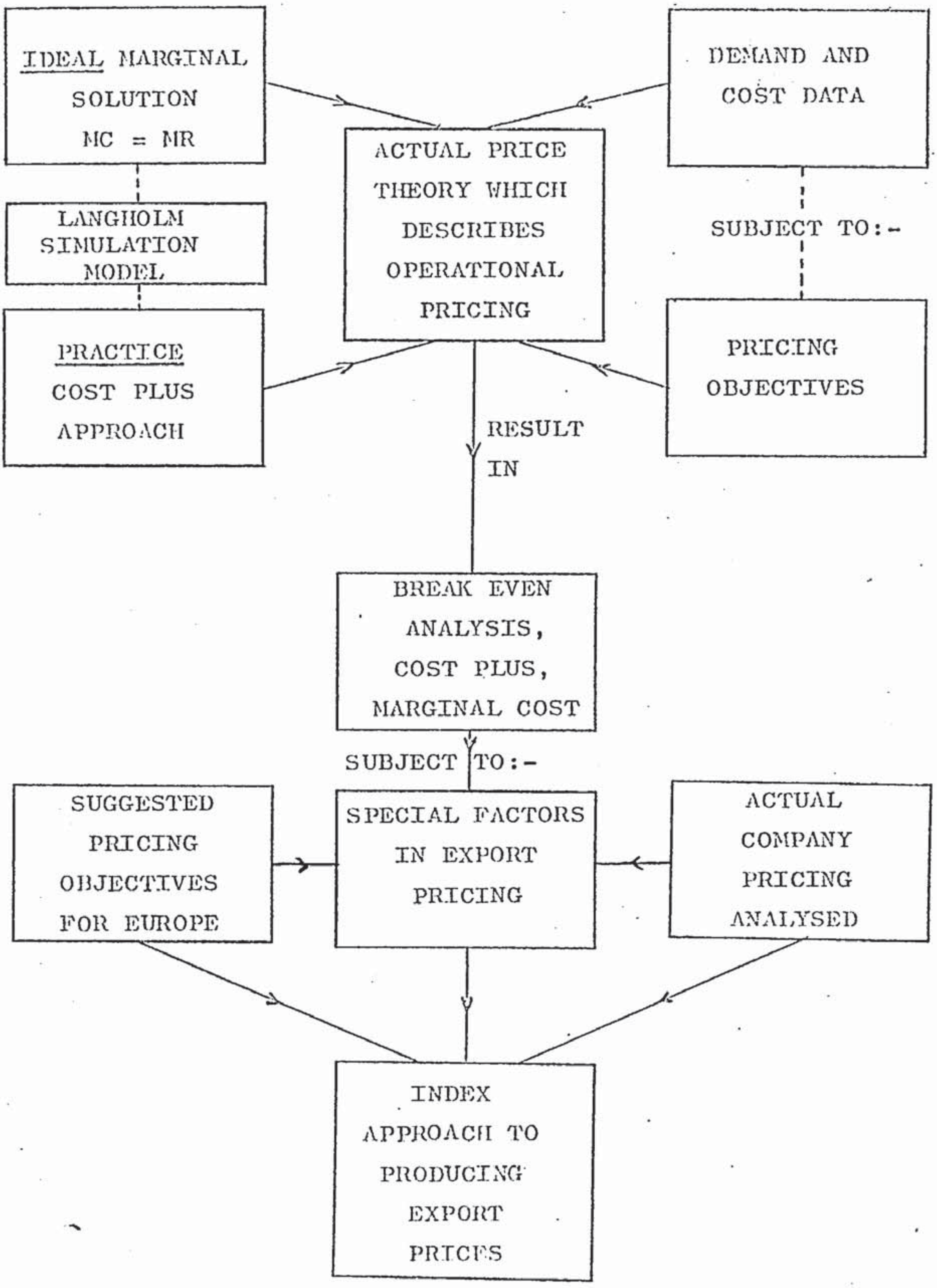
> "an optimal pricing rule is indeed a full cost rule in the broad sense that all capacity costs ought to be exactly covered by the burden applied to the products sold." (1:ix, Page 48)

This then is the background of economics relating to pricing. From a marketing point of view the problems are resolved into those of demand and cost estimation and the proper application of appropriate objectives.

Demand and Cost Estimation

5:5 To draw a total revenue curve the price elasticity of demand over the likely range is required. Experimental approaches can be used in chain store situations but are generally impractical in many cases. Control of price and extensive monitoring and analysis are required at the retailer/customer interface and these conditions are virtually unattainable in an export situation. Statistical

FIGURE ONE


IDEAL MARGINAL SOLUTION MC = MR
LANGHOLM SIMULATION MODEL
PRACTICE COST PLUS APPROACH
ACTUAL PRICE THEORY WHICH DESCRIBES OPERATIONAL PRICING
DEMAND AND COST DATA
SUBJECT TO:-
PRICING OBJECTIVES
RESULT IN
BREAK EVEN ANALYSIS, COST PLUS, MARGINAL COST
SUBJECT TO:-
SUGGESTED PRICING OBJECTIVES FOR EUROPE
SPECIAL FACTORS IN EXPORT PRICING
ACTUAL COMPANY PRICING ANALYSED
INDEX APPROACH TO PRODUCING EXPORT PRICES

techniques involving least squares or multiple regression analysis have also been applied on a large scale. The historical evidence of response to price deals and changes can never really be freed from time lag effects and external influences. For example, the supply position may have exerted a variable effect upon the trends which make comparison between markets unjustifiable. Direct customer interview (Gabor and Granger (1:iii)) has been developed for pricing studies. The approach shows great promise in indicating price ranges attractive to consumers but requires an intensive (and expensive) effort.

All these techniques tend to be expensive and would hardly be cost-effective in the export marketing field at the level of the average company. To be of greatest use the intensity of demand in different market segments would be revealed so that prices could be designed for the segments. But the benefits of the price discrimination thus arising have to outweigh the costs of keeping the segments separate, of indentifying and monitoring them, and of the possible long term loss of goodwill. Any breakdown of demand to market segments which does become possible, however, clearly adds a great deal to the precision in price setting. The possibilities are further examined in the section on market information gathering in Chapter Seven.

5:6 Cost estimation usually revolves around the fixed and variable breakdown and the apportioning of the fixed costs. The main marketing difficulty is to persuade the accounting unit to provide data suitable for use in marketing decisions. Once again the cost of securing information has to be balanced against the uses which can be made of it.

<u>Basic Pricing Objectives</u>

5:7 These should act through the pricing strategy to shape the pricing policies used. They are interrelated and can (in theory) be pursued by any or all the pricing procedures commonly employed. The prime objective will usually be a <u>target profitability</u> level. Both cost plus and marginal approaches can be designed to achieve a target profitability and the inclusion of product line effects, time element considerations (such as product life cycles) and even satisficing behaviour modify the objectives which are set.

Profitability must be a compromise with the other pricing objectives and it reacts with each of these. A <u>planned market position</u>, for example, is an objective closely linked with profitability. It is possible to base an overall marketing strategy upon the market share concept and the possibility of such an approach is examined in the final chapter. Such policies as "penetration pricing" may result from following market share objectives.

<u>Competitive Pricing</u> objectives may be to pre-empt, meet, or follow competitors' prices. Decision tree analysis is a possible tool which can be employed for a specific competitive situation.

<u>Stability of prices</u> can be regarded as an objective in itself - often having implications in a middleman situation.

Finally price can be viewed as a communications means. The company or product image can be differentiated through the pricing policy (most effectively in co-ordination with the packaging, promotions and distribution elements of the marketing mix).

5:8 These are the pricing objectives which determine the policy employed. They are rarely considered or recorded formally and an inadequate or piecemeal pricing approach can consequently result. While recognising that other factors (intermediaries, government, variations of the other factors in the marketing mix) affect the objectives it seems rational to develop any pricing approach from a base of objective setting. The extent to which this happens in the company under consideration is examined after the next section (5:14).

Price Procedures

5:9 These result from the available data on demand and the pricing objectives set. Variations on the cost plus principle are extensively used especially in specialty or non-routine products. In retailing a straight mark-up is often applied. The lack of any consideration of demand or risk factors make such an approach unacceptable in many consumer goods cases.

If the cost information is available as fixed and variable components then a break-even analysis can be conducted for varying prices. Some subjective consideration of demand can then be included to discover the likely profit level at each price.

Marginal costing takes the process a long step further. On deducting the direct costs of an additional item (direct wages, materials, expenses and variable overheads) from the sales price, a contribution to fixed overheads remains. If the totals of the contributions cover the total fixed costs then a profit is made. The marginal approach gives a marginal revenue at each level of output and in an ideal case would be the operating counterpart of the Marginal Cost = Marginal Revenue relationship of economics. However, the difficulties of estimating the variation of total revenue with price remains and, naturally, the cost of providing effective marginal cost data has to be considered. The risk factor involved in pricing can also be submerged in a marginal approach where apparent certainties are in fact mere estimates.

The marginal costing approach remains, however, a natural basis for the pricing of products in a multi-product and market company.

Export Pricing

5:10 In export pricing the marginal pricing concept has a dual significance. With a good analysis of fixed and variable costs, a basic policy of price discrimination between home and export markets becomes possible. To counter this there is the increased difficulty of estimating total revenue effects. There is generally less knowledge about the export market available and the existence of a distributor stage reduces the possibility of a revenue forecast based on the demand features alone. The exporter controls the price to the distributor but the consumer interface is removed from this by a number of insulating levels (see Fig. 2):- distributor margin, tax rates, retail margin, duty etc. To ensure that his pricing objectives (as regards company image and in relation to competitors' prices) are represented by an eventual retail price is now far more difficult. (Appendix Five on cross frontier transfers, deals in detail with the control of overseas prices).

Marginal costing and pricing is therefore a less easily applied technique in many exporting situations. There are particular developments of the marginal and full cost pricing techniques which are of significance in the export pricing situation (see D. Tookey, 2:i).

Base Point Pricing

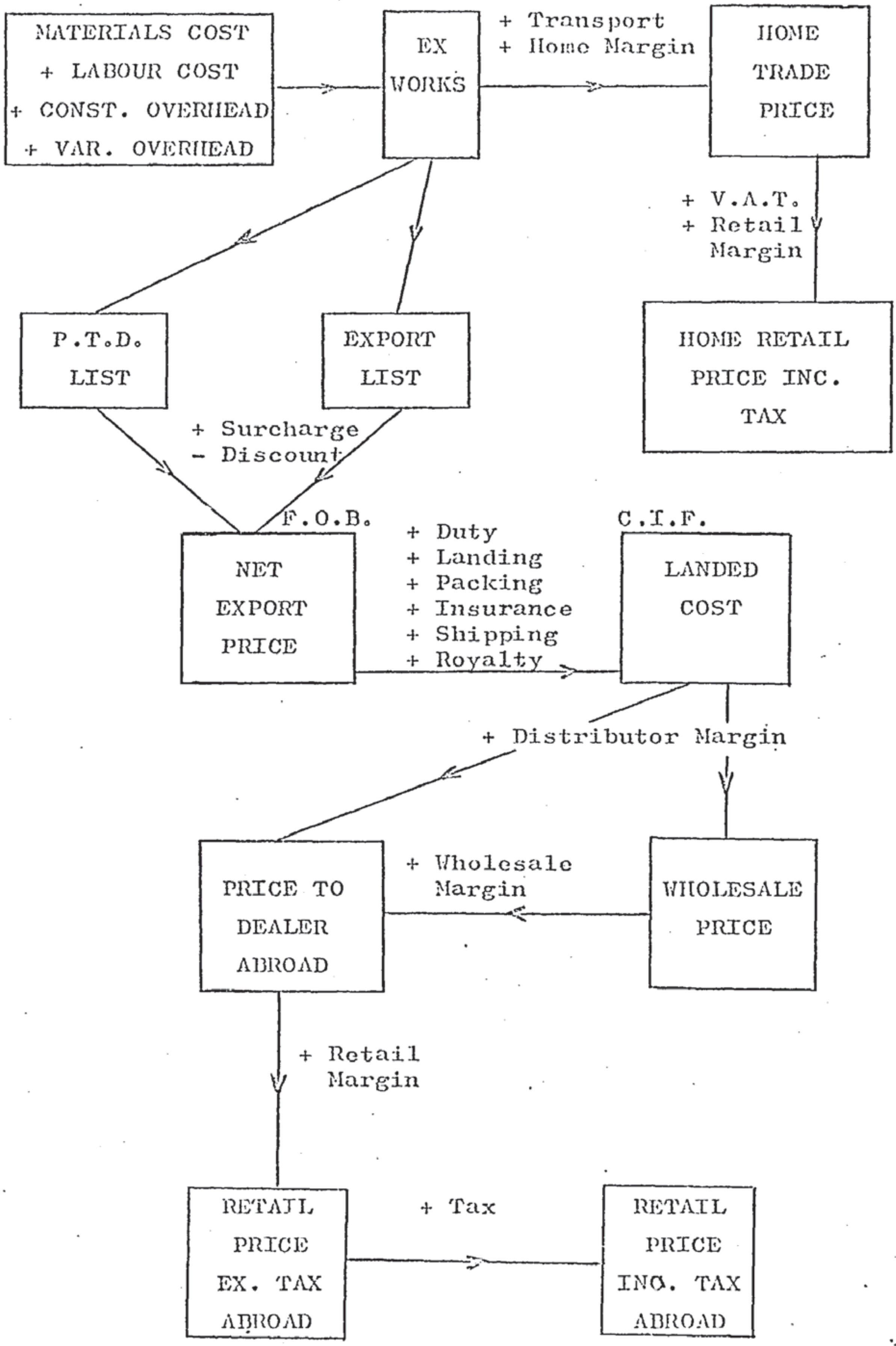
5:11 By charging the same price at the supply point (base point or arm's length pricing) a similar margin is assured from all markets. Ex works price is taken as common to all markets and a profit percentage added. This is the usual full cost approach. Then freight, insurance etc., costs are added and prices quoted F.O.B., C.I.F., or as required, the additional items being covered by the importer.

Even with this approach very different prices result in different markets.

Market Pricing

5:12 The price is calculated from the supply and demand conditions ruling in the market. The margin on ex works will vary between markets quite intentionally. This method recognises that eventual

FIGURE TWO


MATERIALS COST
+ LABOUR COST
+ CONST. OVERHEAD
+ VAR. OVERHEAD
EX WORKS
+ Transport
+ Home Margin
HOME TRADE PRICE
+ V.A.T.
+ Retail Margin
HOME RETAIL PRICE INC. TAX
P.T.D. LIST
EXPORT LIST
+ Surcharge
- Discount
F.O.B.
NET EXPORT PRICE
+ Duty
+ Landing
+ Packing
+ Insurance
+ Shipping
+ Royalty
C.I.F.
LANDED COST
+ Distributor Margin
PRICE TO DEALER ABROAD
+ Wholesale Margin
WHOLESALE PRICE
+ Retail Margin
RETAIL PRICE EX. TAX ABROAD
+ Tax
RETAIL PRICE INC. TAX ABROAD

retail prices will vary between territories and consequently that the exporter can exercise price discrimination between his distributor clients. Where a company can actually support a claim to be "marketing abroad" the likelihood is that sufficient information is available to price on a market by market basis. The direct costs of selling and distribution to different markets are then applied to the sales revenue and a contribution for each market produced. This is the optimal progression from marginal costing to the export marketing situation. Metcalfe and Robinson (2:ii) devise an "Economic Selling Price" which attempts to include internal work load and cost factors in deciding a target selling price. The most important feature of their pricing formula is that a market value factor is used in deciding the Economic Selling Price. The basis is a standard cost estimate to which mix, volume and market value percentages are then applied. The approach is designed for the automotive and mechanical engineering component supply industry but the conclusions on costing as distinct from pricing are widely applicable. Standard Costing and Marginal Costing both have advantages and disadvantages as costing systems, but when either is used <u>exclusively</u> as a pricing system then the disadvantages are multiplied. It is here that the use of the market price has to be recognised and by including a market value factor or index the particular costing system is restricted to its proper role.

Triangular Pricing

5:13 Triangular pricing is the arrangement whereby a manufacturer transfers to a sales subsidiary which resells to the overseas distributor (Bickers, 2:iii). Different prices to different sales subsidiaries are based upon the services which these perform in the marketing operation.

The Export Policy of D.S.C.

5:14 D.S.C. price policy can now be described in terms of the structures and procedures outlined above.

First, there is a triangular pricing arrangement. The manufacturing unit transfers goods nominally at Standard Cost to the marketing subsidiaries. The total profit for both manufacture and marketing should then accrue to these subsidiaries. (See Part B of Chapter Four).

Export prices are set as a first stage in two lists, the export list (to independent distributors) and the P.T.D. list (Price to Depot, for Associated Companies). The influence here is strongly cost plus - the projected margin being related to projected Standard Cost. Pricing objectives here rely heavily on the target operating margin levels as set in the Management Plans. At the price list stage there is little evidence of market pricing (which is indeed impossible under a general list system) and none of market share or other objectives being actively followed. The application of across the board increases to the lists illustrates how the upward pressure of costs has produced a price policy which is purely reactive, often a mechanical application of a general increase. Some flexibility is restored by imposing surcharges and negotiating special prices and discounts with the distributors. These appear to be open to a charge of lacking co-ordination and being piecemeal measures.

Prices were historically quoted in sterling but with the deterioration of the pound, A.C. prices have been changed to a D.M. basis in Europe from 1975.

Implied Pricing Strategy of D.S.C.

5:15 The difficulty encountered in identifying a European marketing strategy used by the Company is also present when the pricing policy outlined above is examined. There seem to be very few explicit guidelines which relate to the European export theatre and export is often treated in a compensatory role to the home market.

However, the following set of principles appear to have been used:

1. Margin will be set at the level sufficient to justify exporting plus an allowance to offset home price restraints.
2. Differential margins will be charged on products as an extension of historical margin expectations in each case.
3. Preferential prices will be given to Associated Companies through a P.T.D. list which has a discount built in on the export list used for I.D. customers.
4. A mixture of special prices, some relating to local production and market dominance will be continued.
5. Despite separate lists for I.D. and A.C. areas, special concessions and special arrangements, D.S.C.

appear to seek a simple, list, approach to pricing.

Deficiencies and Problems

5:16 It is necessary to record the various problems which have arisen either as a result of the pricing policy, or from external sources, in some detail.

1. The problem of cross frontier trading between European markets has troubled the Company for some time. In Appendix Five the problem is examined and the call for an effort by the Company to attempt a standardisation of prices in Europe in order to eliminate cross frontier trading is found to be both impractical and undesirable. The role of the U.K. in re-exporting goods is a far more serious matter than inter-territory transfers. Price differentials between the U.K. and European markets have increased to the extent that re-exporting from U.K. sources threatens to undermine the Company's relationship with distributors throughout Europe (See Appendix Seven). The proposals which follow are designed to control this problem.

2. In order to follow the policy on the generation of margins, an export surcharge was imposed by the Company in 1975. The reason given was the weakness of sterling and several different percentage rates of surcharge were used. The effect was of a percentage price increase to each teritory. Since the I.D. areas are invoiced in sterling, D.S.C. does not actually lose revenue as the pound falls and the surcharge was resented by the distributors as an

unjustifiable price increase by the Company. A fixed percentage increase on price could not, in fact, be a reflection of a fluctuating currency situation and besides the loss of distributor goodwill serious competitive pressure on price, especially in golf, began to be felt by the distributors.

3. Another cause of distributor resentment on pricing was the discount given to A.C. areas. These often obtained a higher distributor margin than the I.D. received and the discriminatory pricing of D.S.C. often has no commercial justification to explain it (See Appendix Six, Tables One and Two and Graph One).

4. D.S.C. have raised export prices either annually or twice yearly. Because costs have risen so rapidly and export prices have been free from controls, large price increases have resulted and these focus distributor opposition. More frequent, smaller increases (as applied on the home market) would have seemed less dramatic to the customer and been closer to the actual movement of costs. The export increases were imposed at different times to home price rises and consequently at various times the divergence between D.S.C. prices to Europe and to the U.K. widened substantially. (See Appendix Seven)

The less frequent price increases on the export market carry several penalties in an age of inflation. Because of longer contract periods, longer payment terms, transit times etc., the period from receipt of order to final payment on overseas sales is often far longer than on the domestic market. When price increases are less frequent also the actual profit on overseas trade is often substantially reduced in real terms because the return to the exporter has been eroded by inflation. While this may be used as a justification for taking larger margins on export sales, it seems far more effective to increase the frequency of price increases and use a more flexible pricing policy, than to price for an excessive margin at the beginning of an extended period and see the margin eroded over the cycle. (See Bibliography 2:iv)

5. There has also been a lack of consistency on the product pricing posture to the extent that a particular product will be presented on a different price appeal in different markets. The mere fact that prices varied considerably between markets may be a reflection of local mark-ups and conditions, but when no consistent relationship with competitors' prices is identified it suggests that a consistent pricing image is not being presented to the ultimate consumer. (See Appendix Six, Graphs Three and Four) The lack of a consistent I.S.C. approach on pricing also creates an atmosphere of conflicting postures since D.S.C. and Slazenger follow different policies and it is well known that they are supplied by the same factories.

6. The role of demand and competitive awareness in the pricing policy appears to have been a piecemeal factor. Special prices have arisen as reactions to a specific situation and then continued as a

historical feature with little relevance to the current market conditions.

7. The dependence on I.S.C. factory cost and the difficulties caused by this have already been mentioned (3:12). The main problem is that I.S.C. allocation procedure on overheads is divorced from D.S.C. pricing policy and hence can distort D.S.C. price structure away from that dictated by the market.

5:17 These deficiencies seem to arise from two main causes. First are the limitations imposed because of the distribution carried on through a third party. For example, the lack of market data and any response to demand conditions arises because marketing has been abdicated by D.S.C. in Europe to the distributor. Secondly there are problems which arise as a result of D.S.C. pricing policy. The home and export price differential, the lack of commercially orientated sales incentives and the use of a potentially distorted cost base are among the most important problems here.

These main causes of difficulty can be partially offset and in some cases eliminated if a market orientated pricing strategy were developed. The principles which such a strategy would require are considered in the remainder of this chapter which examines how demand and competitor influences could be included in a pricing approach suitable for the medium and long term.

5:18 In the short run measures have been taken to remove some of the immediate pricing problems in the first quarter of 1976.

As a first step the currency surcharge on golf was removed. This was suggested as a result of market intelligence gathered in Sweden and made unavoidable by the very poor competitive position which the surcharge produced on both golf balls and clubs.
A single European export price list was also suggested for non-golf items in order to remove as many irrelevant special prices as possible and to place I.D. and A.C. areas on a more comparable and equitable basis. A strict comparison is still impossible because as a result of overall Dunlop policy, the A.C. areas are invoiced in D.Marks at a fixed rate, whereas I.D. areas are invoiced in sterling. The surcharge on non-golf items was consolidated as a price increase within the European price list, the overall effect being offset to some extent by the fall in the value of the pound sterling in early 1976. The new price list shows a considerable reduction of the price differential over home prices as a result of home price increases sought at the time.

These short run responses are undoubtedly reactive but are intended to be the first stage of a movement towards the pricing approach which is now proposed.

<u>Proposed Pricing Objective</u>

5:19 To obtain as high a price as possible within Europe while attaining the market share objectives (as set in the marketing strategy, Chapter Seven).

<u>Price Strategy</u>

To adopt a market oriented strategy on price which will recognise the product concentration existing between Europe and the U.K. (and link a common European price to the dominant market in each sport) and will also react to situations of potential growth (as for squash in Europe).

The result of this approach would be to raise European prices of D.S.C. goods overall, and the rise would be implemented by using a single gross price list as a base. This list would apply to all Europe and to the U.K. market and would use a discount structure dictated by commercial motives. The implications of the price strategy above are that golf prices would be linked to U.K. conditions and prices, tennis prices would be linked to European conditions and squash would be linked to the U.K. at present with constant reappraisal of growth in the sport within Europe.

The Gross Price List

5:20 The use of a common price at the gross list level has two major objectives. First, it places home, direct export and A.C. export customers of D.S.C. on a common basis at the gross list stage. This would remove resentment caused by using separate list prices to each of these and also ensure that D.S.C. price policy conforms to the spirit as well as the letter of E.E.C. competition law. The common basis would enable a more accurate and equitable assessment of comparative distributor performance. It would ensure that the flow of paralled imports could never be a result of D.S.C. policy alone, but would be a reaction to excessive distributor margins in high price territories. The second main objective is that of maintaining profitability. The setting of a gross price level will be the main factor in deciding D.S.C. margins and as such the target will be as high a price as possible subject to three main constraints:-

a) <u>Competitor Prices</u>

A management decision on the unique selling proposition (U.S.P.) of the D.S.C. range (or for the top of the range at the first instance) against competitor prices and U.S.P's will always be required.

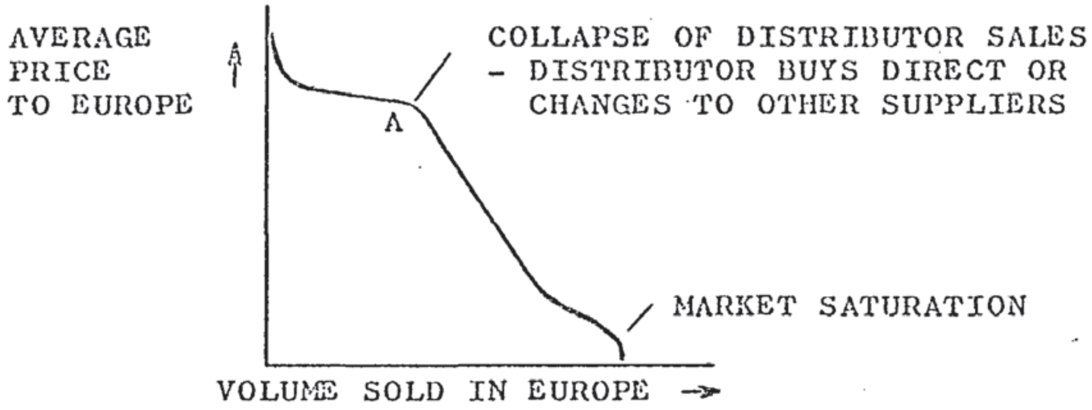
b) <u>Price Controls</u>

These will be felt more on golf since the golf list would be tied to U.K. price restraint. However, since the bulk of D.S.C. golf sales are made in the U.K. this will impose little extra restriction on margin.

c) <u>Demand and Volume Considerations</u>

The necessity here is to decide market potential and D.S.C. share and price accordingly against capacity available. This is outlined as part of the market share strategy of Chapter Seven. At this stage it is necessary to indicate how two factors (the likely effect on overall elasticity of a unified list system, and the scope for incentive discounts) would be major elements in the pricing policy. As in all pricing decisions certainty is unlikely to be attainable in execution of pricing policies but it is important to ensure that the overall market share strategy is compatible with these elements.

5:21 First it is important to avoid pricing to the point of suddenly falling volume. Information about the elasticity of demand is extremely difficult to assemble in exporting through a distributor because he not only insulates the effect of D.S.C. price changes, but adds time lags and a whole set of variables by his own operation. At the present time a sudden decline in sales may be postulated as occurring at a certain percentage above home trade price in the U.K. (point A in the diagram)



The paralled import of goods will become profitable on an organized large scale basis above a certain price differential over the home market. This would cause a major disruption of D.S.C. distribution arrangements and a consequent loss of market share and eventually, volume. If the common base list were introduced, some volume could be lost on the home market (in tennis sales mainly) but the overall point of suddenly rising elasticity would be raised since no sudden loss of distributor orders would now be expected. The range over which prices could be raised with relatively little loss of volume would therefore be extended. The second guideline on pricing would be that with a single list system an incentive structure, oriented to volume and applicable to all D.S.C. customers becomes a possibility. This could be applied through a discount structure which can later be adapted to a sophisticated index system to convert a general price list to market prices on a territorial basis.

Application of the Gross Price List

5:22 To introduce a single gross list would necessarily involve considerable movement on some prices. The disruption is not as great as could be imagined however when the details of the changes are considered. For golf the move has already been initiated by linking European golf export prices to the home trade price. This was a reactive move because of a worsening competitive position but the next stage, a move to a single gross list would be part of the overall European price strategy. For tennis the European A.C's and I.D's already receive fairly similar prices on the net basis in many lines (See Appendix Six, Tables One and Five) the question here is largely one of removing historical special prices and discounts. Once again at the time of writing (Spring 1976) this process is being initiated. The major difficulty would be faced in the case of U.K. tennis prices considerably below export prices (See Appendix Seven). The increases on U.K. prices now being sought by the Company would reduce the differential and a single price list then becomes reasonable since export sales on tennis are vastly predominant.

Discount

5:23 The discount system is suggested for several reasons. First of all it can be applied for a series of purely commercial reasons. These can be applied to all markets on a common basis and would include an incentive element based upon a volume discount. For many products in the past, the best European customers have often paid the highest price to D.S.C. A single discount structure related in the first instance to volume would help eliminate this discrepancy and encourage sales. The discount can be applied to U.K. dealers in such a way as to produce the desired relationship between home and export trade prices. A discount of this sort - available to all territories and to U.K. customers (on a slightly different basis), would clearly not negate the claim that a common price structure is being offered throughout Europe. Other features which can be used for additional discounts are local special market requirements, currency movements and so forth. These would produce a series of local prices and would be open to criticism on the grounds of a policy of price discrimination.
As far as it is known at present such a policy is not prohibited by E.E.C. law and in any case it could be supported by showing that the net price in each case was the result of the same price structure calculation (i.e. that the existence of similar volume, currency movements, local demand etc. would produce the same net price in each case, and that the scale or index used is the same across Europe).

The inclusion of these factors is probably best dealt with by an index approach to discounts in the long run. The first step in establishing the discount structure would be to produce the volume discounts.

<u>Volume Discounts</u>

5:24 The objectives are to offer volume discounts to distributors and to establish an acceptable relationship between home and export prices. Two bases are possible for the discount. A turnover base discriminates against customers who are distributors in smaller markets. A market share base discriminates against those in highly competitive markets. A combination of the two, giving discount for a certain market share <u>or</u> a certain volume could be envisaged. At this stage the turnover base is preferable however since market shares cannot be defined sufficiently accurately for the assessment of a discount with any degree of certainty.

The main features of the structure suggested are:

1. A discount based on turnover (0 to y%).
2. The basis being that of turnover in the previous year (to avoid overstocking).
3. A more rigourous application of any extra payment or cash discount than at present.
4. A minimum invoice quantity.
5. An initial export territory allowance (of x%) to sole agents in Europe to recognise their promotional and sales effort.

A major and immediate outcome of this approach would be an elimination of the present price differential over the home market. As a first step an export discount of 10% may be examined. It should be noted that most businesses expect lower export prices as a matter of course (unlike D.S.C.) and that this can therefore certainly be supported by export practice in general. (See BETRO, Page 44, 1:v)

	U.K.	EUROPE
GROSS PRICE	100 units	100
Less 10% Export Discount	100	90
Price to Retailer	100	126*
Price to Consumer (excluding tax)	150**	189**

* assuming a mark up of 40% to distributor

** assuming a mark up of 50% to retailer in each case.

The U.K. retailer may accept a lower mark up for selling direct to a retailer in Europe (for example of 25%) but this would place the price at 125 to the retailer in Europe - almost equal to the trade price of the official distributor. Since transport and landing costs also have to be covered the unofficial channel would be almost certainly unable to undercut the local trade price. A local distributor should have no difficulty in such a situation in discouraging unofficial sales from the U.K. (since he offers contact, service and an official focus for complaints to the European retailer. Since supplies to U.K. customers would continue to be monitored and a U.K. dealer would be unwilling to take very low margins on a proportion of his stock which he could not easily replace, the flow of re-exported goods from the U.K. would be curtailed. A smaller value of x (say $7\frac{1}{2}$%) reduces the degree of insulation given to the distributor, but so long as x is positive a deterent to re-exporting remains.

The range of the volume discount (0 to y%) would be common to U.K. and European customers. It would be structured to ensure that the vast majority of I.D. and A.C. customers and some U.K. Customers would qualify for the minimum level. For example a 5% discount could apply at £5,000 turnover and then either rise in stages or remain constant up to 7.5% for £200,000 turnover per year.

Several questions remain to be decided at the operating level. The actual size and range of application of the discounts, the provisions for buying associations such as the P.G.C.A., the appropriate point of pricing in the ordering process, etc. are all operational decisions which require detail management consideration. The gross price list and subsequent discount structure would represent a first stage in moving to a longer run index approach which can now be outlined.*

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* A visual display unit system would be an ideal aid in implementing a gross price and discount approach in that

P.T.O.

Indexing to Produce a Market Price

5:25 The gross price list is suggested for the reasons given in 5:20. The discount system allows incentives and forms the basis for a long run index approach to produce market prices. If differential pricing is not opposed by E.E.C. regulations (and the present understanding is that discounts, given to sole agents, arising from an index which can be shown to be based upon similar principles to all markets, would not be forbidden), then a true market pricing approach would be possible in the long term.

It is only proposed to illustrate the main features of this index. It is an extension of the policy used for the gross price approach above. The advantages would be that a flexible computerised index could reflect conditions in each market.

Stage One

$G = f_1$ (cost of product, competitor prices of equivalent products, product range effects).

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gross list, product file and discount by territory could be stored in such a way that prices would be readily displayed against goods by territory thus enabling the efficient invoicing and price recording which would be required. Price lists could almost be drawn off at will and flexible input date would ensure an efficient response to discount changes. A V.D.U. system is being installed at present by the Company.

The ultimate constraint on G (the gross price) is the upper limit allowed for price rises. The cost and competition factors will indicate whether a market segment exists which can be profitably supplied by D.S.C. It is suggested that this is done for the top product in the range (for tennis frames, tennis balls, golf clubs, golf balls and squash frames as a first step). Then the pricing policy on the range is applied for each product. Oxenfeldt suggests (2:v) that "sales linked products" within a company's product range should be evaluated in terms of competitive and complementary effects within the range. One of the main guidelines to emerge seems to be to avoid including directly competitive products in a range (the sales gain is likely to be minimal unless it can be shown that sufficient distinct features are present to attract customers from competitors). Pricing within the product line should attempt to expand the sales of the higher margin products (by linking promotional and sales emphasis to these and ensuring they have no close, low margin, substitutes within the range). With adequate information on competitor prices a series of "price points" at which sales and products concentrate could be identified and the Company should ensure that it has an offering at these points. Product line pricing is a technique which could be successfully evolved at the gross list stage by the Company in the long run.

Stage Two

The market place has already exerted an influence upon the price policy through the evaluation of competitor prices in the gross list. To produce a different market price to each territory an index can now be applied:

Net price to each territory = f_2 (G)

where f_2 is an index involving the following:-

1. The volume incentive discount.
2. A market share incentive discount.
3. Some measure of the elasticity of demand (even crude turnover plotted against turnover divided by volume may give an indication of elasticity trends).
4. Exchange rate movements.
5. Particular competitive pressure.
6. Particular distributor requirements.

These factors would yield a series of market prices by territory. The advantages would be that the classical policy of price discrimination of Economics (as described for example by Bain, Chapter Nine, 2:vi) is being utilized to maximize returns in each market. The drawback is that separate prices could provoke E.E.C. reaction in the future even though present policy already produces different prices and has not been actionable.

An index system which generates discounts appears to be an efficient technique in the long run for adjusting prices to individual markets from a gross price list. Incentive discounts and some measure of reaction on exchange rate movements seem readily applicable. If other factors reflecting local demand could be included eventually, an effective policy for market pricing would result.

SUMMARY

A discussion of pricing theory was presented and the special needs of export pricing mentioned. The present pricing policy of D.S.C. was examined and an implied strategic background was suggested. The deficiencies of the existing policy and the problems being encountered were illustrated and an appropriate pricing objective and price strategy suggested.

The policy which emerged involves a common gross price list for Europe and the U.K. Discounts are then allowed against the gross list in such a way as to act as an incentive for sales and to reduce the divergence between U.K. and European price levels. The need for an improved level of market intelligence emerged at this stage and will be considered in Appendix One. Finally an index was suggested to generate discounts for individual markets on a true market oriented level as a possible long run technique.

CHAPTER SIX

DISTRIBUTION

6:1 Just as the theory of pricing was briefly reviewed in Chapter Five, an outline of distribution theory is presented at the start of this chapter. Relevant Economic and marketing theory contains two main contributions to export marketing. The first is distribution channel theory and the second, advice on the particular elements of an overseas distribution and selling operation.

Channel Theory

6:2 The concept of a channel of distribution is now well established in marketing theory. Perhaps the origin of channel theory was the development of marketing channel decisions as distinct from physical distribution or logistical decisions. Among the main elements of channel theory to emerge have been the analysis of distribution functions, the identification of channel objectives and analysis of the relationship between members of a distribution channel. These developments are a reflection of the overall marketing approach and are well described in many standard texts (for example by Kotler, 1:iv). The rationale for isolating channel considerations arose from the concept that distribution could be viewed as a source of contribution as well as of cost. Much analytical work has been produced upon this topic (a good example is the work of Christopher, 2:vii) and the eventual aim is usually to assess the benefits of alternative distribution structures as against the costs involved. This line of thought eventually tends towards a "cost-benefit analysis" position similar to those of Economics and suffers from the same problems of quantification and increasing remoteness. Among contributions in this field are those of McCammon and Bowersox, and McCarthy (2:viii and 2:ix). The first of these suggests a "distribution programming" approach in which concessions (on price, on financial assistance, on protective provisions) are used by a manufacturer to induce other members of his distribution chain into supporting the manufacturer's distribution policy. Bowersox and McCarthy have argued that a distribution channel as an entity may find it advisable to operate according to a "marketing channel concept". This would enable the channel as a whole to compete most effectively with other channels. Such a submerging of the identity of individual channel members seems a far cry from actual operational experience in most cases. Perhaps the most useful elements (for the purposes of this thesis) to emerge from these developments in channel theory are the indications that planned distribution systems are usually preferable to those which simply evolve; and that a dominant channel member should strive to provide the planning base. The idea of a dominant member of a distribution chain is developed by Bowersox and also by Davidson (3:i) who also identifies a logistical and an exchange dimension in the channel of distribution.

These theoretical concepts make no special provision for exporting activity. Some distribution texts do have either an export chapter (for example Sawdy, Chapter Nine, 3:ii) or are even aimed specifically at some aspects of export distribution (Tookey, 2:i). In general, however, export requirements are rather poorly met by the existing body of literature on distribution theory and exporting is usually left to a second type of publication.

<u>The Specialist Export Approach</u>

6:3 The export discussion at a distribution level is usually conducted at two levels. There are fairly sophisticated approaches suitable for large multinational businesses (for example Wind et al. 3:iii, Williams 3:iv) and very basic exporting textbooks for smaller businesses. These latter usually deal with the question of distribution by considering the various possible ways of marketing abroad and offering advice on agent selection, sources of information for exporters etc. (for example, Weller, 3:v). Leighton (3:vi) examines the advantages and problems of six different types of overseas sales effort:

- the agent or distributor
- the branch office
- licensing arrangements
- joint ventures
- ownership of a foreign production subsidiary
- the foreign holding company.

These each have a particular appeal to companies according to the size of firm concerned and the product involved. An evolutionary element is also suggested, linked to the size of the company, which as it grows would move from an exporting approach to a foreign manufacturing level and eventually to a true international corporation. Among the more academic contributions, Wind, Douglas and Perlmutter pursue the question of an international marketing orientation and distinguish enthnocentric, polycentric, regiocentric and geocentric postures which may be evolutionary in nature and represent an increasing degree of internationalism (3:iii). Williams (3:iv) stresses the development of a regional concept for strategy and control among large multinational enterprizes.

6:4 The net contribution of these various topics of distribution theory is further considered in the Literature Review. For the purpose of deciding a distribution strategy for a company such as D.S.C. formal distribution theory may require information and resources not available at present if it were to be directly applicable. Thus while the distribution textbook may well assist in drawing attention to opportunities in physical distribution management, it will often fall short when attempting to apply strategic distribution channel theory to an exporting situation.

In the following discussion the topics mentioned in this review of theory frequently arise. The very idea of a European marketing strategy indicates an acceptance of a regional element by the Company for example. The question of influence within the distribution channel is another case of great importance to D.S.C. as is the comparison of independent distributor and overseas subsidiary distribution. It is these matters which are now considered.

Implied Distribution Strategy of D.S.C.

6:5 Just as an Implied Pricing strategy was identified in (5:15), the question of Distribution within Europe requires a similar approach. Distribution is a far easier element to ascertain at the strategic level in D.S.C. however because so much of the European strategy is, in fact, based upon the chosen mode of distribution. In (3:6) it was seen that the present overall strategy of the Company stresses distribution through a third party while giving preferential treatment to A.C. markets. The success of the Company in Europe has been based upon the effectiveness of the distributors involved and the competitiveness on price which a U.K. based company enjoyed in the particular products concerned. This situation has now materially changed. The difficulties on pricing to Europe have already been mentioned. A fundamental change in the relationship between U.K. and European prices has been indicated and as a second development the whole distributor arrangement now requires examination. For, the competitiveness on price, the cohesive feature of the system, has now been considerably reduced and D.S.C. can no longer ensure that a distributor will be able to enjoy a price advantage over European, U.S. and Far East products.

The reduced reliance upon price as a marketing feature which now applies indicates an appraisal of how other elements of the marketing mix, particularly distribution, can be adapted to maintain overall competitiveness. This can be done by analysing whether the exporting/distributor mode is still appropriate in view of the problems of direct selling by U.K. retailers to Europe, re-exporting within Europe etc. Beyond this it is necessary to consider whether the evolutionary development theory of overseas activity (3:iii) may not apply to the present distribution structure wherein a mixture of A.C. and I.D. arrangements results in an inherently inconsistent and unstable posture.

6:6 In considering these matters a series of specific question arises which should influence the strategic thinking of the Company at this stage:-

1. Is it still adequate and appropriate to delegate so much marketing activity to a distributor? How far does D.S.C. fulfull the role of a manufacturer planning a channel of distribution, rather than a mere supplier (often one of several) to distributor customers?

2. Should sole agents in each territory handling several sports be continued? Golf is already handled separately in Sweden and Austria. The case for a separation of golf on a European basis, already accepted in the matter of linking golf prices to U.K. rather than continental conditions, appears to be growing stronger.*

3. Should A.C. customers of D.S.C. be preferentially supported? The use of a subsidiary which does not respond to D.S.C., to I.S.C., or to any body which will enforce D.S.C. interests, removes the usual advantages of a foreign subsidiary. In fact, while A.C. channels may be appropriate for tyre sales, D.S.C. could well be in a different position because of the scale of the operation, the nature of the products etc.

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* See (6:10)for the advantages of a sole agent arrangement.

Development of a "Sports Management Committee" for Europe (which has been instigated to co-ordinate all Dunlop and Pirelli owned sports interests in Europe) is ultimately baulked by local aspirations and control. In the case of the smaller A.C. areas, D.S.C. buys a marginal selling effort from the local A.C. In fact the A.C. question becomes an evaluation of the advantages of a specialist independent distributor operation, compared to the synergy of using a channel handling a non-seasonal product (tyres, Dunlopillo etc.) as well as D.S.C. products.

4. Are any regional groupings of territories possible?

5. Should active selling support or promotional involvement be expanded by D.S.C. in Europe?

6:7 In considering these questions a basic appraisal of D.S.C. requirements from distributors, and of distributor requirements of D.S.C. is required. The former are outlined in Figure One. A significant feature which emerges from the list is that D.S.C. depend on the distributor to supply almost all the marketing functions in the overseas territory. It should also be noted that certain of the functions carried out seem to require a presence specific to the territory (for example items 7, 8 and 9 of Figure One). A local presence, whether this is an I.D., an A.C., or a branch office of D.S.C. would always appear necessary if the service level to the market is to remain comparably high. Distributor requirements of D.S.C. are shown in Figure Two. The list refers primarily to I.D. customers but to a large extent applies to A.C. areas as well.

FIGURE ONE

D.S.C. REQUIREMENTS OF A DISTRIBUTOR

1. To sell all D.S.C. products in the territory (at an agreed price between D.S.C. and the distributor).
2. To carry inventory.
3. To take credit risks.
4. To inform D.S.C. of market place conditions and requirements in terms of product, promotion, prices etc.
5. To carry out product promotion.
6. To distribute D.S.C. products within the territory.
7. To service customers quickly and efficiently. This usually means a 24 hour service which would be impossible from the U.K. or a non-local central depot.
8. To handle complaints.
9. To handle special requirements in terms of free of charge goods to professionals, fill-in orders etc.
10. To establish a market place image consistent with promoting the good name of D.S.C.
11. Forward sales estimates to enable D.S.C. to plan production more efficiently in order to give a better service to the distributor.
12. To pay invoices to an agreed schedule.
13. To confine sales activities to the agreed territory.
14. To carry no other competitive products on their premises or in their business without D.S.C. prior agreement.

FIGURE TWO

DISTRIBUTOR REQUIREMENTS OF D.S.C.

1. That D.S.C. recognize that they are locally autonomous.
2. Stable and reliable supply as requested (or an explanation where this is not possible).
3. A price structure consistent with market place conditions and ...
4. A profit margin.
5. Selling costs and administration are fixed by the distributor and can only be discussed with D.S.C. if relative mark ups do not compare with other territories.
6. The right products at the right quality, this relates to D.S.C.'s efficiency in getting information and developing and producing the required range of products.
7. Credit facility on invoices at an agreed limit.
8. Protection within the territory (and the law) to sole rights over all D.S.C. product sales in that territory.
9. That D.S.C. recongize that they have entrepreneurial and financial motivations - in that the relationship with a manufacturer is a function mainly of D.S.C.'s performance against competitors.

A persistent theme is that of distributor autonomy and the restriction of D.S.C. influence in controlling the distributor channel. The protection of a local sole distributor arrangement has become a major feature of the distributor's requirements (as has been seen in Chapter Five).

It is almost inevitable that certain inconsistencies should arise between these two sets of requirements. The major cause of misunderstanding would seem to be the image of the distributor stage as perceived by the two parties is different. Despite item 14 in Figure One, distributors do carry goods other than D.S.C. products (usually with the explicit or tacit consent of D.S.C.). In some cases these are competitive items, in some cases complementary, but in any case the distributor views himself as a customer of D.S.C., often handling other lines and ultimately free to decide suppliers. D.S.C. have tended to regard the distributor far more in the light of "our local representative", an extension of the D.S.C. marketing channel. This difference of viewpoint imposes a certain restriction on D.S.C. actions which the Company should fully appreciate. For, an extension of D.S.C. involvement (in directing the distribution channel on a planned basis for example) impinges upon the distributor's image of his own position and could be a cause of extreme discord. Any radical extensions in D.S.C. activity should be considered with the above comments in mind.

Constraints and Pressures on D.S.C.

6:8 In seeking answers to the questions posed in 6:6, a certain focussing upon the constraints operating on D.S.C. in the matter of distribution is a first requirement. Present export department staffing is certainly far too low to enable anything approaching a D.S.C. operated sales effort in Europe. The level of fixed costs which a dramatically increased involvement would necessiate could not be accepted by D.S.C. (or I.S.C.) upon the evidence at present available. In fact all the indications are that any radical changes in distribution would not be justifiable on the basis of the performance of the Company in Europe to date. A degree of inertia operating against a change in distribution has to be accepted as probable. In order to overcome this inertia very sizeable and definite advantages would have to be available from the proposed change.

The likelihood of achieving such advantages rises markedly if other I.S.C. units are included in the proposal.

An I.S.C. European distribution policy seems a more appropriate level for considering a complete re-structuring of the group's distribution channels. In either case the information upon which such a change could be based is not present in the quantity or quality required at present. These factors tend to constrain the alternatives open to D.S.C. as shall be seen in the following discussions.

<u>Options Open to D.S.C. on Distribution</u>

6:9 For a realistic evaluation of the Company's possible alternatives three factors shall be considered as basic assumptions:

1. A sole distributor (per sport) exists, and inertia will tend to support his continued existence.
2. Home and export prices can be made compatible to ensure a measure of territorial protection for a sole distributor.

3. Buying groups (such as the P.G.C.A. or large, cross frontier, wholesaling groups, for example) can be restrained from undermining the sole agency position.

If these assumptions are removed the situation becomes extremely fluid and analysis becomes virtually impossible. However, within the assumptions the first option to be considered is the level of D.S.C. involvement appropriate at this stage. The Company can expand its involvement into functions now performed by the distributor or it could retire to a more defensive, "exporting", posture. The former option seems in general to be preferable. In Chapter Three the aggressive marketing posture was preferred because of competitive trends and to best meet overall strategic requirements. This is well illustrated in the discussion on distribution.

The second general question to be considered is that of the "sole agency" distributor. Two alternatives to the single distributor are possible. The first is to use multiple distributors - all handling the same sports in the same territory. The only advantages of this seem to be a possibility of increased coverage and possible competition for sales between the distributors. The disadvantages are that committment is reduced, competing products would certainly be carried by the distributor, credit risks would increase etc. A major problem would also be that the E.E.C. bloc exemption on competitive practices for the "sole agents" would no longer apply. In fact this option has little to recommend it. A second alternative is to use different distributors for different sports. The main advantage here seems to be the possibility of a separate channel for golf sales. Golf already is handled by a separate distributor in Sweden and Austria and developments might involve a direct selling operation by D.S.C. on golf, or a regionalized structure of separate, golf only, distributors. This alternative is one of those now postulated and examined.

<u>The alternatives</u>

6:10 Four alternatives are now examined within the framework of sections 6:8 and 6:9

1. <u>The Existing System</u>

D.S.C. export department selling to a sole (independent) distributor responsible for a single territory independent of territory size or potential.

<u>Advantages</u>

- The overheads are spread over several sports by the distributor.
- Local complaint services, inventory and credit risk functions are performed for D.S.C.
- A definite market presence supplied for D.S.C.
- D.S.C. export effort is basically a variable cost operation.
- The distributor usually has an established position within the sports market through his own status, specialist knowledge, player contracts etc.
- Distributors have a personal financial interest in the volume and profitability of sales.

Disadvantages

- A concentration of effort (usually on tennis alone) by the distributor.
- A distributor margin (sometimes excessive) is added to the distribution chain.
- D.S.C. have a second-hand control of the selling effort (and a vetted view of the market).
- D.S.C. rely on the export margin for overall profitability and may require a higher contribution than the present structure can provide.
- A difference in objectives between D.S.C. (who require volume and margin) and the I.D. (who seek control over volume and a separate margin). The price constraint at the market may prevent either or both being satisfied.
- A difference in opinion on the role of the distributor (a customer or an extension of the D.S.C. marketing effort?).

2. Grouping of Territories

D.S.C. would restructure their European distribution into groups depending on size and potential. This could be done for all products but seems more attractive to use golf as a separate system initially. Possible groupings could be:-

Area 1. Sweden/Norway/Finland.

Area 2. Denmark/Belgium/Germany/Austria/Holland.

Area 3. France/Switzerland/Italy.

Area 4. Spain/Andorra/Canaries/Portugal.

Total Turnover on golf in the groups would be approximately:-

	1974	1975	£1000
Area 1.	138	69	
Area 2.	78	92	
Area 3.	83	68	
Area 4.	79	43	

Each area would require a central warehouse operated by the regional distributor. Selling could be operated locally by the distributor or by a D.S.C. assisted or operated sales force.

Advantages

- Certain economies of scale might be expected both in the distributor functions and from a D.S.C. operational viewpoint.
- The regional groupings could support a specialized golf distributor.
- A reduction in cross frontier transfers within each group might follow.

Disadvantages

- The areas could be too large for a typical distributor to cover effectively.
- Dealers may resent the loss of a national distributor.
- The control of the point of sale would be further removed from D.S.C. in some cases.
- Increased communication and data gathering problems and bottlenecks are likely.
- The presence of E.E.C. and non-E.E.C. members of the same group would cause problems.

- Different exchange rates, market forces etc. would complicate distribution.

3. A Separate Golf Distribution Structure

D.S.C. would select a separate golf distributor for certain countries and can then use a variety of alternatives.

a) An I.D. in each territory for golf alone.

b) A D.S.C. controlled and operated sales and distribution effort (with no local facilities).

c) A D.S.C. controlled and operated marketing effort with local facilities for inventory, repairs etc.

Advantages

- Some possibility that D.S.C. could develop a viable golf operation controlled from the U.K. and that this could be extended in future to other sports.

Disadvantages

- Specialist I.D. already exist in Sweden and Austria. Other areas offer little evidence of large benefits from establishing a specialist golf structure.

- D.S.C. are hardly capable of operating an overseas selling or distribution function at present or in the medium term.

- If no local facilities are provided (as under alternative (b), above) an important market would probably be inadequately serviced.

4. D.S.C. Involvement in Supplying Major Customers Direct

D.S.C. would deal themselves, or in conjunction with the local distributor, with the major accounts in each territory. These would be supplied direct from the U.K. in line with target volumes, ordering patterns etc., agreed in direct negotiations.

Advantages

- D.S.C. would be able to keep contact and control themselves over the major customers.
- A reduction of the distributor effort and a corresponding increase in the D.S.C. margin should follow.
- The system could be compatible with the gross list and discount structure proposed in Chapter Five. The distributor could take the export discount (or commission) and the large account customer would receive the volume discount.

Disadvantages

- Distributor opposition and resistance to a reduction in their autonomy.
- A reduction of distributor motivation if his effort is too confined to smaller accounts.

6:11 In considering these alternatives the constraints previously discussed must be included. It seems that the final alternatives of 6:10 fulfills the requirements most adequately of those examined. It does not involve an enormous increase in export staff and the fixed cost committment would be moderate. It initiates D.S.C. control beyond the distribution stage and would be amenable to future development into a far wider D.S.C. or I.S.C. marketing effort. The major problem is the reaction of the distributor. To overcome this a conditioning and educational effort would have to be mounted stressing possible advantages of increased D.S.C. involvement, and if service levels were simultaneously improved, a basis for agreement could follow.

Before examining how the distribution alternative proposed would form part of the overall European marketing strategy, another topic should be considered. A comparison of the A.C. and I.D. modes seems appropriate at this stage since the analysis so far has abstracted from this question.

A.C. and I.D. Distribution

6:12 In sections 4:13 and 4:14 it was suggested that a definite difference in performance exists between A.C. and I.D. markets of D.S.C. in Europe. Various factors which could be responsible for such a difference were examined and the conclusion remained that as a group, the I.D. areas have performed substantially better.

The discussion in Chapter Five concerned the ten markets chosen for more intensive study. A slightly wider sample confirms the results of that chapter:

Taking four classes of European distributor:-

Class A: Holland/Italy/Sweden/Spain/Switzerland/Austria.
(High volume areas with an effective realisation of potential and relatively high margins to D.S.C.)

Class B: W.Germany/France/Eire.
(Erratic volume, low margins to D.S.C. and local distribution anomalies which distort the realisation of potential).

Class C: All European I.D. areas other than those of Class A.
(Low but steady volume with an effective

realisation of potential and relatively high margins to D.S.C.).

Class D: Belgium/Denmark.

(Low but steady volume, below average margins to D.S.C. and realisation of potential constrained by local organisational structure).

TABLE ONE

Net Turnover of each class as % of total:

	1971	1972	1973	1974	1975
A	53.6	57.2	60.7	68.0	60.3
B	30.7	27.1	24.5	16.5	27.0
C	11.1	11.1	10.0	11.5	8.3
D	4.6	4.6	4.8	4.0	4.3

Once again the large I.D. areas are predominant and their contribution is further emphasized if margin is used as a base for comparison. Using a least squares technique (as described in Appendix Three), reduces the effect of atypical years and gives growth rates for the four classes of 29% per year for Class A, 17% per year for Class B, 18% for Class C and 21% for Class D. Even here the 1975 figure for Class B distorts the overall rate, a true rate probably being between 12 and 15% per year (see Appendix Three).

6:13 The evidence seems conclusive that the I.D. markets have served D.S.C. far better than A.C. areas. The Independent Distributors possess an effective direct selling capacity and carry adequate local stock. They seem highly geared to a fast service and offer products at competitive market prices in relation to the product posture. (See Note One, Page 137).

The markets of Class B are A.C. areas with local production facilities. Eire is an anomaly receiving goods transferred at cost with a "credit back" arrangement subsequently applied within Dunlop. The performance of France and W.Germany has been the main cause for concern. Potentially they are good markets for D.S.C. products but the potential has been very inadequately exploited. As locally autonomous A.C. divisions, any actions by D.S.C. to correct their methods of selling are "politically" constrained.

The difficulties encountered in operating through France and W.Germany have persisted for several years now and no immediate resolution appears probable under existing arrangements. The local tennis ball manufacturing facilities complicate comparison with other areas. In Appendix Four it is seen that an independent distributor could probably sell the tennis ball output and D.S.C. products on a mutually advantageous basis. A change to such a structure is almost certainly unacceptable (certainly to Dunlop France and W.Germany) at this stage. The alternative would appear to be to extend U.K. involvement radically in these two markets with a view to seeking a performance comparable to that of Class A distributors. This would involve a direct D.S.C. contact with key accounts in these areas and substantial technical and advisory assistance. It must be admitted that the probability of arriving at an acceptable allocation of overheads and expenses for functions performed appears to be low. In fact any assistance from the U.K. depends upon several factors:-

1. It should be at an I.S.C. level and involve the other members of the group.
2. It would depend upon an imposed allocation of costs and functions between I.S.C. and Dunlop Hanau and Dunlop S.A.
3. It should not prejudice the relationship with I.D. customers.

Only if these matters were adequately settled would any D.S.C./I.S.C. additional involvement be justifiable. Since these external constraints appear to be decisive (and are not apparently being resolved) the only option with D.S.C. can follow is to accord A.C. areas only the same support as I.D. areas on price, supplies, promotion etc. and concentrate upon maintaining an overall market position in Europe.

<u>Medium Term Distribution Strategy Suggestions</u>

6:14 It seems that D.S.C. must accept the I.D. areas have provided the main component of the Company's success in Europe.* A direct D.S.C. involvement on marketing is probably desirable. This could extend to D.S.C. contact with key European accounts and certainly involves D.S.C. controlling the relationship with major buying chains (especially where these are operating in several markets). To this end an educational task on the distributors is necessary. They should be persuaded that they would not lose by this development (by the use of commissions on sales etc.), and that improved service would be possible as a result. In the medium term the objective is to improve the running of the existing distribution system since on a historical basis the I.D. channel in Europe is "prima facie"

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* See Note One, Page 137.

successful.* To this end the following would be necessary:

1. An improved information system established and accepted by the distributors.
2. D.S.C. involvement by Export Department with key accounts in Europe, in particular with buying chains.
3. Every effort to reinforce the I.D. Channel in supply matters and to bring about acceptance of D.S.C. as a true planner of the distribution system.
4. A "holding operation" in A.C. areas which does not prejudice the performance in the rest of Europe.

Long Run Possibilities

6:15 In the long run a re-examination of the whole distributor mode will be required. It the Company has been able to plan and to gain co-operation for the distribution channel, minor adjustments may be all that are necessary. If not, a radical change (probably to a U.K. controlled selling and distribution effort) may be indicated. At present such a possibility is merely speculative and could neither be implemented nor justified. The medium term policies are designed to lay the basis for a possible future move of this kind by initiating customer contact with Europe, gathering the data which would be required and developing a pricing structure which could be used in this eventuality.

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* B.E.T.R.O. Report Page 34 (1:v)

"Is the Agent still the best solution for most exporting companies? The practical answer must be a qualified "Yes" (the theoretical answer might well be an emphatic "No").

SUMMARY

The theoretical background of distribution theory was briefly considered in relation to export marketing. The present European distribution policy of the Company was examined and several of the problems being encountered were mentioned. The requirements which D.S.C. have of a distributor and the distributors have of D.S.C. were then considered. Various options open to D.S.C. on distribution matters were examined and a preferred position outlined. In general the present I.D. distribution channel in Europe appears to be effective at present, while A.C. areas vary. The scope for correcting A.C. anomalies is limited by corporate constraints and likely to remain so. Consequently a policy of continued support for I.D. customers in Europe seems indicated, with a gradual extension of the D.S.C. role in such a way as to ensure that if a radical extension of D.S.C. control does become advisable, the basis for the change would already exist.

Note One: Besides structural differences between A.C. and I.D. operations, the higher personal motivation of the I.D. personnel plays a vital role. The financial stake of an independent agent seems to be a most effective spur to his performance.

CHAPTER SEVEN

MARKETING STRATEGIES AND D.S.C.

Introduction

7:1 This final chapter could follow several courses in bringing together the different topics examined so far. The chosen approach begins with a discussion of market share as a goal commonly suggested for businesses in theory. There are certain alleged advantages which follow from the achievement of a high market share. Buzzell (3:vii) gives a good outline of the basis for this belief in market share. In brief, a high market share seems to coincide with high profitability.

> "It is now widely recognized that one of the main determinants of business profitability is market share".
>
> (Buzzell, 3:vii, Page 97).

As a rough rule each 10% of market share is accompanied by a 5% rise in pre tax return on investment according to the research of Buzzell and his associates. A causal link is suggested between the market share of the company and its profitability, operating through three factors. These are that, as market share rises, economies of scale (including those arising as a result of "learning-curve" effects), increased market power, and an improving management all contribute to rising profitability. The contribution is seen in a rising profit margin on sales, a declining percentage marketing cost and the fact that a high share business is likely to possess unique competitive strategies which enable higher prices to be charged.

From these various features arises a proposal that market share goals should be set by a company in the pursuit of profitability. In defining these goals a business can follow one of three paths. A building strategy can be used to raise market share in a planned move throughout the market. Holding strategies can be employed to maintain the position of a company. Harvesting strategies are possible where a company is prepared to allow market share to decline and costs are likely to drop more quickly than revenue.

C. Davis Fogg (3:viii) supports market share as a path to profitability and considers in detail strategies which may be used to raise shares. These are of course the usual elements of the marketing mix : price, new products, service, strength and quality of marketing, advertising and sale promotion. The suggestion is that a planned approach to seeking market share has major operational advantages, particularly if the level of analysis called for by Fogg (a cost benefit appraisal of the effects of alternative strategies, detailed competitor analyses etc.) are within the scope of the business concerned.

Some doubts on high market shares are raised by Bloom and Kotler (3:ix). They suggest that some problems are attendant on high share companies. The major drawback is that the company becomes a target for existing and potential competitors and is exposed to monopoly investigations and official regulation. However, they do maintain that it is possible to determine an optimal share. To do this a business must be in a position to define the relationship between market share and profitability:

- the risk attached to various levels of market share
- "the point at which an increase in market share can no longer be expected to bring enough profit to compensate for the added risks to which the company would expose itself".

(3:ix, Page 65).

Such an optimising process is a corollary to marginal revenue and cost calculations postulated in marketing price theory. In this case the inclusion of the risk factor makes it almost inconceivable that such a calculation could be readily carried out in operational situations.

7:2 While the more refined and complex details of market share theory may well be beyond the scope of most business enterprises it does seem that a market share based approach to strategy formulation could have advantages. On balance the proposition that higher market share corresponds with rising profitability seems well researched and accepted, while the possible disadvantages are identified and do not seem impassable.*

For a company exporting to a series of territories a market share approach can have very clear applications. In the matter of assessing the performance of distributors a market share principle seems an important feature, both as a target setting tool and, as a base for strategies devised for a particular market situation.

In Chapter Three an aggressive posture for D.S.C. in Europe was devised. This would seek a position as a

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* See Note One, Page 153.

market leader or major force in the five sports in which the Company operate. In tennis and squash "holding" strategies could well be appropriate, maintaining the generally satisfactory performance. In golf, badminton and table tennis there is a need for "building" of market share. The objective is to optimize the overall position of the Company in Europe and market share targets, set at a Management Plan level preferably, and supported by effective planning and marketing intelligence would play an important role in achieving this objective.

<u>Major Strengths and Weaknesses of D.S.C.</u>

7:3 As a first step in constructing a European programme for the Company a brief examination of its Strengths and Weaknesses is required.

<u>Major Strengths</u>

1. Product quality : D.S.C. tennis and squash products, and the golf ball, are highly acceptable in Europe.
2. Capacity : low unit costs are in general enjoyed as a result of the large manufacturing capacity.
3. Market share : D.S.C. have a substantial share of the wood tennis frame market and an important share of the growing squash market.
4. Company image : some benefits probably arise from The Dunlop name. This is hard to assess and in any case could be a declining factor for two reasons. First, the generation most familiar with Dunlop as a tyre manufacturer is now ageing, the new generation is far more attuned to American and Japanese manufacturers. Second, the reputation of British firms in general may no longer be a positive feature for their products. (See Note One, Page 158).

Major Weaknesses

1. High inertia and delay in the ordering/manufacturing/supply, chain. This is seen in:-

   - low recognition of a cyclical sports ordering pattern and the requirements of this.
   - poor delivery performance.
   - a high level of geographical dispersal in the U.K.
   - a cumbersome organization and communications structure.

2. Inertia and delay in the planning cycle.

   - some ambiguity over planning needs.
   - poor management information systems.
   - no explicit European objectives and strategy.

3. Low posture market place activity.

   - a lack of market data.
   - inappropriate forecasting objectives.
   - differing levels of distributor control by D.S.C., complicated by A.C. considerations.
   - ambiguity over the perception of a distributor's role.
   - inadequate distributor contact in some cases.

4. Ambiguous control over inventory.

   - low stocks at the end of a year for financial reasons, at a crucial time of the seasonal cycle.
   - embryonic inventory control, complicated by the number of low volume stocked lines.

5. Low and possibly inappropriate level of promotional activity.

   - little synergy in corporate image.

6. Severe weaknesses in certain elements of the product range.

- badminton.
- higher technology products (for example, "composite" tennis frames)
- low (but growing) awareness of the need for a European oriented product range, as well as a U.K. oriented range.

7. Problems arising from the changing market supply position.

- For some years market demand consistently outstripped supply. Many competitors have entered the industry and committed themselves. Thus the demand picture has changed and this has been reflected in D.S.C. sales (for golf in 1975 for example, and now in other areas).

7:4 These weaknesses of the Company have been summarized here at some length to emphasize the scope for improvement. It should be stressed once more that the Company have a successful record in Europe, but that to maintain the performance the weaknesses will have to be overcome. in part they are operational problems - a source of friction in the distribution system (for example the inventory control, planning problems etc.). In part they are the result of a basic lack of strategic guidance on a market posture which would meet changing circumstances.

This strategic guidance can be supplied by a co-ordinated European approach which would also indicate the major priorities in solving the operational problems.

An aggressive market posture could supply the base for a required strategy.

Major Strategic Options Open to D.S.C.

7:5 On balance the analysis of the Company's position seems to indicate that a major market share in tennis and squash could be held with the existing product range and a certain amount of innovation. In badminton, table tennis and golf a thorough re-appraisal of the range is a necessity for any strategy which does not allow the Company to decline steadily.

The two major options open to D.S.C. have been briefly mentioned before. They are:-

1. To concentrate on tennis and squash in Europe and on tennis, golf and squash in the U.K., with badminton, table tennis and golf in Europe being allowed to decline.
2. To try to establish all five sports on a profitable market share basis in Europe.

Though the first of these options has much to recommend it, the second is proposed here as the prefered option for D.S.C. The reasons for this lean heavily upon factors such as morale and image, which though intangible, will play a crucial role in the Company's fortunes in the immediate future.

Above all else, retreating to fewer sports affects morale both in D.S.C. and within the distributor network. The distributors would in all probability replace D.S.C. as a source of supply with other manufacturers and the Company would be unable to prevent this. Many of these competitors also produce tennis equipment and this would expose D.S.C. in this area also since the competition would attempt to induce successful distributors away from D.S.C. completely. In fact the Company would become very vulnerable to any disruption in the sports it continues to serve. In tennis and squash, competition will certainly tend to rise in the future and D.S.C. would be totally committed to withstanding the challenge. While badminton and table tennis represent a small proportion of D.S.C. business they are major markets within Europe and the potential they represent should be preserved and exploited rather than abandoned. On golf, the Dunlop 65 ball is still very acceptable in Europe and this offers the Company an opportunity to build a viable operation around this product.

In short, to abandon golf, badminton and table tennis in Europe exposes the Company both in the territories there and ultimately in the U.K. also. It ignores the large potential existing abroad and would affect morale and lose an opportunity to establish D.S.C. on an aggressive posture designed to counteract competitive pressure.

Thus while the suggestions on price, distribution etc. have certainly been made with the predominance of tennis sales by D.S.C. in Europe in mind, as a strategic posture a five sport approach recommends itself.

It should be pointed out that this is a D.S.C. oriented analysis. If I.S.C. is brought into the picture a different result could follow. In the context of the I.S.C. group, a concentration by D.S.C. on squash, golf and tennis could well be preferable with badminton being completely taken over by Carlton. Such a situation cannot be proposed however since no I.S.C. initiative on this appears to be occurring and consequently this thesis operates within the alternatives discernible and desirable for D.S.C.

7:6 A market posture has been recommended for the Company and the strategic implications in terms of a market share seeking approach in Europe have been outlined. It is now necessary to develop these guidelines into specific policy areas and indicate the requirements which shall arise if the Company follows such an approach.

The Export Contribution

7:7 In Chapter Four the analysis of the Company's performance revealed the extent of the dependence upon first the export sector, then the European market and finally the European I.D. territories. In terms of profit, sales and growth the significance of exports has risen over the last few years. The B.E.T.R.O. Report (1:v) has urged a re-deployment of resources in British industry in general to the export sector and the case of D.S.C. seems open to similar recommendations. One aspect would be the expansion of the functions of Export Department to include the increased involvement in market intelligence collection, distributor contact and assessment which has emerged as desirable in this project. Another would be the development of export oriented product ranges which recognize the relative importance of the overseas market to D.S.C. The adoption of such an outlook would have repercussions in pricing (where export sales should cease to be jeopardized by re-export of goods sold on the domestic market), in supply (where a priority could well be established in accordance with profitability of the transaction) and in promotion (where an emphasis on golf has little to offer tennis oriented distributors).

This recognition of the export contribution is a crucial factor in all the subsequent suggestions and has been conclusively supported by the research into the Company's performance and prospects.

<u>To Establish a D.S.C. Market Research Capability</u>

7:8 A recurring feature of this project has been the lack of sufficient market research detail to enable decisions to be made with any degree of certainty. Some of this information has been assembled during this project (samples of pricing data are given in Appendices Six and Seven) and the extent of information which is readily available is now clear. In deciding market share the import and export statistics have severe limitations but they do supply a base. Graph One shows net imports of tennis frames into certain European markets. Using such a first approximation and estimating local production would provide the crucial market share positions required by the Company.

Besides the market share factor D.S.C. should be in possession of a continuing market analysis indicating trends in demand, competition, promotion, government policies etc. These requirements are outlined in Appendix One. It should be noted that in many cases distributors possess a great deal of information which would be of great interest to D.S.C. A formal D.S.C. market research effort would ensure that this information reaches the Company and could also

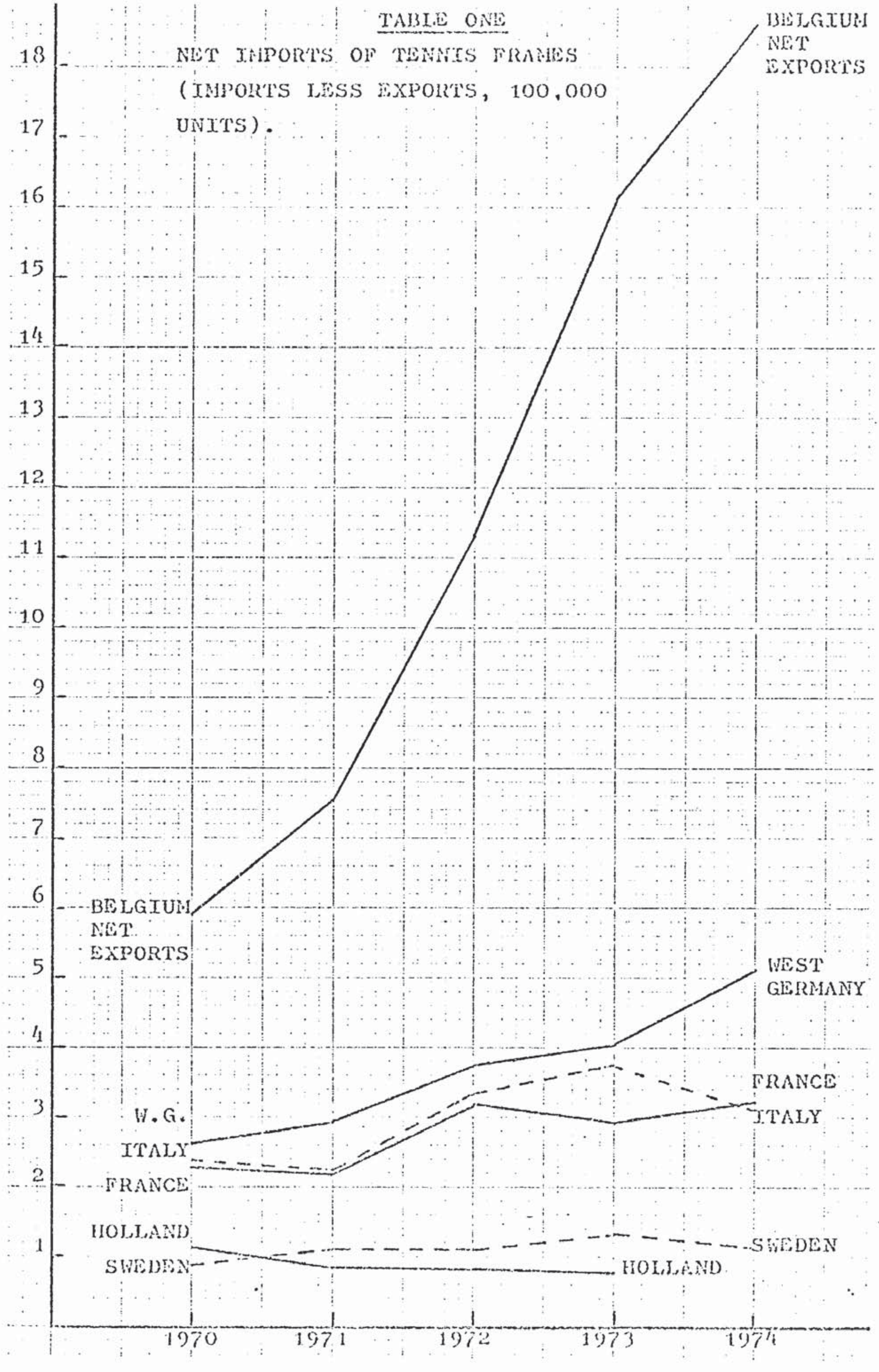


TABLE ONE
NET IMPORTS OF TENNIS FRAMES
(IMPORTS LESS EXPORTS, 100,000 UNITS).
BELGIUM NET EXPORTS
WEST GERMANY
FRANCE
ITALY
W.G.
ITALY
FRANCE
HOLLAND
SWEDEN
SWEDEN
HOLLAND
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
1970
1971
1972
1973
1974

be used to corroborate distributor claims and requirements.

Price Recommendations

7:9 These have been considered already. The major areas of possible improvements are concerned with the home price differential over export and the way in which a single list system could be implemented. The former should follow from any recognition of the export contribution on the lines of (7:7) as a matter of course. The latter takes a very practical view of the requirements of the Company and yet allows sufficient flexibility for the future to make use of incentive discounts, competitive devaluations etc.
The need for price information in badminton, table tennis and even squash will be a major feature of the market research programme proposed. In golf and tennis the process has already been begun.

Distribution

7:10 This too has been the subject of an earlier chapter. The main features which emerge were the need to support the I.D. areas in Europe and to treat A.C. areas on an equivalent basis. If D.S.C. (or more probably), I.S.C., eventually obtain actual managerial responsibility for the sports operations in A.C. markets this order of priorities could change. A.C. Europe could then become a first step in the Company expanding overseas to active marketing in Europe. At present there appears little indication that this might occur and a realization of this fact could only benefit the relations of D.S.C. with its I.D. customers.

Marketing Involvements in Europe

7:11 It has also been proposed to gradually increase the contact between D.S.C. and European markets direct. This should certainly take place in the case of internationally operating buying chains (which can buy in one market and sell in many others). These have now moved to a position where they can obtain supplies in U.K. and sell through their outlets abroad. D.S.C. negotiation with these seems logical on a European basis therefore. In the case of other organizations (P.G.C.A. type bodies for example) D.S.C. direct contact also appears desirable. In the long run a relationship with many overseas key accounts could well be advantageous to D.S.C. and if properly approached would not create local distributor opposition.

<u>Product Range Developments</u>

7:12 <u>Tennis, Squash and Golf</u>: The Company has a sound, if partial, range of products. The requirements for new products, especially at the more technogogically sophisticated levels of the product ranges are well appreciated and are being pursued.

<u>Badminton and Table Tennis</u>: The potential in these sports is sufficiently high to justify a thorough re-appraisal of the product range. There is no doubt that to raise market share would be a severe challenge but as seen earlier (7:5) to meet this challenge appears preferable to avoiding the issue.

<u>Promotional Requirements</u>

7:13 The two main elements of D.S.C. promotion are the player contract and the material and support given to local distributor promotion. Player contracts are becoming an increasingly expensive means of promotion and as yet little evidence exists which proves their value. In fact, research on the benefits and costs of player sponsorship seems indicated before decisions on their value can be made. In the matter of promotional material, D.S.C. give distributors an allowance for catalogues, aids etc. This has always been a fraction of the promotional expenditure of the distributor and is unlikely to be dramatically increased. Competitors' activity in the advertising field has been growing however and a case could certainly be made for some increase in the European effort of D.S.C. In particular, small changes in presentation could be effective to some extent. A concentration on product advantages (the Maxply Fort as "the best wooden racket in the world" for example) may be appropriate. The catalogue could be made in a loose leaf or section form to enable additions, deletions and changes designed for particular markets. The presentation must reflect the attributes which a customer wants to see (on golf an American presentation, stressing U.S. design could be effective).

These possibilities once again reinforce the need for market research to provide guidance on various promotional matters just as in pricing and distribution cases.

Operational Improvements

7:14 Some of the strategic aspects of the weaknesses of D.S.C. have been examined in the sections above. The more operational elements mentioned in (7:3) cannot really be considered in the detail which they deserve. In most cases the solution certainly lies within the reach of D.S.C. management in that the removal of inertia in various stages of the Company's business would result in significant benefits. In any case such matters as inventory control, territorial planning, delivery performance and product development are all in the hands of a professional and experienced management. The only comment it seems reasonable to venture here is that these operational features should all be considered in the light of overall strategic requirements, just as the pricing and distribution policies have been.

7:15 It would be wrong to claim that the various recommendations in this thesis can be summarised in a brief statement or that they are a certain and extensive answer to the Company's problems. However, an outline of these recommendations would include the market posture suggested in (3:16) and the support for a market share based strategy to establish D.S.C. in five sports throughout Europe. The various matters mentioned in (7:7) to (7:14) are all intended to form part of a coherent approach towards this objective and it is hoped will be of practical assistance to the Company in its European operation.

Applicability of Other Businesses

7:16 The European experience of D.S.C. while possessing certain unique features (some of the aspects of the A.C. arrangement for example) will certainly also have much in common with other companies. If these are up to a certain size they will probably be using distributors or agents and will experience problems similar to those of D.S.C. in pricing problems. In that case the Pricing Chapter would probably find a measure of common ground. If overseas subsidiaries are used Chapter Six could also find some application beyond D.S.C. The use of a market share objective, the analysis of market posture and of strengths and weaknesses could also be useful in a variety of situations, as might the approach to market research abroad. Thus while the thesis is not intended to be a case study it would seem to possess a measure of relevance beyond the Company within which it was compiled.

Note One: The advantages of a market share basis for strategy formulation seem well supported by the literature quoted in (7:1). The disadvantages which Kotler and Bloom (3:ix) point out refer mostly to problems arising from a near monopoly situation, problems which D.S.C. is largely spared. Neither does D.S.C. appear susceptible to major diseconomies of scale at the present level of activity.

Conclusion

In Chapter One an objective was set for this project:

> "To identify and evaluate the present marketing strategy of D.S.C., as employed in Europe, and to suggest modifications both in the strategy itself and in the formulation process".

The self analysis stimulated by the first part of this objective has been of use in its own right. It is hoped that various analyses and discussions have met the second part of this objective with sufficient effect to be permanently useful as guidelines. It is suggested that qualitative analysis of this kind does have a role to play in improving a company's strategic approach to an exporting situation. Many enterprizes could find significant improvements flowing from an analysis similar to that carried out for D.S.C. It is hoped that this project could be of some help in smoothing the path for those who undertake such an evaluation of their marketing effort.

APPENDIX ONE

THE MARKET RESEARCH REQUIREMENTS OF D.S.C. IN EUROPE

Whereas the present level of market research (a single researcher, operating at an I.S.C. level for both export and domestic markets) may have been adequate in the past, the need for more detailed research now appears clear.
In several instances (on price, on distribution, on market shares) it has been felt that any long term strategic view should be based on an improved awareness of market features.
In the specific instance of European export markets a valid market share analysis seems a crucial factor. Although any D.S.C. researcher could reasonably be expected to cover the home and export markets, as a result of the continuing importance of export sales and in view of the probability of increased involvement in Europe being necessary, the research function should place priority on export needs.
Reaching a suitable level of market intelligence will take some time. In some instances data have been collected and presented in the course of this project and connected work (for example on pricing of D.S.C. goods, of competitors' goods and on trade statistics). The requirements below are proposed as a framework which it seems within the Company's resources to erect. In all cases both the existing position and anticipated trends are of interest.

Demand Factors

a) Availability of Facilities

Among the requirements here are the total number of courts, clubs etc. and some detail of how these are subdivided. Usage rates and weather influences can be inferred.

b) Player Numbers

Some stratification figures can be expected by dividing into age bands, registered and casual participants and possibly social/income groups. Frequency of usage estimates can usually also be made.

c) Economic Trends

Relevant data on a macro level are the average personal disposable income, average hours worked and any estimate of market elasticity which could be made. The cost of participation would also be useful in terms of initial outlay and running costs over a season. Government policy and the policies of any sports federations in terms of developing facilities, encouraging particular sports etc., are sometimes difficult to ascertain but could be included in the market research brief.

Supply Factors

a) Market Size and Share Data

Local production figures throughout Europe are only infrequently available. This makes an estimate of market size difficult to produce since local tax or consumption statistics usually do not give sports goods data in sufficient detail. Trade statistics however generally are fairly accurate and detailed and by adding an estimate for local production a valid market size can be deduced. Of this it is relatively easy to calculate the share of imports, of U.K. exports, of

I.S.C. exports, of D.S.C. exports and of the main competitors.

Segmentation of markets requires considerable effort to establish in a number of countries. For tennis frames, golf clubs and badminton frames it would certainly be useful to consider market segmentation in certain key territories and then adjust the results when looking at other territories. For tennis frames for example, five segments can be initially used:

1. Composite frames
2. Steel frames
3. Wooden frames - top quality
   - medium quality
   - low quality

Some segments have been discerned in the pricing studies undertaken to date, to continue this the changes in prices and in quantities sold in the various segments would be monitored.

b) <u>Distribution Changes</u>

The numbers of sports dealers and accounts have been monitored by the Company on a fairly informal basis. A D.S.C. market researcher would continue this and record any major developments in distribution of competitors' products.

c) <u>Pricing</u>

D.S.C. and competitor prices, by territory, at various levels in the distribution stage would continue as a prime objective for market research. Variations in discount structures and appearances of new products would also be monitored.

These suggestions would establish an elementary picture of the markets being served in Europe. As such they are of inestimable value to the success of the policies outlined in this thesis in that forecasting capability, comparative analysis of markets and evaluation of promotional and marketing effort all rely heavily on the market intelligence available.

Note One: Improved market research would enable a better understanding of the way in which the image of D.S.C. within sport in Europe has changed. Increasing competition makes the communication of the Company's attributes to the sports trade, and of product attributes to the consumer, increasingly important. Better market intelligence would indicate the optimum way in which to use promotion and advertising to achieve this improvement in communications.

APPENDIX TWO

D.S.C. SALES WORLD WIDE

A. DIRECT EXPORT SALES

1. Europe and Eastern Bloc — TABLE ONE

The five major I.D. markets are dealt with in detail in Chapter Four. The other main territories are:-

	Gross Turnover		
	1974	1975	
Austria	124	129	£1000
Norway	15	18	
Portugal	25	13	
Greece	10	17	
Finland	52	59	
Grand Canary	50	26	
Iceland	11	5	
Andorra	28	-	
Czeckoslovakia	45	61	
Yugoslavia	38	49	
Rumania	41	3	

Besides these and the five territories of the sample in the text there are nine small account areas. Eastern Europe has appeared as a sizeable market and many have considerable potential while being subject to somewhat volatile behaviour.

2. Africa and Middle East — TABLE TWO

£1000	Gross Turnover	
	1974	1975
Lebanon	31	21
Iran	55	68
Trucial Oman	26	14

There are also some forty smaller distributors.

3. Far East		TABLE THREE
£1000	Gross Turnover	
	1974	1975
Australia	15	17
Japan	84	110
Indonesia	25	-

Apart from a sizeable direct export business to Japan, the Far East is mainly supplied through A.C. distribution.

There are some ten smaller distributors in the area.

4. Americas		TABLE FOUR
£1000	Gross Turnover	
	1974	1975
Bermuda	23	21
Venezuela	64	63
Chile	34	65

Besides these there are also forty small distributor markets.

In total D.S.C. deals through a network of some 120 distributors for direct sales. Of these the largest and most successful are in Europe.

B. ASSOCIATED COMPANY SALES

1. Europe

The five European A.C. markets are dealt with in Chapter Four.

2. Africa

TABLE FIVE

	Gross Turnover 1974	1975	
Kenya	37	32	£1000
Nigeria	39	121	
Zambia	22	11	
S.AAfrica	10	19	

3. Americas

	Gross Turnover 1974	1975	
Canada	276	491	£1000
U.S.A.	710	1,131	
Peru	24	42	

4. Far East

	Gross Turnover 1974	1975	
Malaysia	94	52	£1000
Singapore	204	43	
Hong Kong	139	82	
Indonesia	101	78	
Thailand	68	17	
Pakistan	11	6	
N. Zealand	21	12	
India	3	-	

Besides the five European A.C. markets the two main blocs are U.S./Canada and the four major Far East Associated Companies (Malaysia, Singapore, Hong Kong and Indonesia).

C. ANALYSING THE MAIN REGIONAL BLOCS

TABLE SIX

Gross Turnover £1000 (excluding surcharges)

	1971	1972	1973	1974	1975
U.K.	3,046	3,476	4,174	5,035	6,676
U.S. & Canada	508	604	849	987	1,623
Four Far East A.C.	360	296	365	540	257
Total Europe	1,227	1,550	1,815	2,119	3,041
"Five A.C." Europe	340	455	492	408	883
I.D. Europe	887	1,095	1,321	1,710	2,158
"Five I.D." Europe	630	852	1,047	1,383	1,764

	1974	1975
D.S.C. World Gross Export Turnover:-	4,997	6,416
of which the European percentage is	42%	47%
the five European A.C. markets are	8%	14%
the five European I.D. markets are	28%	28%
D.S.C. World A.C. Export Turnover:-	2,183	3,064
whose five European A.C. markets are	19%	29%
D.S.C. World I.D. Export Turnover:-	2,794	3,351
whose five European A.C. markets are	61%	64%

If the five main sales blocs are totalled and the individual bloc percentages calculated a remarkably steady picture emerges.

Gross Turnover

TABLE SEVEN

	1971	1972	1973	1974	1975
Total: £1000	5,144	5,926	7,201	8,680	11,597
U.K.	59%	58%	58%	58%	58%
U.S./Canada	10%	10%	12%	12%	14%
Far East Bloc	7%	5%	5%	6%	2%
Europe A.C.	7%	8%	7%	5%	8%
Europe I.D.	17%	19%	18%	20%	19%

Gross Margin TABLE EIGHT

	£1000 1971	1972	1973	1974	1975
U.K.	746	826	1,001	1,568	1,435
U.S./Canada	86	103	144	220	200
4 Far East	104	85	112	212	64
Total Europe	431	544	652	869	940
5 A.C. Europe	112	102	139	121	177
I.D. Europe	319	442	513	748	763
5 I.D. Europe	246	338	404	584	622

Again, as percentages of the total margin for the five main blocs:-

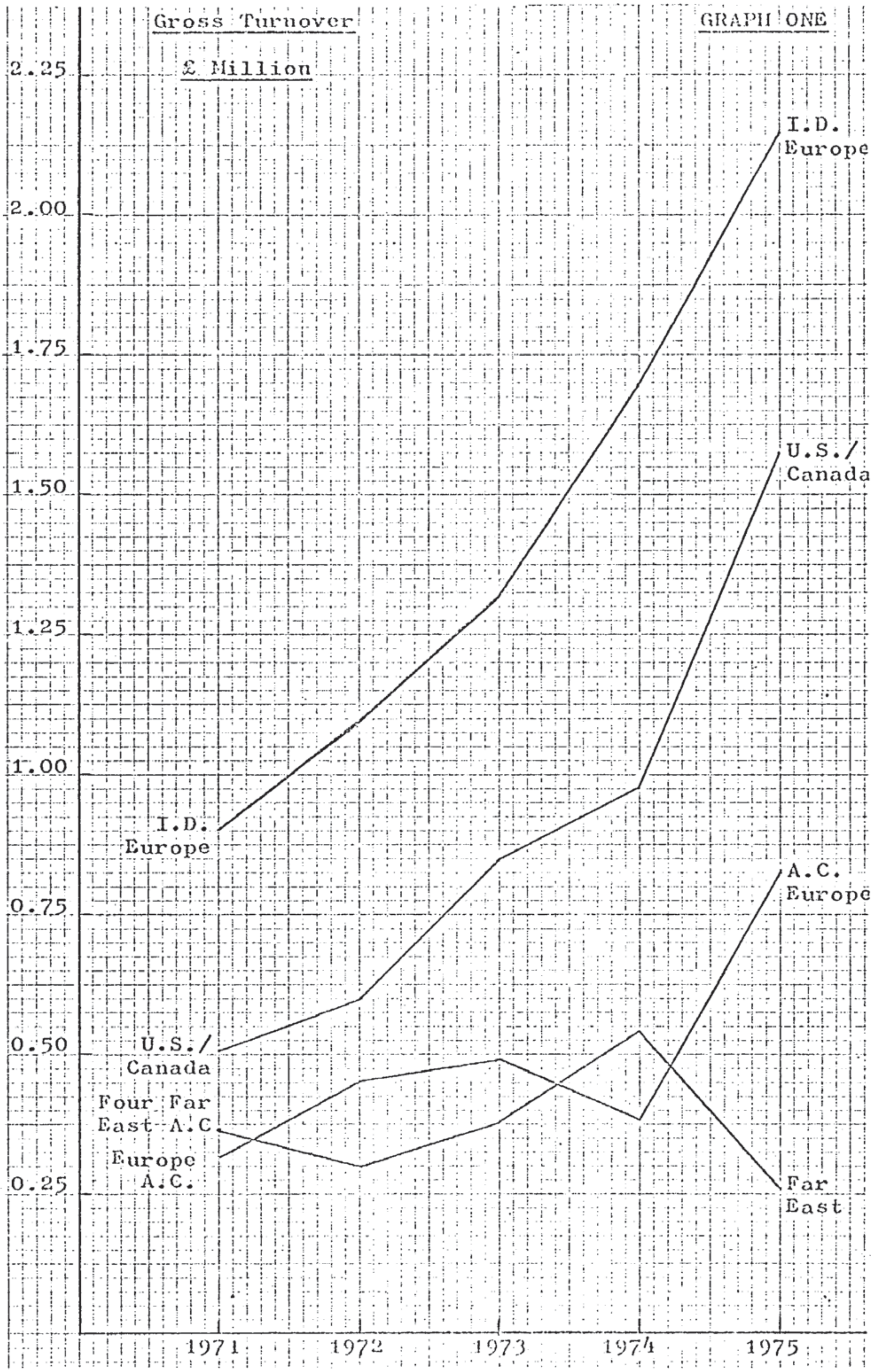
Gross Margin TABLE NINE

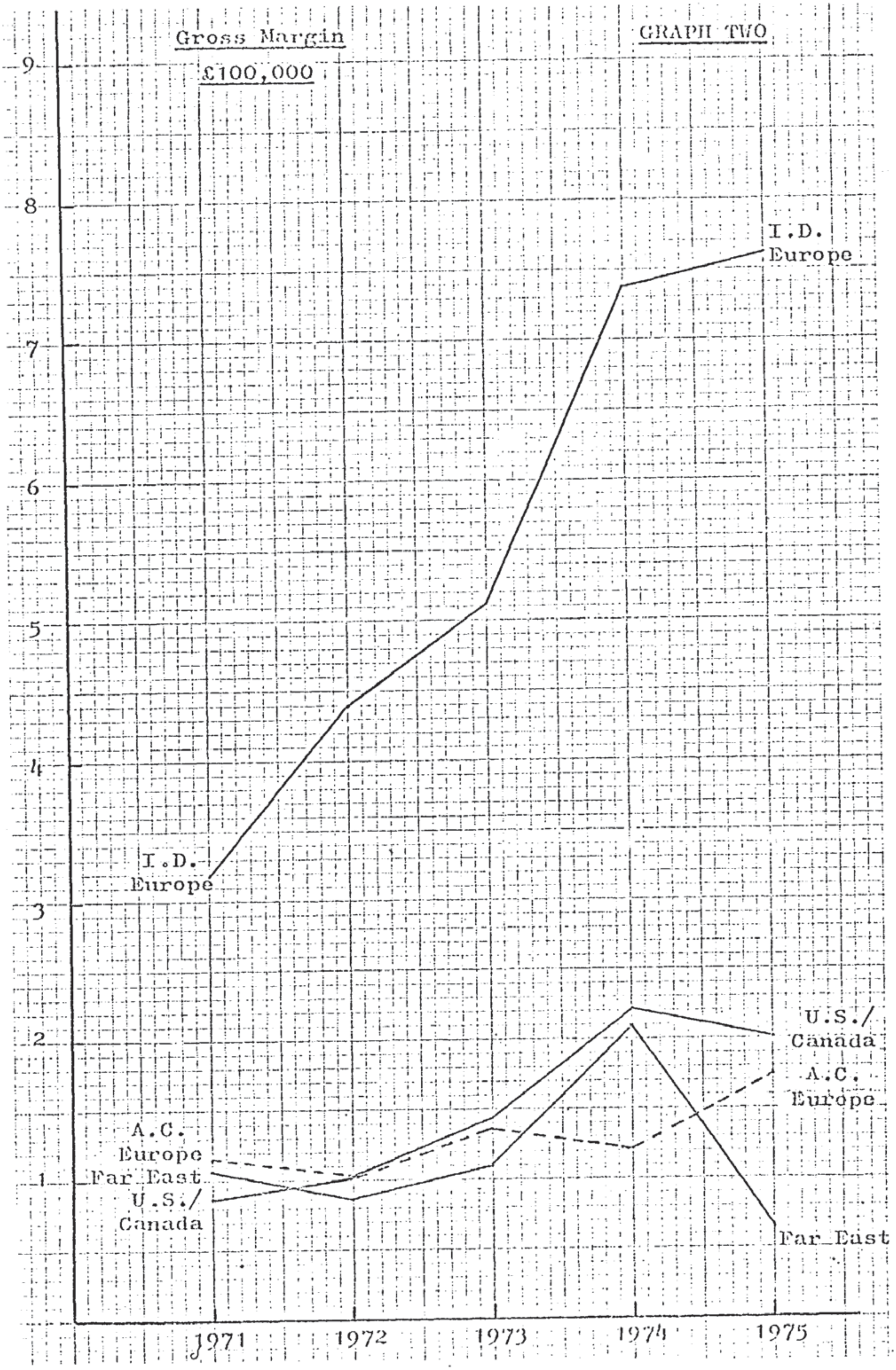
	1971	1972	1973	1974	1975
Total: £1000	1,367	1,558	1,909	2,858	2,639
U.K.	54%	53%	52%	55%	54%
U.S./Canada	6%	7%	8%	8%	8%
Far East Bloc	8%	6%	6%	7%	2%
A.C. Europe	8%	6%	7%	4%	7%
I.D. Europe	24%	28%	27%	26%	29%

CONCLUSION:

It is first necessary to accept that these are gross turnover and margin figures. If net figures were used the gap between I.D. Europe and the A.C. blocs would be diminished. However, the difference in performance is too great for any significant relative changes to result from an analysis carried out in net terms. European I.D. areas have grown more strongly and more consistently than any of the other blocs. They alone have never shown a drop in gross margin during any year of the period. By 1975 they supplied 19% of the turnover and 29% of the gross margin of the total for the four export blocs plus Europe.

In Chapter Three the importance of the export sector in supplying growth and margin emerged. The I.D. performance was the most valuable contribution within the export sector. From this Appendix the importance of the European I.D. contribution emerges, and when a margin comparison is carried out (Graph Two) that contribution is seen to be quite crucial to the overall objectives of the Company.


Gross Turnover
£ Million
GRAPH ONE
2.25
2.00
1.75
1.50
1.25
1.00
0.75
0.50
0.25
I.D. Europe
U.S./ Canada
Four Far East A.C
Europe A.C.
A.C. Europe
Far East
1971
1972
1973
1974
1975


Gross Margin
£100,000
GRAPH TWO
9
8
7
6
5
4
3
2
1
I.D.
Europe
I.D.
Europe
U.S./
Canada
A.C.
Europe
A.C.
Europe
Far East
U.S./
Canada
Far East
1971
1972
1973
1974
1975

APPENDIX THREE

RATES OF GROWTH IN EUROPEAN MARKETS

Each European territory has its own particular growth possibilities and targets and forecasts are naturally set by the informed opinion within the company. However, I thought it interesting to carry out a purely mathematical examination of the way growth rates have varied over the ten markets mainly concerned in this study.

The basic data used can be referred to in Table Ten, Chapter Four. From here an average rate of growth of gross value of sales is derived for each country over the first four years 1971 to 1974 by taking an average of the three percentage increases:-

TABLE ONE

Belgium	22.3% p.a.
France	- 5.6%
Germany	- 2.1%
Holland	28.6%
Italy	26.6%
Eire	13.8%
Denamrk	9.0%
Sweden	30.6%
Switzerland	24.0%
Spain	47.3%

The next stage is to arrive at an average European growth rate, 19.55%, an average Associated Company rate, 7.28%, and an average for the Independent Distributor areas, 31.82%. The pitfalls of such an aggrevating procedure are legion but as an exercise it is useful to apply these rates in this crude form and examine the projections.

If these three growth rates are applied to the total D.S.C. sales to these markets in 1971 then three series result. It is recognised that the figures are abstracted from all consideration of capacity limitations and saturation levels of demand. They do, however, give an initial indication of how sales might move if all markets were expanding at the A.C. or the I.D. average: IN £1000s -

TABLE TWO

Growth Rate	1971	1972	1973	1974	1975	1976
7.28	1,042	1,119	1,200	1,283	1,377	1,477
19.55	1,042	1,247	1,491	1,784	2,133	2,552
31.8	1,042	1,347	1,811	2,387	3,147	4,147
Actual	1,042	1,276	1,514	1,791		

If all markets were expanding at the typical A.C. rate the actual 1974 figure would not be reached till 1979. If all were expanding at the I.D. rate the 1974 figure would be reached in 1972.

The next stage is to apply these three rates to the A.C. total for five markets and the I.D. market total. Once again the series are strictly arithmetical but the comparison with the actual sales achieved shows how important to overall performance the growth of the I.D. markets has been.

A.C. Areas

TABLE THREE

Growth Rate	1971	1972	1973	1974	1975	1976
7.28	416	446	479	514	551	592
19.55	416	497	593	712	851	1,018
31.8	416	586	723	952	1,255	1,655
Actual	416	431	467	408	–	–

If A.C. sales had been able to grow at the I.D. rate they would have doubled by 1974 rather than been below the 1971 level (because of the decline in France and West Germany).

I.D. Areas						TABLE FOUR
Growth Rate	1971	1972	1973	1974	1975	1976
7.28	626	672	721	774	830	891
19.55	626	749	896	1,072	1,281	1,532
31.8	626	825	1,088	1,434	1,891	2,492
Actual	626	845	1,047	1,383	-	-

If I.D. areas grew at the A.C. rate then the actual 1974 figure would be reached around 1980. The shortfall in 1974 would have been around £600,000 and in 1975 around £1,000,000. These magnitudes illustrate the importance of the high growth rate areas in Europe. That these rates may decline from 1975 both because of increased competition and general economic conditions, is now becoming a clear possibility. The dramatic effect this would have on D.S.C. can be readily seen if the trends above are studied.

Table Six for individual territories shows the high, the low and the actual growth rate projections. For each country in each year the comparison between the achieved figures and the two average rates is available. The main point to emerge of course is the shortfall in France and West Germany up to 1974. If France had even grown at the (low) average A.C. rate 1974 sales would have been double the actual. In Germany the figures are as striking. As an extra comparison a series for the average European rate (19.6%) is included in these two cases. Comparison with this makes the French and German actual figures look even worse up to 1974.

The exercise has been carried out deliberately to include only the four years of 1971 to 1974. If the 1975 figures are included the position of France and West Germany changes completely. It is one of the drawbacks of such an aggregating exercise that when a radical improvement is experienced over a single year (as for France and West Germany in 1975) the percentage increase may be so high as to completely distort the average for the whole period. Increases of 200% for France and 162% for West Germany in 1975 over 1974 completely change the A.C. average over the five years. In fact the A.C. average at 30.5% is slightly above the I.D. average of 30.3%. Because of this distortion by an exceptional percentage increase on a very low base year it is preferable to exclude the 1975 figures and use them instead as a check against the projected positions for that year.

When this is done (in Table Six) it is seen that the following variances of actual to projected (at the 31.8% growth rate) sales are achieved for 1975.

TABLE FIVE

1975 Percentage Difference to Projected Figure

Belgium	+ 4.3
France	- 101.1
Germany	- 153
Holland	+ 124
Italy	- 50
Eire	- 71
Denmark	- 43
Sweden	- 87
Switzerland	- 85
Spain	- 28

1975 quite clearly shows a slackening of the rate of growth of turnover in general. Holland is the great exception, doing considerably better than the projection in a difficult year. The recovery of France and West Germany in 1975 leaves them well short of the I.D. performance series. In fact the recovery raises their turnover to the 19.6% growth series (average over four years for all the ten markets).

While accepting the severe statistical deficiencies of this exercise it seems to place the events of 1975 in a wider context and to offer another tool for assessing distributor performance.

Some of the statistical shortcomings of the average growth rate process are removed by using regression analysis. One very basic approach involves least squares regression. It is proposed to use this technique for two territories and evaluate the results.

Using Cartesian co-ordinates (x and y) and a total of N readings, the least squares solutions for slope of line (m) and intersept (c) are:-

$$m = \frac{\Sigma xy - \frac{\Sigma x \Sigma y}{N}}{\Sigma x^2 - \frac{(\Sigma x)^2}{N}} \qquad c = \frac{\Sigma x \Sigma xy - \Sigma y(\Sigma x^2)}{(\Sigma x)^2 - N(\Sigma x^2)}$$

Holland: Actual Gross Turnover £1000 (y)

	1971	1972	1973	1974	1975
y	150	178	279	310	578
x	1	2	3	4	5

$N = 5$

$m = 98.8$

$c = 2.6$

compound growth rate = 47.6% p.a.

Two series are possible. One uses the step increase nature of m and adds 90.8 units each year. This merely fits the straight line to the observed data (Series B). The second method is to apply the compound growth rate to the base year 1971.

Holland

	1971	1972	1973	1974	1975
Actual:y	150	178	279	310	578
Series:B	101	200	299	398	496
Series:C	101	150	221	326	481

West Germany: Actual Gross Turnover £1000 (y)

	1971	1972	1973	1974	1975
y:	196	245	229	171	438
x:	1	2	3	4	5

N = 5

m = 41.3

c = 131

compound growth rate + 18%

	1971	1972	1973	1974	1975
Actual:y	196	245	229	171	438
Series:B	172	213	255	296	337
Series:C	172	203	240	283	333

The great advantage of a regression analysis over the average growth rate exercise is that a base year lies necessarily upon the regression line. When either series is applied to this base year the possibility of an atypical base is removed. However, it is evident that the two series are still very poor representations of the actual performance. More sophisticated statistical techniques are of course available but it would appear that a qualitative basis for analysis of territoral sales may well be just as appropriate (cheaper to employ and certainly more readily acceptable within the Company) as a basis for decisions concerning the performance of the distributor.

£1000 TABLE SIX

	Rate %	1971	1972	1973	1974	1975	1976
Belgium	7.3	21.5	23.1	24.8	26.5	28.5	30.5
	31.8	21.5	28	37	49	64	85
	ACTUAL	21.5	24	32	40	68.3	-
France	7.3	103.2	110.7	118.8	127.5	136.5	146.8
	19.6	103.2	123	147	176	211	252
	31.8	103.2	136	179	236	311	410
	ACTUAL	103.2	77	118	67	209.9	-
Germany	7.3	195	209	225	241	259	278
	19.6	195	233	279	334	400	478
	31.8	195	257	339	447	590	777
	ACTUAL	195	245	229	167	437	-
Holland	7.3	150	161	173	186	199	214
	31.8	150	198	261	345	454	599
	ACTUAL	150	177	279	310	578	-
Italy	7.3	141	152	163	175	187	201
	31.8	141	186	246	324	427	563
	ACTUAL	141	202	258	276	377	-
Eire	7.3	64	68	73	79	84	91
	31.8	64	84	111	146	193	254
	ACTUAL	64	66	77	94	122	-
Denmark	7.3	31	34	36	39	42	45
	31.8	31	41	55	72	95	125
	ACTUAL	31	37	49	38	52	-
Sweden	7.3	133	143	153	165	177	190
	31.8	133	176	232	305	403	531
	ACTUAL	133	165	211	295	316	-
Switz.	7.3	82	88	94	101	108	116
	31.8	82	108	142	188	247	326
	ACTUAL	82	106	114	161	162	-
Spain	7.3	118	127	136	146	157	168
	31.8	118	156	205	271	357	471
	ACTUAL	118	192	183	339	329	-

APPENDIX FOUR

LOCAL TENNIS BALL PRODUCTION IN FRANCE AND W. GERMANY

There are two main differences between the A.C. sports operations in France and Germany and those in other European A.C. markets. First the scale and consistency of the operation. In both these territories sales have been higher than in Ireland, Belgium or Denmark. However, the turnover has been erratic and in recent years declining overall. The smaller A.C. areas have slowly improved. The second main point of difference is the presence in both countries of a local tennis ball manufacturing capability. This has important implications to the D.S.C. operation through these A.C.s and the local A.C. In fact D.S.C. are obliged to supply a full range of sports goods but without the important 'bread and butter' line. A glance at graphs Twenty to Twenty Nine of Chapter Four shows how significant the contribution of tennis balls is to D.S.C. turnover elsewhere in Europe. It may be claimed therefore, that the apparent poor performance of D.S.C. in these two markets was only the result of ignoring the fact that 'Dunlop' tennis balls were being left out of the calculation of turnover. So it is necessary to examine in some detail the tennis ball operations in these territories.

The first point to emerge is the great importance of this product. In France around 75% of total turnover comes from tennis balls. In Germany it is just under 50%. It seems fair to assume that a concentration of marketing effort on this product would result. The poor results to D.S.C. are a reflection of this. Not only are D.S.C. denied the tennis ball contribution; they are also suffering because of the insignificance of many of their products (for example, golf) to the local A.C. marketing programme. This of course may not necessarily be disadvantageous to the totality of the Dunlop Company provided that the tennis ball marketing is a really effective operation by the local A.C. In this case the concentration on this product may well be justified and the loss of turnover to D.S.C. of minor significance. It would seem from the following, however, that even this defence of the A.C. performance will not stand up to scrutiny.

Methodology

In evaluating the performance of the two A.C. operations the main technique used is to consider the possibility of an independent distributor carrying out the marketing function. In the case of tennis balls this depends on discovering the two prices (transfer price from the A.C. and effective trade price) between which such a distributor would have to work. The next stage is to assess the feasibility of an operation based on such a margin and the effects on A.C. and D.S.C. turnover. The two prices are worked out from the Report of Operations supplied by the A.C.s to D.S.C. The main difficulty is to discover the margins applying to the marketing function. This involves some considerable manipulation of the figures in the Report. The object of this is to remove as far as possible, all factory constants etc. from the picture and produce figures relating solely to marketing. The approach used is to consider net turnover and total cost of balls, divided by quantity to give the price range. This is preferred to the method of requesting cost and trade price because it automatically allows for the complicated discount and quantity structures:-

France: Dunlop S.A.:-

The first necessity is to arrive at the figures for the cost of balls to the Sports Division in 1974:-

Total Net Turnover	13,710	
Gross Contribution	4,361	
Tennis Ball N. Turnover	10,290	1,000 F.
Tennis Ball G. Contribution	3,490	
∴ Cost of Tennis Balls	6,800	
Non-Ball N. Turnover	3,420	
Non-Ball G. Contribution	871	1,000 F.
∴ Non-Ball Cost of Goods	2,549	

The total gross contribution above (4,361) is that on the selling operation. Out of this all S., D., and A. expenses have to be met. These give a selling company operating margin on all goods of 424,000 F. or 3.1% of turnover.

To include the manufacturing operation, 1,829,000 F. have to be added to the gross contribution above as recovery of constant expenses.

Out of the total S.A. sports contribution of 5,587,000 F. (including manufacutring unit now), when all S.D.A. and factory expenses are met, an operating margin of 67,000 F. or 0.5% is left. This gives a P.B.I.T. of 7,000 F. or 0.1%.

Correspondingly, when the factory costs and recovery thereof are applied to the selling company operating margin above, the same P.B.I.T. of 7,000 F. emerges.

Now an eventual P.B.I.T. of 0.1% on turnover clearly calls for some explanation at this stage. Such a figure arose by marking down losses on the clothing operation of Sports

Division of Dunlop, France, for 1974. Before the marking down (November 1974 figures) the total operating margin was <u>2.4%</u> and the P.B.I.T. was 1.8%. Even at that time the sports operation was running at minute profitability; when the clothing disaster is included the position becomes even worse.

Turning to the tennis ball operation.

Quantity sold in 1974: 285,034 doz.

Dividing into net turnover;

Average selling price: <u>35.9 F. per doz.</u>

and Dividing into cost of balls;

Average cost to sports division: <u>23.8 F. per doz.</u>

In discussing the likely effect of a distributor on this situation many assumptions have to be made. The two most important can be summarised as follows:-

1. The distributor sells the same number of balls, all bought from S.A. and works on a 30% mark up.
2. We use the S.A. manufacturing costs actually incurred in 1974 to derive a transfer price.

<u>THEN</u>:-

Trade price:	35.9 F.	
Price to distrib:	<u>27.6 F.</u>	(giving 30% mark up to the distributor)
Cost to S.A.:	23.8 F.	
<u>For Dunlop S.A.</u>:-		
Turnover:	7,860,000 F.	
Cost of balls:	6,830,000 F.	
Value Margin:	<u>1,030,000 F.</u> or <u>12.8%</u>	

The cost of balls figure includes all 1974 actual manufacturing expenses and the operation produces what is in effect an operating margin on <u>balls alone</u> of over 1 million francs as opposed to 67,000 francs for <u>all</u> goods actually achieved in 1974. This remarkable result is produced by avoiding the enormous S.D.A. expenses which were actually incurred. Even removing the mark down loss of the clothing side, gives an operating margin to November 1974 of only 305,000 F.

<u>For the Distributor:</u>

T. Ball Turnover:	10,220,000 F.
Cost of Balls:	7,860,000 F.
Gross Contribution:	2,360,000 F. or 30% mark up on cost of balls to cover S.D.A. expenses.

The distributor then has a turnover of around 1 million pounds on balls alone. From comparison with the independent distributors in Europe the 30% mark up would certainly cover the probable costs of the organisation. By the same token, the effect on non-ball goods, imported from D.S.C. would be to increase turnover as a consequence of moving to a typical I.D. situation.

Thus the D.S.C. attributable profit would be much larger <u>and</u> Dunlop S.A. profit would also rise. Even a fairly small shift in performance towards that level reached in I.D. areas in Europe would give great improvement to both D.S.C. and Dunlop S.A.

<u>Projecting into 1975</u>:-

Expected S.A. sales:	330,000 doz.
Expected S.A. capacity:	340,000 doz.
Estimated cost to S.A.:	27.6 F.

Assume distributor takes <u>330,000 doz.</u> at <u>32 F.</u> from S.A. for sale in France. Also, S.A. sell <u>10,000 doz.</u> at 32 F. abroad.

<u>THEN</u>:-

<u>Turnover to Dist.</u> on 330,000 doz.:	13,730,000 F.
<u>Turnover to S.A.</u> on 340,000 doz.:	10,900,000 F.

(Based on a trade price of 41.6 F. which gives the dist. 30% mark up on his cost price and S.A. 16% on their cost as an effective "operating margin".)

The size of this value margin to S.A. is 1,500,000 F. While this picture is still relatively crude in its approach the size of the margins involved is such as to seem to justify the contention that an independent distributor would:-

A. Actually improve S.A. operating margin.

B. Provide the right climate for a major expansion of non-ball items - i.e. benefit D.S.C.

West Germany: Dunlop A.G.:-

The West German end of year figures for 1974 are as follows:-

Tennis Balls		
1974	Production:	390,573 doz.
	Sales:	379,885 doz. = 4,560,000 balls
	Capacity:	426,000 doz.
	Net T.O.:	8,876,600 D.M.
	Margin:	3,928,000 D.M.
∴ Cost of Prod:		4,948,000 D.M.
∴ Price Received:		1.95 D.M. per ball = 23.40 per doz.
and Transfer Price:		1.08 D.M. per ball = 13.00 per doz.

In Germany the situation is complicated by the existence of a wholesaling stage in the distribution structure. Under an independent distributor this stage would automatically disappear. In fact the A.G. are trying to establish sales direct to retail level even now. However, as an exercise it is interesting to consider a distributor working between the 1974 price to wholesalers (23.40 D.M.) and on a mark up of 30%:-

A. Dist. Selling Price: 23.40 D.M.
Dist. Mark Up: 30%
Transfer Price: 18.00 D.M.
A.G. Mark Up: 38.5%

Now, removing the wholesale stage and taking an estimated sale price to retail of 28.8 D.M.

B. Dist. Selling Price: 28.80 D.M.
Dist. Mark Up: 30%
Transfer Price: 22.15 D.M.
A.G. Mark Up: 71%

This is a division very favourable to Dunlop Hanau. A 71% mark up would be available for very small expenses. Recognising that a 30% mark up for the independent may not be high enough in view of the high costs of promotion (especially of a high contribution to the West German tennis federation), it may be necessary to allow higher margins for the distributor:-

C. Dist. Selling Price: 28.8 D.M.
Dist. Mark Up: 40%
Transfer Price: 20.6 D.M.
A.G. Mark Up: 58.5%

or even:-

D. Dist. Selling Price: 28.8 D.M.
Dist. Mark Up: 50%
Transfer Price: 19.2 D.M.
A.G. Mark Up: 48%

Taking these margins on a turnover of 380,000 doz.

Case	A.G. Value Margin	Distrib. Value Margin
A.	1,900,000 D.M.	2,050,000 D.M.
B.	3,480,000 D.M.	2,525,000 D.M.
C.	2,890,000 D.M.	3,115,000 D.M.
D.	2,380,000 D.M.	3,650,000 D.M.

The actual 1974 operating margin for Dunlop A.G. was

2,471,000 or 12% on T.O. The Gross Margin on tennis balls was 3,928,000 D.M. or 44%.

Comparing these results with the possible totals in the distributor exercise it seems that once again, the evidence indicates that Dunlop A.G. could improve their margin and profitability by selling through a distributor. As in the French exercise the S.D.A. costs are the main reason for this outcome, in this case however the benefits of a change in distribution are less marked than in France.

Comparing the price structures of tennis ball sales in the two countries:-

1974	France	West Germany
Average Cost Per Doz.:	23.8 F.	13.00 D.M.
Average Selling Price:	35.9 F.	23.40 D.M. (W.H.)
Estimated Trade Price:	35.9 F.	28.80 D.M.
Exchange Rate:	10.33 F.	5.58 D.M.
Average Cost Per Doz.:	£2.32	£2.79
Average Selling Price:	£3.48	£4.13 (W.H.)
Estimated Trade Price:	£3.48	£5.16

While it is recognised that the exercise is in very rough terms I feel that, in France especially, the evidence is sufficient to warrant much further investigation of the possible outcome of a change in distribution policy. In particular it seems that while the local Associated Companies experience difficulties the D.S.C. turnover in these areas is bound to suffer.

In view of the importance of export margins to the D.S.C. performance it seems reasonable to examine any possible way of improving performance in A.C. territories and this in itself should justify a consideration of a distributor solution.

APPENDIX FIVE

THE PRACTICABILITY AND DESIRABILITY OF STANDARDISATION OF D.S.C. PRICES THROUGHOUT EUROPE IN THEORY AND IN PRACTICE

Introduction

The wide divergence of D.S.C. products as to price, throughout Europe has been a constant source of difficulties for the Company. Re-exporting of goods has undoubtedly been carried on and this has formed a hard core to a general feeling that such wide price differences ought not to exist. Using the purported grave difficulties arising from the re-export of D.S.C. goods, the theory arose that a policy of standardising European prices could be justified. I propose to show that in fact the argument is wanting both as to desirability (i.e. that standardisation <u>should</u> be attempted) and to practicability (that it could be effective at this time).

It should be stressed that the policy being evaluated here would attempt to standardize prices on a European basis (to the trade level at least) with the objective of eliminating re-exporting of goods. It shall be shown that this policy is neither desirable nor practicable for D.S.C. to employ. The analysis is mainly concerned with the re-export of goods from European distributor areas to other, higher price, areas of Europe. This is a far smaller problem for D.S.C. than export of goods sold on the U.K. market. This appendix is included to put the re-exporting problem into perspective and to remove it from the place of priority it could assume in the pricing policy of the Company.

The fact that elimination of parallel imports within Europe may be impossible does not of course detract from a rationalized price for Europe as proposed in Chapter Five. The gross price list introduced there confirms the tendency which already exists to have an original gross price which is approximately standardized to all Europe (as seen in the charts of net price, landed cost etc. in Appendix Six). This price would include the United Kingdom (as far as possible) and the motives for introducing it are far stronger tha the desire to reduce re-exports in Europe.

<u>The Case for Price Standardisation in Theory</u>

The basis of the desire to standardise prices in European markets usually appears to be an attempt to prevent cross frontier transfers of goods after they are exported. This "parallel exporting" assumes significance when different distributors or agents service territories with a price differential existing between them. The usual form is that a retailer in a low price area can obtain goods at a sufficiently low trade price to resell to a retailer in a high price area, at a price below the latter's normal trade price <u>and</u> cover the transport costs etc. involved. Variations (including wholesalers) are common. The main argument against this practice comes from the agent in the high price area. He carries out promotions for the brand within his market. If his sales are hit by parallel imports he considers himself unfairly treated - ultimately by the principal from whom he buys.. Normally he suggests that prices be raised to his fellow distributors or that supplies be drastically reduced.

He invariably demonstrates how his price is the correct one for his market. In effect he is claiming that his rights as a sole distributor within his territory are being infringed and that the responsibility for ending his discomfiture rests with the supplier.

Though this is the crux of the desire for standard prices it is not unreasonable to suspect a more devious objective. This is the desire within a firm to have greater control over its eventual prices in export markets. If prices are standardised then this control becomes more feasible.

A parallel with the case of retail price maintenance within U.K. is easy to detect. As in that case, however, both legal and practical (i.e. operational) forces are working against the control process.

The desire to have increased control over prices in general can readily be submitted for one where parallel imports are the crux; the difficulty is that the latter may then assume an importance out of all proportion to its real effect and significance. Increased control can be sought for <u>many</u> reasons - it is a mistake to take one of these and claim that the real and sufficient motive in attempting to standardize prices abroad is in fact the elimination of parallel imports.

<u>Parallel Imports and D.S.C.</u>

The 1974 series of charts in Appendix Six will show that scope for parallel imports certainly exists in Europe in D.S.C. goods. The 1975 figures indicate that the problem is certainly continuing. From the figures for 1974 the highest retail price is found in Germany for the Maxply Fort tennis frame. Not surprisingly this is the source of many complaints about parallel imports. In particular the German distributor has evidence of traffic from Holland and other independent distributor areas such as Italy and Switzerland. He suggests that D.S.C. take action to prevent this movement of goods which is damaging his sales. Furthermore he insists that one of the main causes of friction, the Maxply Fort, is still underpriced in his market and that he is prevented from a proper pricing policy by the parallel imports. It is the merits and defects of this case in particular which will now be dealt with and which can be transferred to other products and trading situations in Europe.

As à separate issue there is a general complaint from distributors that visitors to the U.K. can purchase equipment here at comparatively very low prices and that U.K. dealers are a major source in supplying parallel imports for Europe. This is a problem which is part of far wider issues of government policy on prices and so forth. The sports trade must be only one of the very many in exactly the same position of a wide price differential between home and export - it has no more immediate prospect of solving the problem than any of the others.

A large proportion of the "illegal" exports of D.S.C. goods in Europe originate in U.K. from one source or another. The only way to restrict this flow is a close watch on U.K. accounts and this is done as a matter of course. The remarks from this point may therefore be taken to refer to the normal parallel import situation as described above; the special case where U.K. sources are involved is a somewhat separate, and wider, issue and has been considered in detail in Chapter Five.

Practicability

There are definite limits on the likely effectiveness of any attempt to standardise prices abroad. These may be classified as:

1. E.E.C. law.
2. Competitors' pricing.
3. General background of price differences branded goods.
4. The difficulty of controlling distributor trade retail margins and the pricing structure.

Taking the last of these in detail. The charts of the build up of margins indicate at once several pitfalls for a standardisation policy. An eventual retail price is composed of a great number of elements. Some of these the company can have no control over - duty, retail tax, royalties. Some are almost certain to remain outside effective control - retail margins, transport costs. All these factors vary between markets and will by themselves result in different prices throughout Europe. The only place where the company can, at present, exert its influence is at the net price level and to some extent as to the importer's margin.

Thus the optimal level of control could only extend to trade price in any case and would depend on almost impossible requirements:-

1. That a net price be computed for each market separately for each product to offset the various tax rates, duties etc., which would produce price variations.
2. That the agreement and co-operation of the distributor in setting his margin to enable price standardisation was present throughout.

It can be stated quite bluntly that thes two conditions cannot at present be met. Even if they could the external factors would still combine to produce varying prices between markets.

E.E.C. Law

Article 85 of the Treaty of Rome is intended to promote competition in trading within the E.E.C. This is a parallel to the Retail Price Maintenance legislation in Britain and prohibits the countering of parallel imports by a concerted practice. The rule is quite definite and any practice with the intention or effect of reducing competition can be prohibited and punished by a fine. Registration of a concerted practice with the Commission requires a conclusive presentation of the lack of trade restriction and proof of consumer benefits. In short, the E.E.C. law does apply to a D.S.C. price fixing attempt acting through distributors abroad. An example of an infringement is the Sperry Rand Case:-

"Following Commission intervention, Sperry Rand Ltd., of Frankfurt, a subsidiary of the Sperry Corporation of New York and manufacturers of information processing and transmission facilities, office machines and equipment, as well as electric appliances, has revoked a number of rules which infringed Article 86 (1) of the Treaty of Rome. These included the following commitments imposed by Sperry Rand as regards their price fixing arrangements and terms of supply and sale of Remington electric shavers, electric clocks and electric appliances of which they had notified the Commission.

a) German dealers were strictly prohibited from exporting or importing contract merchandise, or from supplying advertisers in trade journals.

b) German wholesalers were not allowed to supply other wholesalers except with the prior, written consent of Sperry Rand Ltd. They were also prohibited from supplying consumers direct.

c) German retailers had to undertake to supply contract merchandise to retail consumers only.

In view of the fact that Sperry Rand had notified the Commission of the price fixing arrangements as well as of the condition governing supply and sale, no fine could be imposed." Bulletin of the European Communities Point 2113, BULL (1) 1974.*

I think this case is useful in clearly showing how little effect D.S.C. could hope to have in a price fixing policy. The restrictions which a supplier can insist upon as regards resale are obviously severly curtailed. It should also be noted that the firm was only spared a fine because the Commission had been notified of the arrangements.

The whole objective of Article 85 is to permit free flow of goods, including parallel imports. The D.S.C. case, in which various undertakings would take concerted action on pricing is as clear an infringement at least as the banned Sperry Rand agreements.

There is a limited range of restrictions which a supplier <u>can</u> impose in the case of a sole agent. While a sole agent cannot be forbidden to sell outside his territory

* Bibliography (4:i).

he can be prevented from seeking business outside by advertising etc. He can be obliged to handle a complete range of goods, buy a minimum quantity, sell in a principal's pack or promote sales by a specified advertising effort. Thus a certain level of overheads can be ensured by the principal and since he also can decide the net price to the distributor, then a minimum at least for the trade price is effectively imposed.

These allowed constraints can be used in various combinations with flexible net prices to achieve some lowering of price differentials. However, if the effect is to distort inter member trade (even in re-exports) within the E.E.C. they become illegal.

Competitors' Pricing

There is a tendency to imagine that the D.S.C. problems in widely differing prices may be unique to this Company. When research into competitors' prices over Europe was undertaken this was shown to be not so. Tables One to Three show competitors' prices for tennis frames at retail level in 1974 and both trade and retail where available in 1975. The Dunlop Maxply Fort is seen to be quite standard in that prices differ considerably in almost all brands. It is significant to note the variations at trade price stage. Even before the different retail margins and V.A.T. have added their component, the prices for all brands have diverged significantly.

Another factor to bear in mind is that the really high priced frames show the greatest cross frontier price differences. It is clearly more profitable to re-export the higher priced rackets. The Dunlop distributors in high priced areas cannot claim that they alone are undermined by parallel imports - the competing makers all probably suffer as well. The most significant feature of the competitors' prices is, however, that high priced areas usually correspond for different brands. In general West Germany is a high priced territory for all makes, Italy is low priced and so forth. This is a crucial point. What is happening is that local costs and margins, acted on by taxes, taste etc., combine to give the eventual retail price. To some extent these factors are independent of the distribution structure for each brand though obviously each case is different. So a pattern of pricing for sports goods over Europe can be assumed. The question must be asked "How feasible is it for one supplier to try to break this pattern by a price standardisation policy?"

To some extent each price as set by the distributors and retailer is the "right" price for that market. It seems likely that a standardised price could be a right price for none of the territories, being out of line with local costs etc., and with competitors.

It is this kind of consideration which leads naturally to the question of desirability of standardisation discussed later.

General Background of Prices

Branded goods in general vary in price throughout Europe. In 1967 the E.E.C. Statistics Office examined 125 consumer goods. The average difference in price between highest and lowest was 58% (c.f. Maxply Fort difference of 60% in

1974).* In 1970 the Economical Intelligence Unit carried out a similar survey on branded goods (including the Dunlop tennis ball).** The conclusion was that the disparity in prices was only partly caused by the pricing policies of retailers. The primary cause was the lack of co-ordinated E.E.C. wide produce and brand marketing policies because of "the decentralisation to national levels of decision making". The E.I.U. suggested that there was scope for marketing policies transcending national boundaries in price, but that the day of trans-national priced brands had not yet arrived. In view of the E.E.C. restrictions and the continuing price differences in branded goods that day has still not yet dawned. A report by the Common Market Working Group of the Distributive Trades on distribution within the E.E.C. supported the view that price differentials are persisting:- "(price differentials)...remain significant. They arise in part from the differences that exist in the V.A.T. rates; in part from the different structures of distribution; but perhaps most importantly from the ordinary forces of supply and demand, the impact of which still differs considerably from country to country." ***

> Report of the Common Market Working Group of the Distributive Trades. Retail and Distribution Management November 1973.

Summary

The practicability of imposing price standardisation is clearly very doubtful in view of the four main difficulties listed above. Within these restrictions certain alternatives are possible which could reduce the risks of cross

See Bibliography: *(4:ii), **(4:iii), ***(4:iv).

frontier transfers. These are summarised in Figure One.

They all have great defects in that:-

a) They must not be seen to have the effect of distorting trade.

b) Price standardisation may move each price away from an optimum for the local conditions.

c) Competitors' prices and branded goods in general show large and persistent price differentials - standardisation by one firm could be reckless.

d) The underlying suspicion persists that standardisation is not really a good way to tackle parallel imports between European markets, and furthermore that the benefits of the move would be tiny compared with the losses.

The last of these forms the second part of this paper.

FIGURE ONE

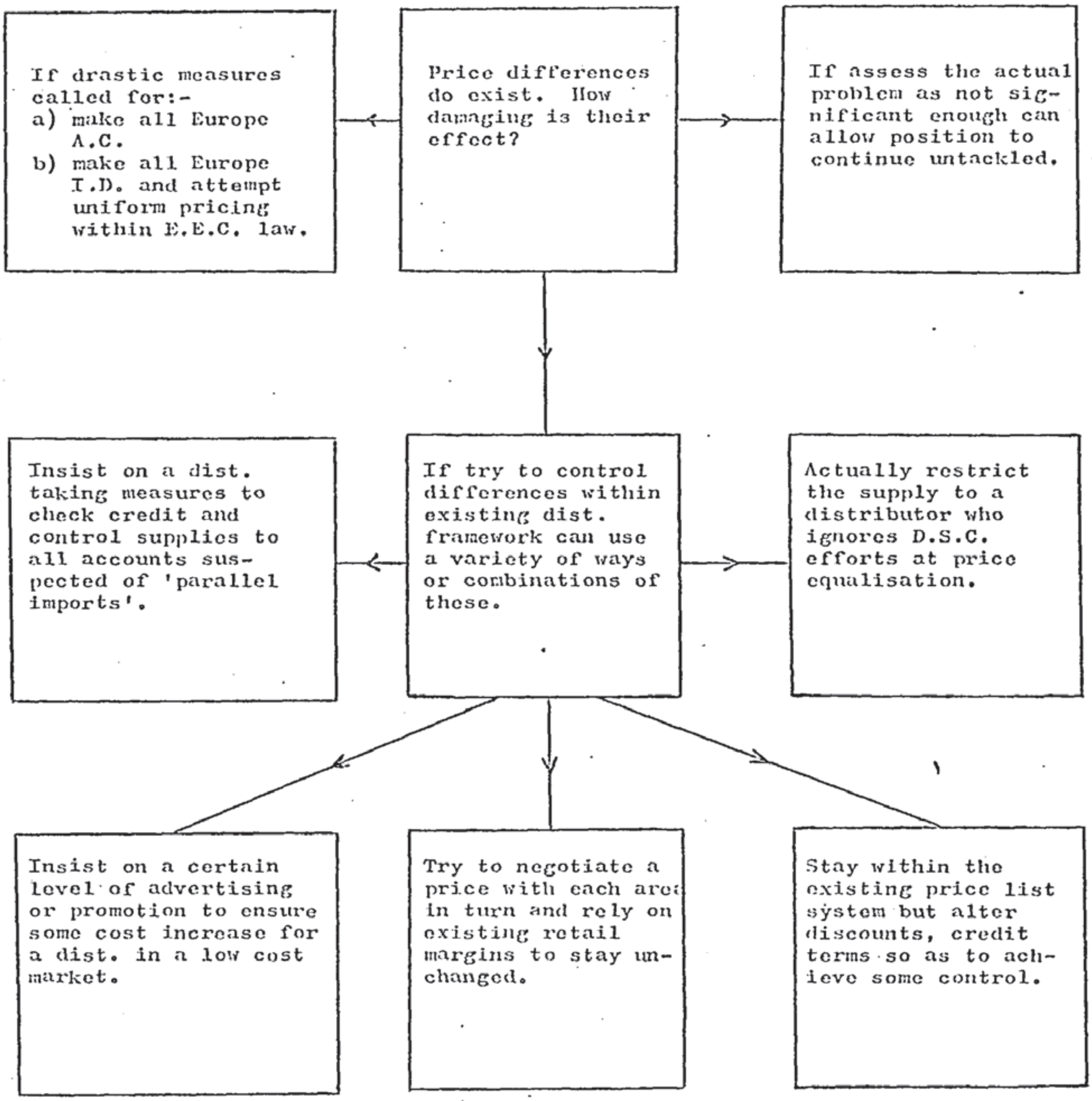

Price differences do exist. How damaging is their effect?
If drastic measures called for:- a) make all Europe A.C. b) make all Europe I.D. and attempt uniform pricing within E.E.C. law.
If assess the actual problem as not significant enough can allow position to continue untackled.
If try to control differences within existing dist. framework can use a variety of ways or combinations of these.
Insist on a dist. taking measures to check credit and control supplies to all accounts suspected of 'parallel imports'.
Actually restrict the supply to a distributor who ignores D.S.C. efforts at price equalisation.
Insist on a certain level of advertising or promotion to ensure some cost increase for a dist. in a low cost market.
Try to negotiate a price with each area in turn and rely on existing retail margins to stay unchanged.
Stay within the existing price list system but alter discounts, credit terms so as to achieve some control.

TABLE ONE

COMPETITORS' PRICES 1974
RETAIL PRICE INC. TAX FOR
TENNIS FRAMES

	Holland	Belgium	Italy	France	Germany	Spain	Swed.	Switz.	Max % Diff.
Dunlop Maxply Fort:									
	11.68	16.05	11.30	10.00	15.80	-	13.50	10.55	60%
Slazenger Challenge:									
	12.06	16.00	12.68	12.78	15.80	-	-	-	33%
Head Competition:									
	47.00	41.80	37.20	37.05	40.00	33.70	35.40	40.80	40%
Head Master:									
	28.09	-	26.00	29.30	27.30	24.30	24.30	26.50	
Head Professional:									
	-	-	31.60	33.70	33.00	33.80	-	32.21	
Donnay R. Laver:									
	22.90	21.80	16.80	18.10	27.00	18.16	-	21.30	60%
Donnay Super 2000:									
	11.60	12.90	11.68	11.64	14.35	14.00	-	10.00	44%
Spalding P. Gonzales:									
	15.64	-	11.30	9.14	11.50	8.43	-	9.74	85%
Snauwaert Caravelle:									
	10.68	-	12.91	9.50	16.33	5.72	-	11.18	185%
Snauwaert Super C:									
	11.68	-	-	-	19.15	11.29	-	14.03	70%
Maxima Torneo De Luxe:									
	-	-	8.48	-	12.00	-	-	-	41%

Notes: 1. 1974 exchange rates used.

2. Figures for visited markets are averages.

TABLE TWO

RELATIVE PRICES: FRANCE AND GERMANY 1974

		France	Germany	*Difference %	*Difference £
Dunlop:	Maxply Fort	10.00	15.80	58	5.80
Slazenger:	Challenge	12.78	15.80	24	3.02
Head:	Competition	37.05	40.00	8	2.95
	Master	29.30	27.30	-6	- 2.00
	Professional	33.20	33.00	-1	- 0.20
Donnay:	Rod Laver	18.10	27.00	49	8.90
	Super 2000	11.64	14.35	23	2.71
	Fran. Durr	12.50	14.41	15	1.81
Spalding:	P. Gonzales	9.14	11.50	26	2.36
	Ambassador	17.24	23.15	34	5.91
Snauwaert:	Caravelle	9.50	16.33	72	6.83
	Championship	8.62	15.83	84	7.21
Montana:	Powerplay	39.70	38.00	-4	- 1.70

* % Difference or £ Difference, of W.German over French retail prices.

TABLE THREE

COMPETITORS' PRICING RETAIL INC. TAX

1975		Using June 12th Exchange Rates				
		Switz.	Belgium	Denmark	Italy	Sweden
Dunlop:	Maxply Fort	14.90	19.50	14.40	13.11	13.25
Wilson:	T2000	31.20	-	28.80	36.40	29.30
Donnay:	Rod Laver	30.10	28.40	21.41	21.70	-
	Super 2000	14.70	17.20	15.03	14.52	-
Spalding:	P. Gonzales	-	10.60	-	-	-
Head:	Competition	50.00	48.80	43.20	42.50	35.40
	Master	32.90	35.70	34.00	29.10	24.30
	Professional	41.70	-	-	35.90	-
Snauwaert:	Caravelle	15.60	16.80	17.42	13.00	-
	Super Carav.	-	19.40	18.21	-	-

TRADE PRICE

1975		Using June 12th Exchange Rates				
		Switz.	Belgium	Denmark	Italy	Sweden
Dunlop:	Maxply Fort	7.98	9.82	7.10	7.50	7.40
Wilson:	T2000	18.40	-	-	20.80	16.60
Donnay:	Rod Laver	16.83	14.20	-	12.42	-
	Super 2000	7.36	8.65	-	8.30	-
Spalding:	P. Gonzales	-	5.31	-	-	-
Head:	Competition	31.00	23.48	-	24.30	20.80
	Master	20.30	17.30	-	16.67	14.40
	Professional	-	-	-	20.05	-
Snauwaert:	Caravelle	9.13	8.40	-	7.44	-
	Super Carav.	-	9.69	-	-	-

Notes:
1. Difficult to compare with last years competitors' prices because of drop in the £.
2. Large cross frontier price difference for all makes.

Desirability

It is necessary to consider whether the price situation throughout Europe leads logically to price standardisation as a desirable objective for D.S.C. First of all it is clear that a desire to reduce cross-frontier transfers is by itself a very weak argument for a general price standardisation. Other motives in seeking to extend control over prices may well have more justification but that is a separate issue. Before turning to the particular merits of a price standardisation proposal for D.S.C. some general points as to likely desireability may be made.

First of all as has been seen in the discussion on practicability, each market has its own price levels. It seems unreasonable to expect that moving each price away from a level set by local market forces can per se have a beneficial effect. The opposite seems likely.

Secondly a report on concentration in export markets has some guidlines on export pricing.

> "The prices at which products will sell in the export markets are determined - as a rule - in Britain and prices are often the same for all markets. This practice tends to deprive companies of flexibility that could help in maximising profits and also in meeting competition."

> "For it is the market that should determine the price and not Head Office above. Most companies insist on prices being determined "in Britain". This is, therefore, one of the few fields where we would be inclined to offer serious criticism. The all too

frequent habit of not allowing the market situation overseas to determine the price deprives companies of a considerable degree of flexibility and restricts adjustments to the realities of market trends."

(Bibliography, 1:v)

On the basis of such factors it seems fair to say that a very strong case has to be made out on behalf of the benefits from price standardisation for it to be seriously considered. I do not consider that such a case is made by the requirement to stop parallel imports into Germany. This is for several reasons:-

- The West German distributors have to a large extent been themselves responsible for the large price differential which makes Germany a profitable target for parallel imports. By using a wholesale stage they allowed a total mark up between Landed Cost and Trade Price of 113% for the Maxply Fort in 1974. They now intend to begin selling direct to retail - but the huge margin will remain. It is as a direct result of this distribution structure that the eventual retail price is so high and the price differential arises in the first place.
- To expect D.S.C. to take action against lower mark up areas (Italy 39%, Holland 42%, Switzerland 50%) seems somewhat unreasonable therefore. Doubly so when it is discovered that the margin which D.S.C. make on sales to these areas is greater than that on sales to Hanau.

- So to help sales in Hanau, where D.S.C. make a lower margin, where Hanau makes a large margin, where sales have been sluggish at best up to 1974, D.S.C. have to restrict supplies to areas where they make a larger margin and where sales have grown rapidly. On a straight commercial basis price rationalisation on these grounds is simply unsupportable.
- Furthermore, the West German claim is that the Maxply Fort is still underpriced in their market. Exactly how this can be so when such vast amounts are sold in areas where the price is so much lower (and other prices not radically different from those in Germany) is hard to understand. An alternative high priced racket may well be required for the German market, but the need for one should not be allowed to impose constraints on Dunlop sales in areas where they sell far more and at better margins than in Germany.

It seems that such severe reservations as to the wisdom of attempting a price standardisation policy, purely on the grounds of desirability, would require an almost certain guarantee of success to make it a reasonable proposition. But in view of the difficulties in putting a policy into operation no such guarantee is possible.

In short, the following conclusions may be drawn:-

1. Because of the structure of D.S.C. margins there are severe risks in adopting a policy which affects the sales of distribution in low price areas.
2. The benefits of preventing parallel imports into Germany are not proven.

3. Even if price standardisation as an objective is decided upon it cannot be effectively carried out because of legal and operational problems.

Neither in theory nor in practice, neither as to desirability nor practicability has the need for D.S.C. to standardise prices in Europe been shown to exist by this investigation.

APPENDIX SIX

PRICING AND MARGIN DATA

A considerable amount of market research was undertaken to collect the prices throughout Europe, of both Dunlop and competitor products. This was done both in visits to the markets concerned (when data was gathered by interview with retailers and distributors) and by letter. It would be impractical to attempt to include anything more than a sample of the information collected and indicate the scope of other information available. (See special Appendix P.267).
The following graphs and tables are presented:-

1. Net price, Landed Cost, Trade and Retail Prices for the Maxply Fort Tennis Frame and the Dunlop 65 Golf Ball (Tables One and Two).

   The tables are for Summer 1974. Similar tables were presented for 1973 and 1975 for the Dunlop Fort Tennis Ball and the Maxpower Golf Clubs as well as the two products shown in Tables One and Two. Graphs were drawn to illustrate the uplift to the eventual retail price (for example Graph One for the Maxpower Wood in 1974).

   The main use of these tables was to study the development of distributor and retailer margin trends (Graph Two shows Maxply Fort mark ups from 1972 to 1975). The extremely high mark ups taken by A.C. areas prompted an evaluation of pricing to the A.C. and were a factor in the decision to move towards a common gross price list system. Another exercise involved analysing the landed costs reported by the distributor and ensuring a common basis of reporting for these.

Four years' figures are now available for the four main products and the monitoring of these data have, been placed on a mutually understandable basis in most cases.

2. Competitor Prices

Competitor prices for tennis and golf goods have been collected at the retail and wherever possible, the trade, level. Prices of tennis frames have already been presented in Appendix Five. Graphs Three and Four illustrate the position of the Maxply Fort against four competing frames in local currencies. Besides frame prices, golf club, golf ball and tennis ball prices are now available. The ball prices are often very close to the Dunlop price, the retail price of first quality golf and tennis balls being almost invariably equal, with a few exceptions (See Table Three for example). The main use of competitor prices has been to consider the adequacy or otherwise of the margin allowed to D.S.C. distributors in meeting competitor prices. D.S.C. have allowed special prices in cases where severe price competition was demonstrated.

It is hoped that the collection and analysis of competitor prices will now be expanded to provide a more important contribution to D.S.C. pricing policy than hitherto.

3. <u>The Effect of Special Arrangements</u>

Special price arrangements and the currency surcharge of 1975 distorted net prices considerably. The D.S.C. gross and net prices, and net prices plus surcharge are illustrated in Tables Four and Five for November 1975.

TABLE ONE

MARGIN AND PRICE ANALYSIS BY TERRITORY
MAXPLY FORT TENNIS FRAME. £, SUMMER 1974

	D.S.C. NET PRICE	LANDED COST	TRADE PRICE	DISTRIBUTOR MARK UP TO TRADE PRICE %
BELGIUM	3.55	4.66	7.90	70
FRANCE	3.55	4.06	6.00	48
W.GERMANY	3.77	4.55	6.70	113*
HOLLAND	4.05	4.48	6.38	42
ITALY	2.41***	4.52	6.26	39
EIRE	3.10	3.71	4.80	30
DENMARK	3.95	4.08	6.20	52
SWEDEN	4.05	4.19	6.88	68
SWITZERLAND	3.85	3.89	5.82	50

	RETAIL PRICE EX. TAX	RETAIL MARK UP %	RETAIL PRICE INC. TAX
BELGIUM	13.40	70	15.81
FRANCE	8.96	49	10.78
W.GERMANY	14.50	47	15.82
HOLLAND	9.28	45	10.64
ITALY	10.50	60	11.50
EIRE	6.63	38**	7.92
DENMARK	9.87	60	11.61
SWEDEN	11.49	67	13.50
SWITZERLAND	10.10	73	10.55

<u>NOTES:</u>

* W.Germany uses a wholesaler stage, but intends to move to direct selling to retailers.

** Estimated margin.

*** Part finished frame.

TABLE TWO: MARGIN AND PRICE ANALYSIS BY TERRITORY, DUNLOP 65 GOLF BALL £, SUMMER 1974

	D.S.C. NET PRICE	LANDED COST	TRADE PRICE	DISTRIBUTOR MARK UP TO TRADE PRICE %	RETAIL PRICE EX. TAX	RETAIL MARK UP %	RETAIL PRICE INC. TAX
BELGIUM	2.56	3.72	4.20	28	6.62	58	7.10
FRANCE	2.30	2.90	4.22	46	6.11	45	7.33
W.GERMANY	2.45	2.86	4.80	68	6.75	40	7.50
HOLLAND	2.64	2.88	3.98	38	4.84	22	5.62
ITALY	2.64	2.96	3.91	32	4.58	43	6.25
EIRE	1.94	2.02	2.80	38	3.86	38	4.61
DENMARK	2.56	2.78	4.00	44	--	--	--
SWEDEN	2.64	2.78	4.08	47	5.87	44	6.75
SWITZERLAND	2.64	2.80	4.04	44	6.91	71	7.22

NOTES:

No Danish retail prices were available in this instance.

TABLE THREE

DUTCH P.G.C.A. GOLF BALL PRICES 1975
EXCHANGE RATE, 5.75 D.G. TO £.

	TRADE PRICE	RETAIL PRICE (PER. DOZ.)
DUNLOP		
65	4.52	6.58
WARWICK	4.15	6.16
BOGEY	2.90	6.38
WILSON		
L.D.	4.17	6.26
SLAZENGER		
PLUS	4.52	6.58
STAR	3.72	5.95
MACGREGOR		
TOURNEY	4.17	6.26
T. WEISKOPF	2.97	4.50
PENFOLD		
ACE	4.17	6.26
UNIROYAL		
PLUS 6	4.17	6.26
LYNX	4.51	6.75
RAM		
GOLDEN RAM	4.17	6.26

TABLE FOUR

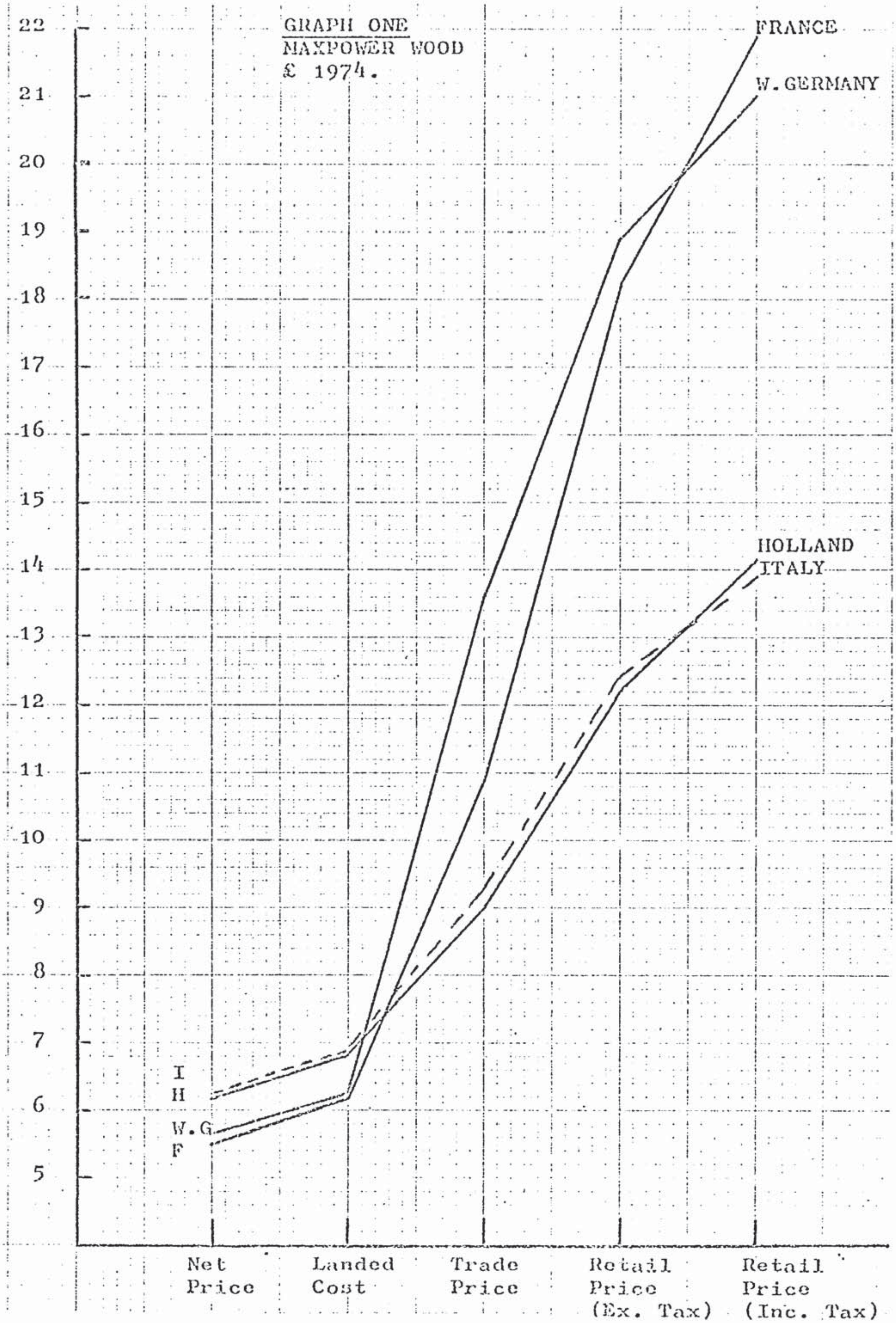
SURCHARGE APPLIED TO EXPORT PRICES IN RESPONSE TO CURRENCY MOVEMENTS IN 1975

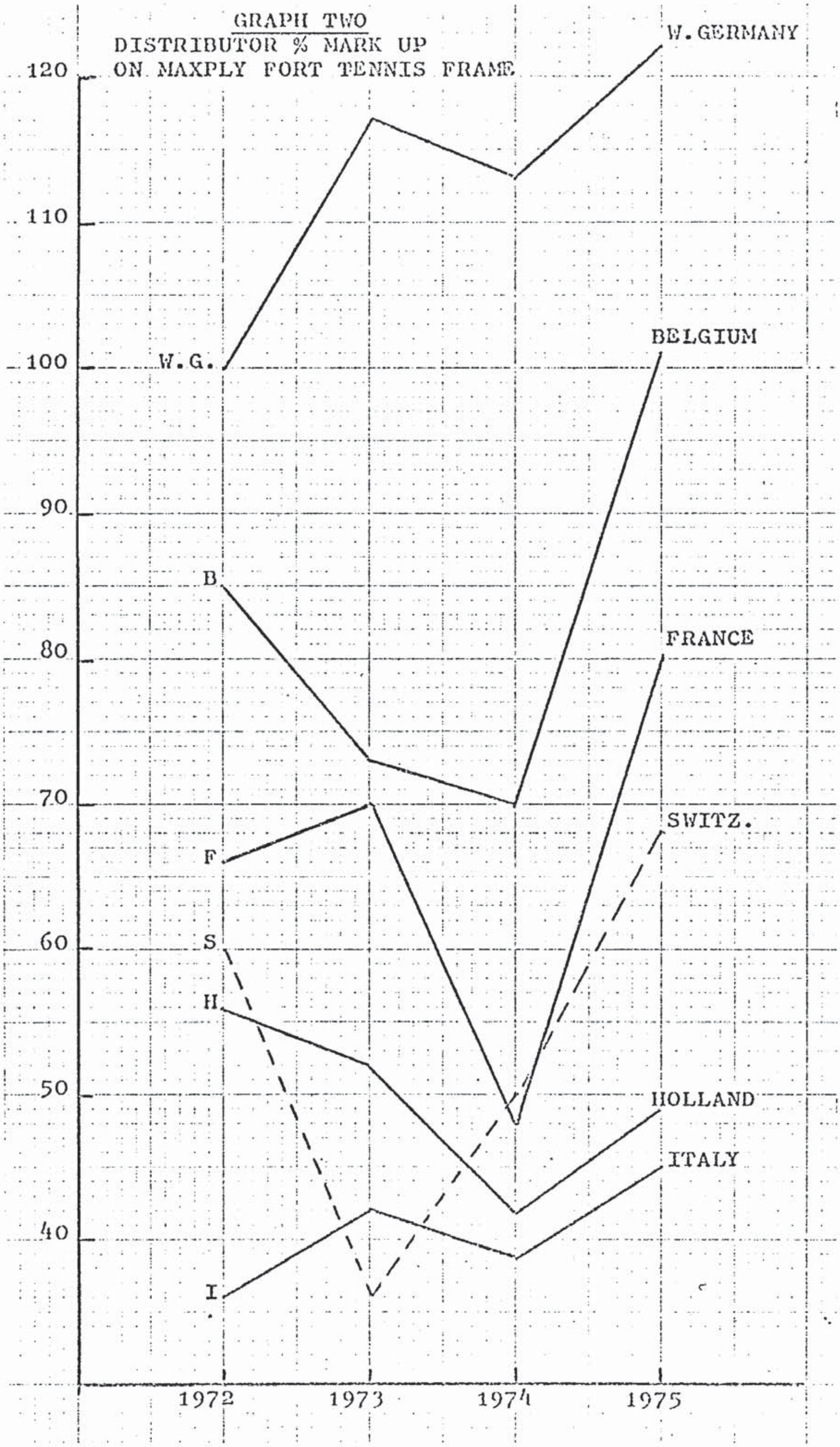
	SURCHARGE %
BELGIUM	--
FRANCE	12.5
W.GERMANY	10
HOLLAND	12.5
ITALY	5
EIRE	--
DENMARK	10
SWEDEN	12.5
SWITZERLAND	12.5
SPAIN	5

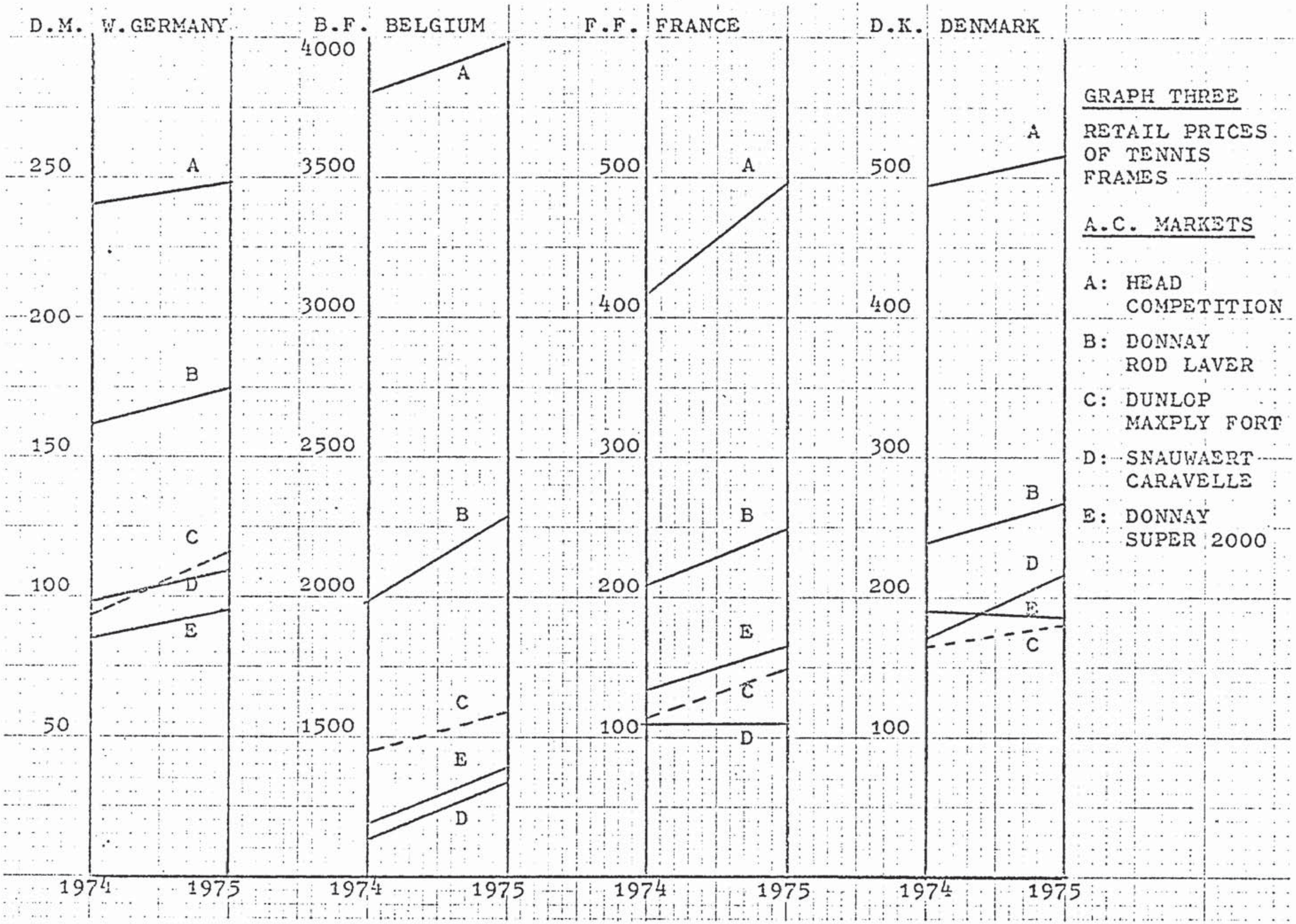
TABLE FIVE

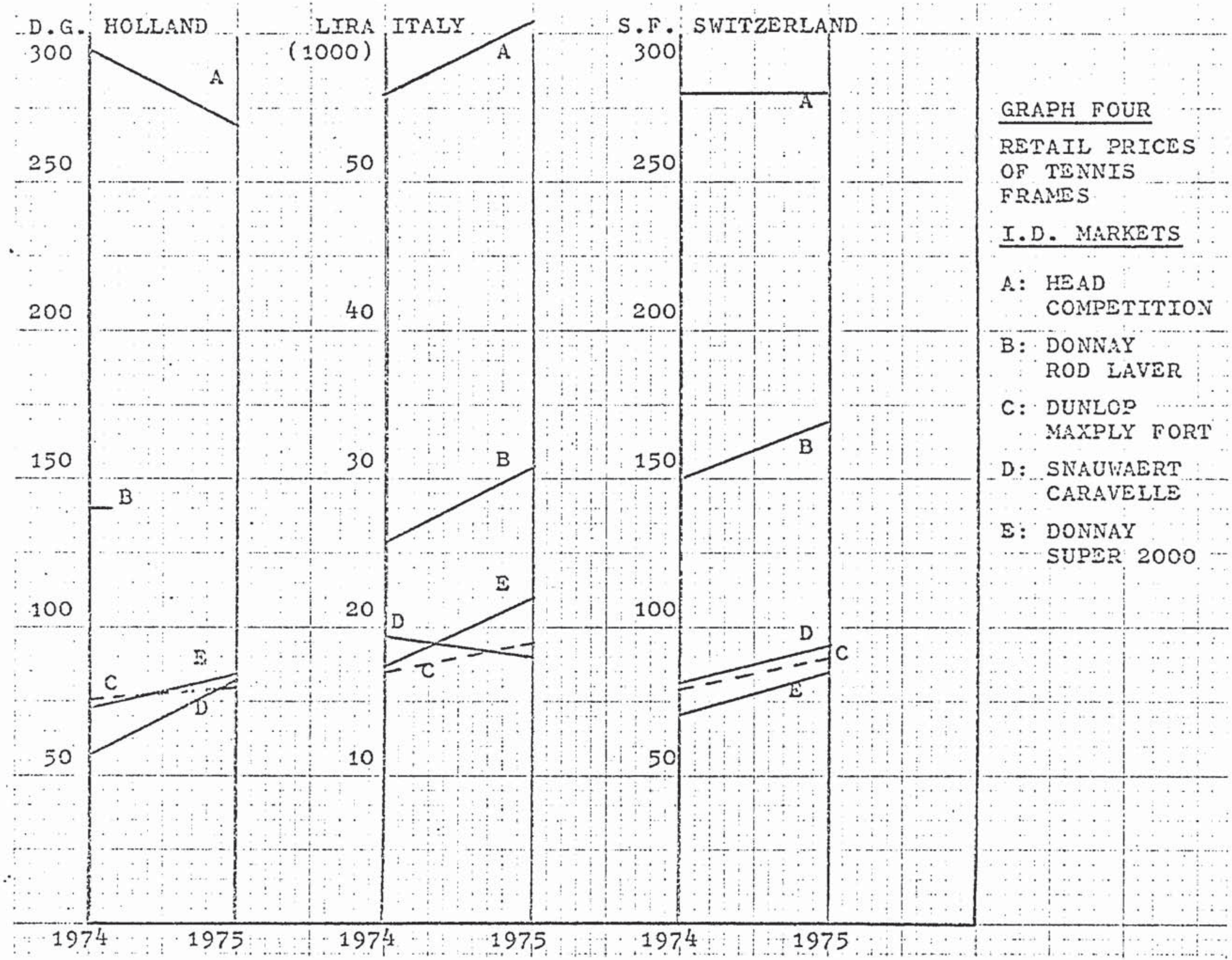
EFFECT OF SURCHARGE ON NET PRICES, NOVEMBER 1975 DUNLOP FORT TENNIS BALL, £ PER DOZEN.

	GROSS PRICE	NET PRICE	PLUS SURCHARGE
BELGIUM	2.92	2.92	2.92
FRANCE	2.92	2.92	3.28
W.GERMANY	2.92	2.84	3.10
HOLLAND	3.34	3.01	3.38
ITALY	3.34	3.01	3.16
EIRE	--	--	--
DENMARK	2.92	2.92	3.21
SWEDEN	2.88	2.88	3.13
SWITZERLAND	3.34	2.88	3.13
SPAIN	3.34	3.01	3.16


GRAPH ONE
MAXPOWER WOOD
£ 1974.
FRANCE
W. GERMANY
HOLLAND
ITALY
I
H
W.G
F
22
21
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
Net Price
Landed Cost
Trade Price
Retail Price (Ex. Tax)
Retail Price (Inc. Tax)


GRAPH TWO
DISTRIBUTOR % MARK UP
ON MAXPLY FORT TENNIS FRAME
120
110
100
90
80
70
60
50
40
W.G.
B
F
S
H
I
W.GERMANY
BELGIUM
FRANCE
SWITZ.
HOLLAND
ITALY
1972
1973
1974
1975


GRAPH THREE
RETAIL PRICES OF TENNIS FRAMES
A.C. MARKETS
A: HEAD COMPETITION
B: DONNAY ROD LAVER
C: DUNLOP MAXPLY FORT
D: SNAUWAERT CARAVELLE
E: DONNAY SUPER 2000
D.M. W.GERMANY
250
200
150
100
50
B.F. BELGIUM
4000
3500
3000
2500
2000
1500
F.F. FRANCE
D.K. DENMARK
500
400
300
200
100
1974
1975
A
B
C
D
E


D.G. HOLLAND
300
250
200
150
100
50
A
B
C
D
E
1974
1975
LIRA (1000) ITALY
50
40
30
20
10
A
B
C
D
E
1974
1975
S.F. SWITZERLAND
300
250
200
150
100
50
A
B
C
D
E
1974
1975
GRAPH FOUR
RETAIL PRICES OF TENNIS FRAMES
I.D. MARKETS
A: HEAD COMPETITION
B: DONNAY ROD LAVER
C: DUNLOP MAXPLY FORT
D: SNAUWAERT CARAVELLE
E: DONNAY SUPER 2000

APPENDIX SEVEN

HOME AND EXPORT PRICES

PART A: The Period 1972 to 1975.

1. In the period 1.7.72 to 1.7.75 export list and P.T.D. prices have been raised four times. Home trade prices have been raised eight times. This gives the background of frequent small changes at home and less frequent, larger changes for export. Tables One to Five illustrate the export list and home trade price movements. (The P.T.D. price parallels the export line, 12½% below the export price.

2. In choosing dates for a comparison between price levels, June 1973 and June 1975 were decided upon. The former because it was a price which had been in force for some six months (a relatively stable situation), the latter to compare prices at similar stages of the seasonal cycle.

JUNE 1975

£	HOME	P.T.D.	EXPORT	EXPORT LESS 10%*
MAXPOWER WOOD	6.57	6.65	7.59	6.83
MAXPOWER IRON	5.49	5.56	6.35	5.71
65 GOLF BALL (doz)	3.17	2.89	3.31	2.98
FORT T. BALL (doz)	2.54	2.66	3.04	2.74
MAXPLY F. RACKET	10.53	8.82	10.08	9.08

* Since most independent distributors in fact get a 10% discount off export list this figure is shown here.

JUNE 1973

£	HOME	P.T.D.	EXPORT	EXPORT LESS 10%
MAXPOWER WOOD	5.57	5.12	5.85	5.26
MAXPOWER IRON	4.66	4.28	4.89	4.40
65 GOLF BALL (doz)	2.33	2.20	2.51	2.26
FORT T. BALL (doz)	1.91	1.84	2.10	1.89
MAXPLY F. RACKET	7.00	6.34	7.35	6.61

% INCREASE 1975 OVER 1973

MAXPOWER WOOD	18	30	30	30
MAXPOWER IRON	18	30	30	30
65 GOLF BALL (doz)	36	30	30	30
FORT T. BALL (doz)	33	45	45	45
MAXPLY F. RACKET	65	38	38	38

HOME PRICE LESS P.T.D. £

	1975	1973
MAXPOWER WOOD	-0.08	0.45
MAXPOWER IRON	-0.06	0.38
65 GOLF BALL (doz)	0.28	0.13
FORT T. BALL (doz)	-0.12	0.07
MAXPLY F. RACKET	1.71	0.66

HOME PRICE LESS "EXPORT LESS 10%" £

	1975	1973
MAXPOWER WOOD	-0.26	0.31
MAXPOWER IRON	-0.22	0.26
65 GOLF BALL (doz)	0.19	0.07
FORT T. BALL (doz)	-0.20	0.02
MAXPLY F. RACKET	1.45	0.39

RESULTS (PART A)

1. The export prices have risen faster for golf clubs and tennis balls. The opposite is true for golf balls and in particular the tennis racket (which cannot be adequately compared, in fact, because frames are not sold on the home markets, and a racket price for export is an artificial price).
   Whereas in 1973 home prices were higher on all lines this has been changed as export prices were allowed to rise above the rate of home increases in clubs and tennis balls.

2. The Maxply Fort price seems out of line with the others being apparently well under priced for export, though a direct comparison is complicated by the sale of frames rather than rackets abroad.

3. The margin situation supports the impression from (1) above that the export business is becoming increasingly more profitable compared to home sales.
   This is a natural reflection of the pricing structure. Cost to D.S.C., for home or abroad, at factory level is the same (except for some special export markings etc.) Except for the Maxply Fort the actual prices charged are fairly similar. But out of the home price have to be taken the large S.D. and A. expenses incurred in selling to retail level. Selling to a retailer at home is very costly compared to selling via a distributor overseas.

The following margin situations arise:

AS % OF TURNOVER

GROSS MARGIN	1973	1974 (Rev.)	1975 (Plan)
HOME & P.G.C.A.	23.8	27.1	20.8
DIRECT EXPORT	33.0	35.5	32.9
ASSOCIATED COMPANY EXPORT	23.9	27.1	22.5
OPERATING MARGIN			
HOME & P.G.C.A.	4.6	6.9	2.2
DIRECT EXPORT	20.7	22.6	22.4
ASSOCIATED COMPANY EXPORT	10.1	15.4	14.2

PART B: The Position in 1976.

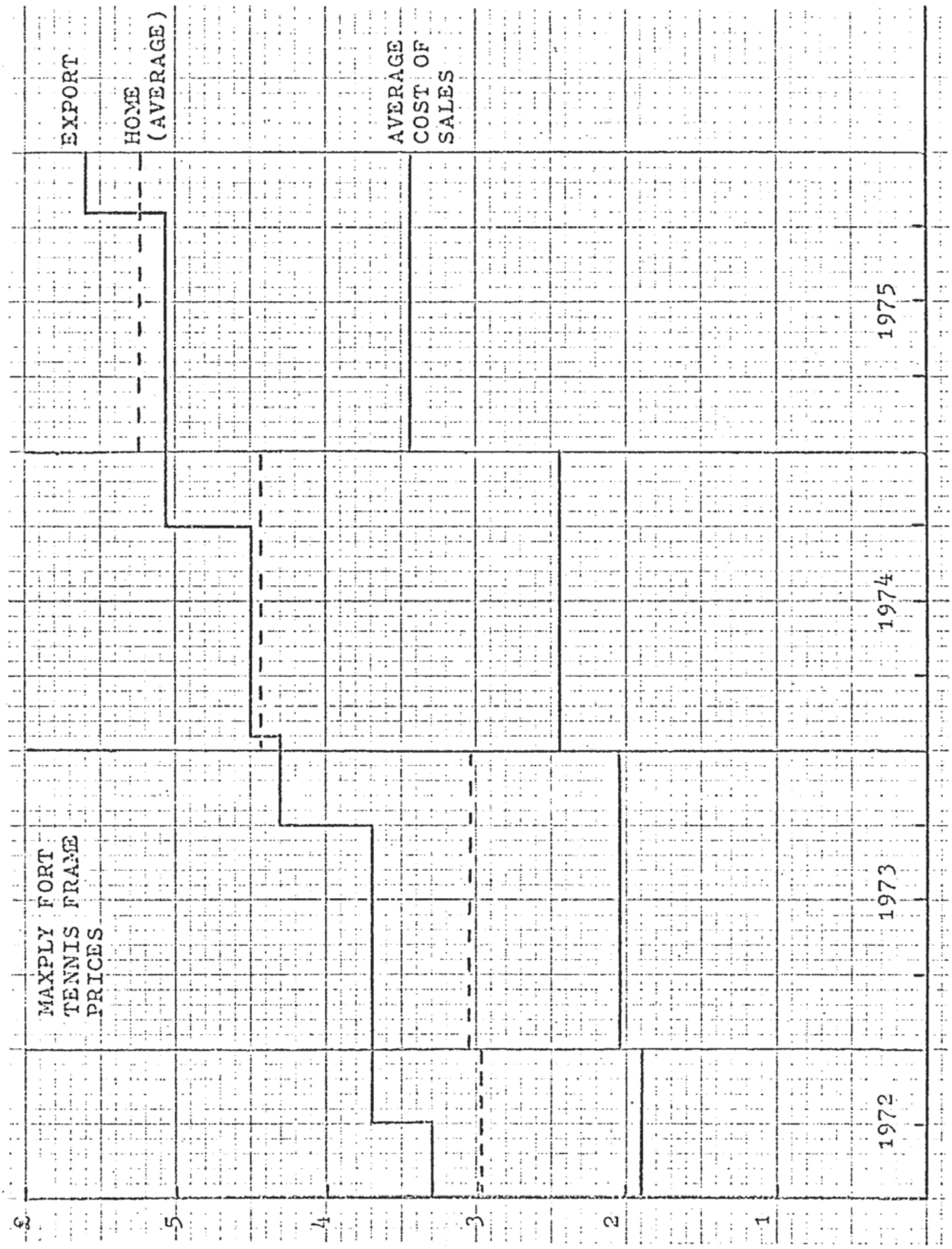
The relationship between home and export prices continued in 1976:

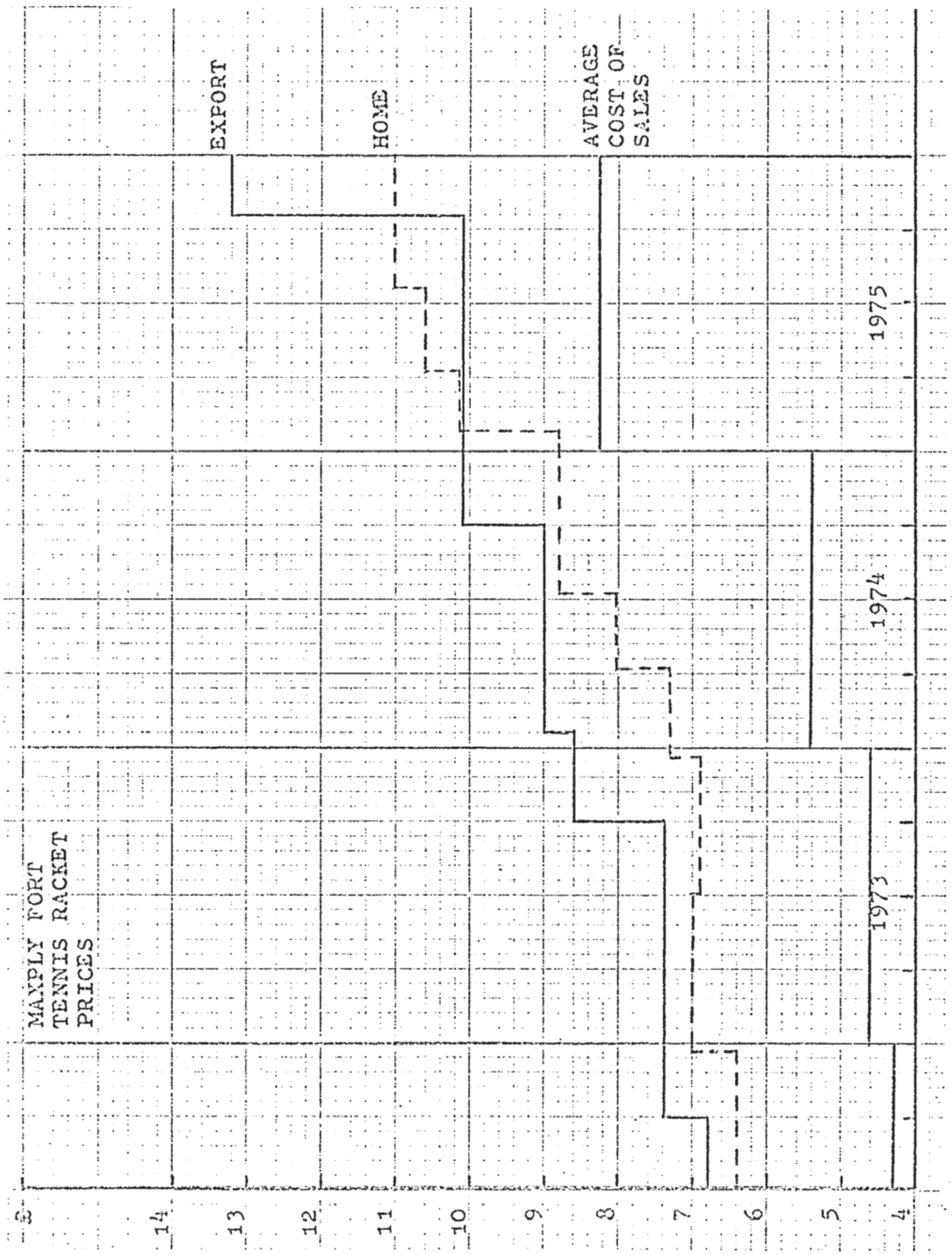
EXPORT LIST PRICE DIFFERENTIAL OVER HOME TRADE PRICE AS A PERCENTAGE OF HOME TRADE PRICE.

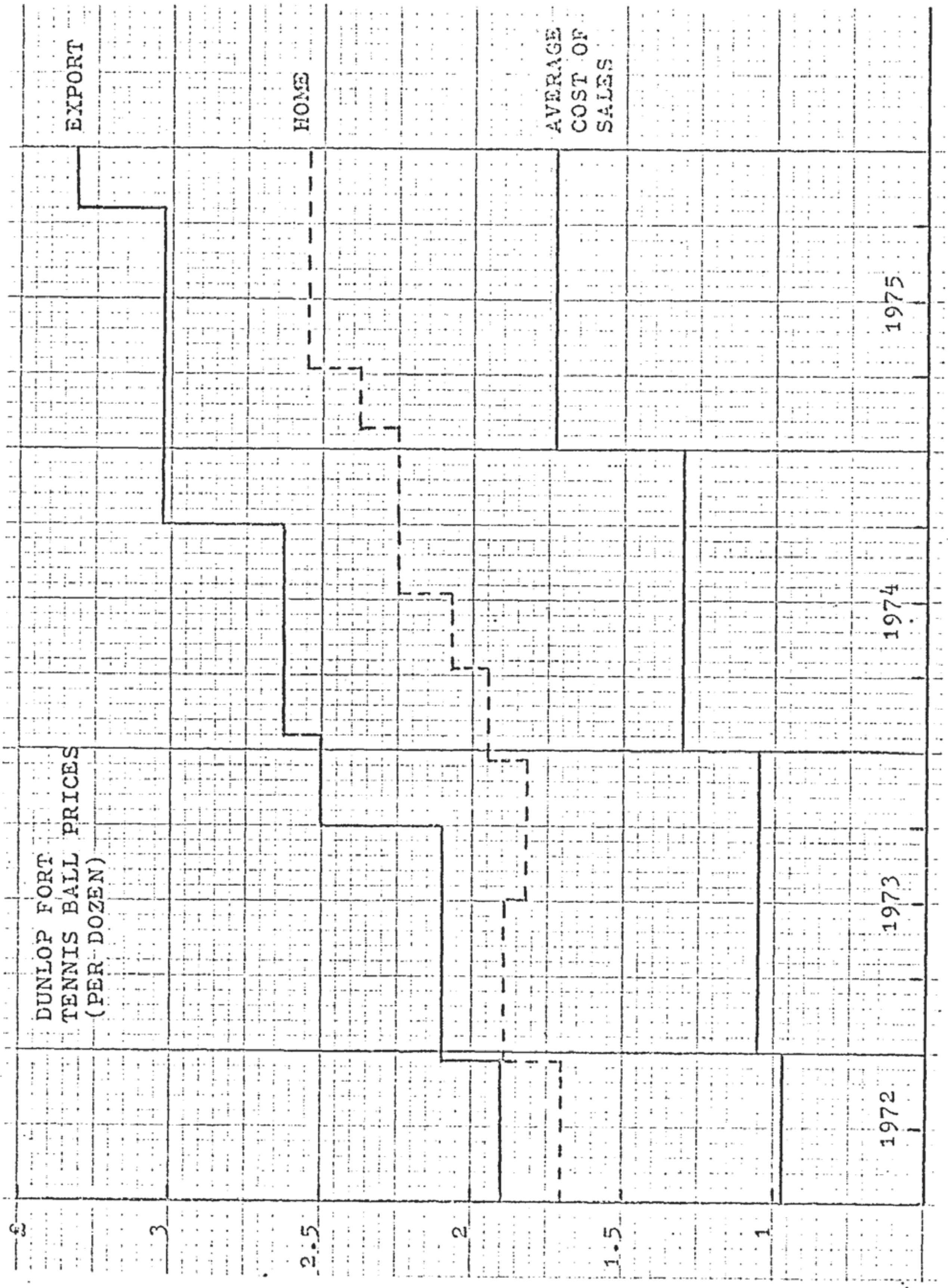
	June 1973	June 1975	January 1976
MAXPOWER WOOD	5	16	26
MAXPOWER IRON	5	16	26
65 GOLF BALL (doz)	8	4	2
FORT T. BALL (doz)	10	20	17
MAXPLY F. RACKET	5	-4	17

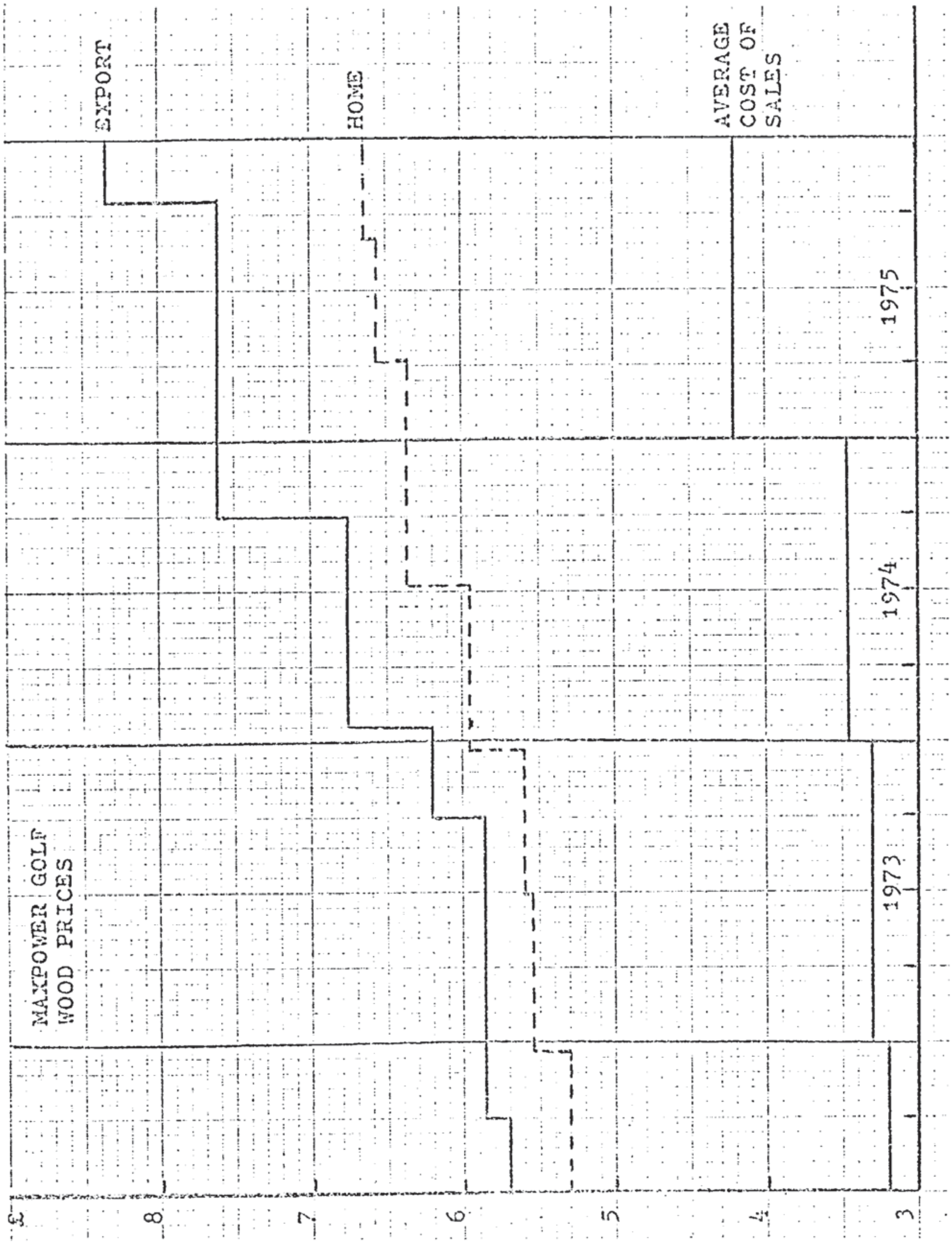
The two products in which export prices were becoming exceedingly uncompetitive were golf clubs and tennis balls. Tennis rackets continue to avoid a direct comparison but when the cost of stringing etc., is removed it appears that they too are becoming heavily discriminated against for export. Badminton and table tennis prices were not far out of line with home prices and on squash the price discrimination was less relevant, supply pressure being the crucial factor.

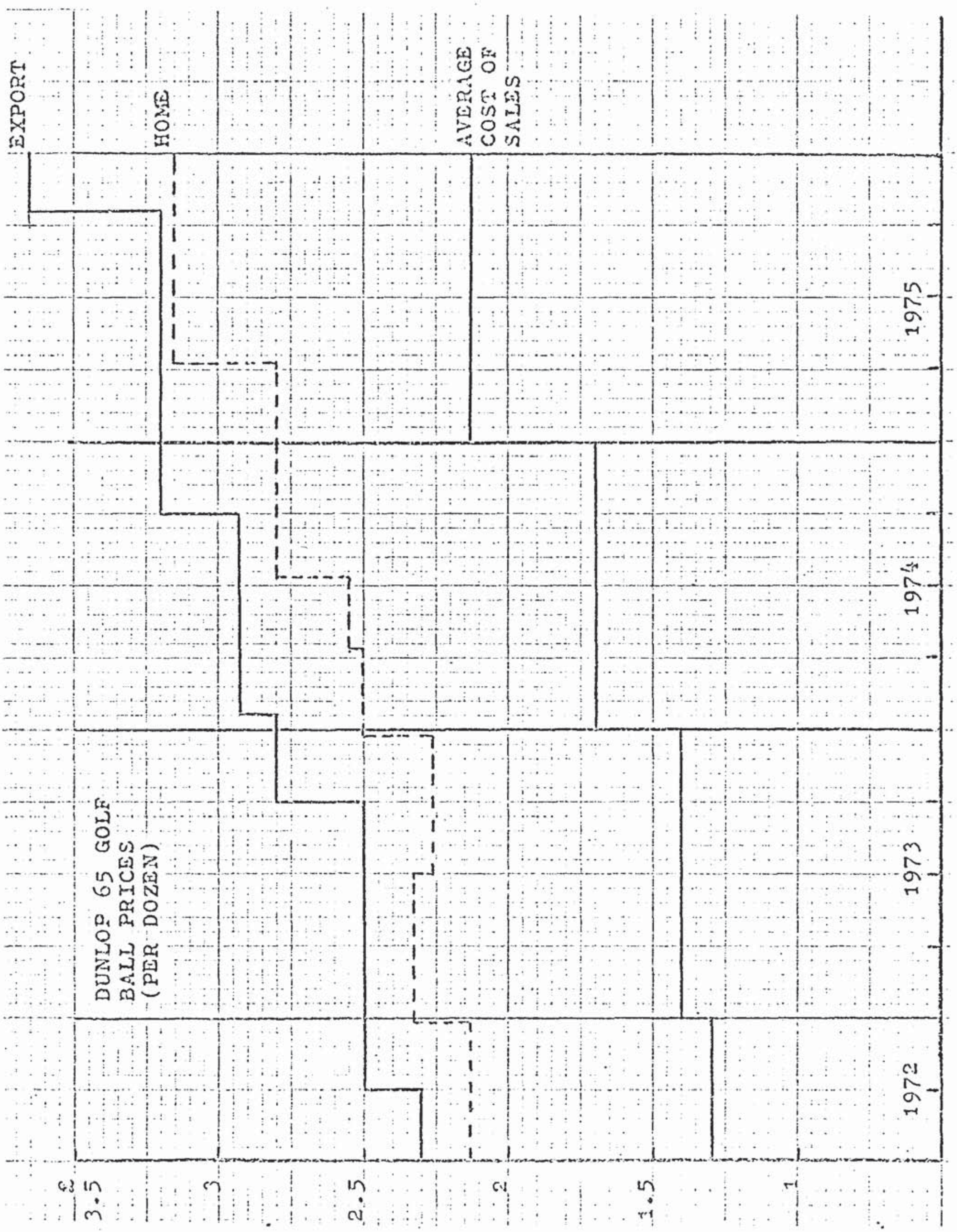
On golf clubs immediate action was taken to link European export prices to Home Trade Price. This is a first step in the policy outlined in Chapter Five. Price increases on home trade are being sought by the Company which would result in a reduction of the differential (at least until the next Export rises in the Autumn). A long term solution, however, to the problem would only be possible if a single gross list system and a discount structure ensuring competitive export prices were accepted and introduced.


MAXPLY FORT
TENNIS FRAME
PRICES
EXPORT
HOME
(AVERAGE)
AVERAGE
COST OF
SALES
£
5
4
3
2
1
1972
1973
1974
1975


MAXPLY FORT
TENNIS RACKET
PRICES
EXPORT
HOME
AVERAGE
COST OF
SALES
1973
1974
1975
£
14
13
12
11
10
9
8
7
6
5
4


DUNLOP FORT
TENNIS BALL PRICES
(PER DOZEN)
EXPORT
HOME
AVERAGE
COST OF
SALES
£
3
2.5
2
1.5
1
1972
1973
1974
1975


MAXPOWER GOLF
WOOD PRICES
EXPORT
HOME
AVERAGE
COST OF
SALES
1973
1974
1975
£
8
7
6
5
4
3


DUNLOP 65 GOLF
BALL PRICES
(PER DOZEN)
EXPORT
HOME
AVERAGE
COST OF
SALES
£
3.5
3
2.5
2
1.5
1
1972
1973
1974
1975

APPENDIX EIGHT

CONCENTRATION IN EXPORT MARKETS

The B.E.T.R.O. Report (1:v) raised several issues which should be mentioned concerning the benefits of a policy of concentration upon key markets abroad. This appears to be relevant to D.S.C. on a world basis and consequently somewhat outside the scope of a specifically European project. A change in the overall export approach on this matter would certainly impinge upon the European region, however, and for this reason the topic is outlined in this appendix.

The case for concentration on selected export markets is well established and has gained much support in the recent B.E.T.R.O. Report on this topic. The main elements of the argument are:-

1. Exporting to a wide range of markets dilutes the effectiveness of the exporting effort. By concentration, better knowledge, improved supplies and intimate contacts can be applied to the key, high growth territories.
2. The areas of very small sales carry very high cost per unit as regards marketing and administrative costs. This reduces overall export performance.

On this basis a policy of some reduction in D.S.C. export markets should certainly be examined.

Tables One to Nine in Appendix Two show the very pronounced concentration of D.S.C. exports by market. This type of distribution is precisely that considered susceptible to improvement along concentration lines.

The case for dropping a large number of the very small markets seems quite strong in the case of D.S.C. There is firstly a perennial supply problem whereby large successful markets are restricted by lack of supplies. Secondly the high cost of raising an invoice. On small orders this radically affects profitability. While accounting procedures are not geared to assessing any possible saving by a policy of concentration, it can be fairly certain that potential savings would be made from the above points.

A possible concentration of effort could be as follows:-

		£ SALES 1974
ALL EUROPE	:	2,317,000
U.S./CANADA	:	986,000
FAR EAST	:	528,000
JAPAN	:	84,000
IRAN	:	55,000
VENEZUELA	:	64,000
4 AFRICAN A.C.'s	:	110,000
		4,144,000

This total is approximately 80% of D.S.C. export sales in 1974.

In compiling this list all of Europe is initially included, because of proximity if for no other reason, as a first stage. The major blocs (as described in Appendix Two) are then added. To replace the 20% of sales to areas not on this list two factors would apply:

A. By <u>better service</u> to existing strong performers:-

- Greater concentration of export personnel.
- Increased knowledge of both agent and market.
- A better supply position.

B. By including areas of <u>good growth potential</u>:-

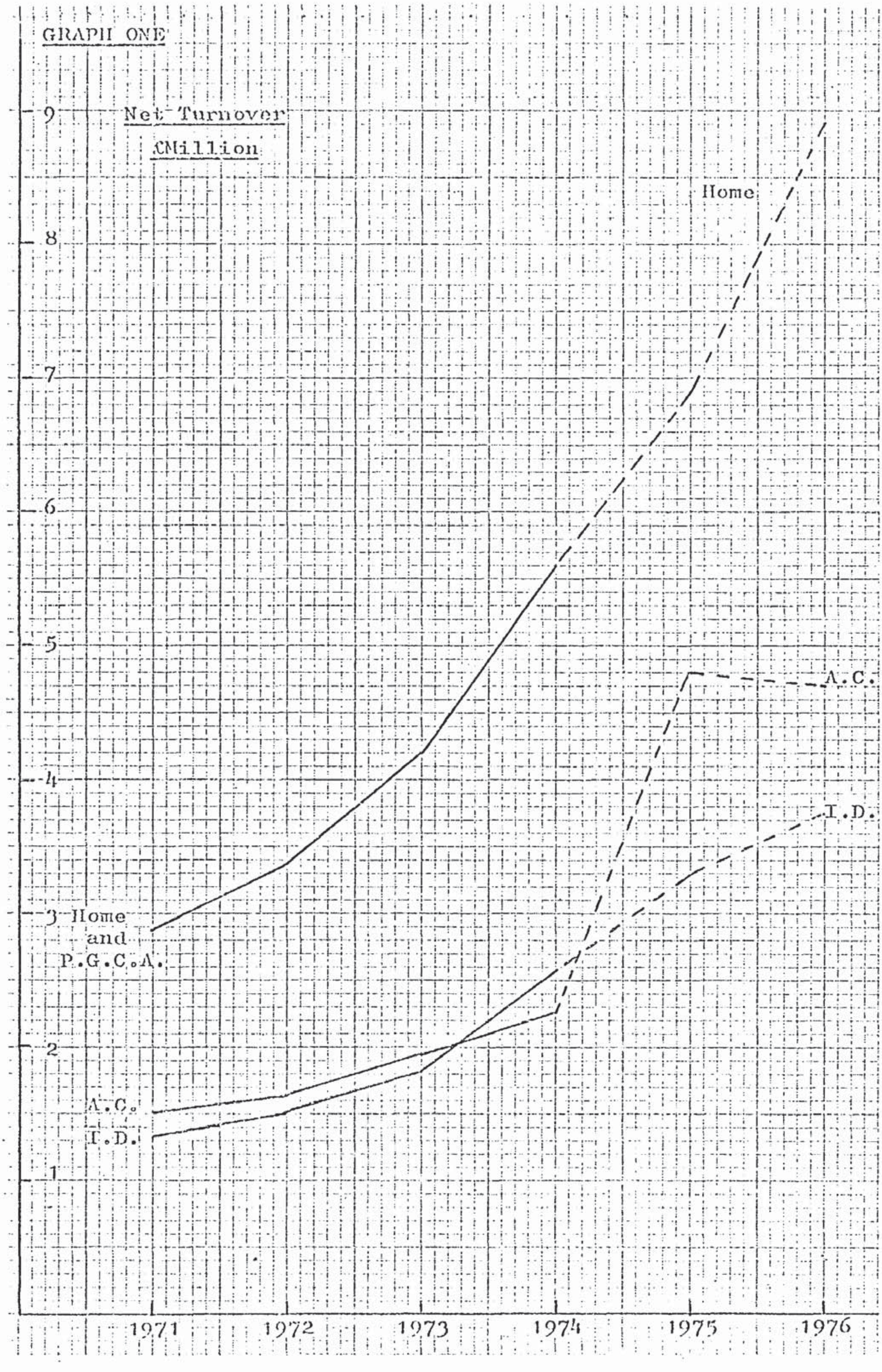
- From examining areas of good overall U.K. export growth (Iran, Indonesia).
- By seeking an increased market share where existing potential seems largely untapped by D.S.C. (in Eastern Europe for example).

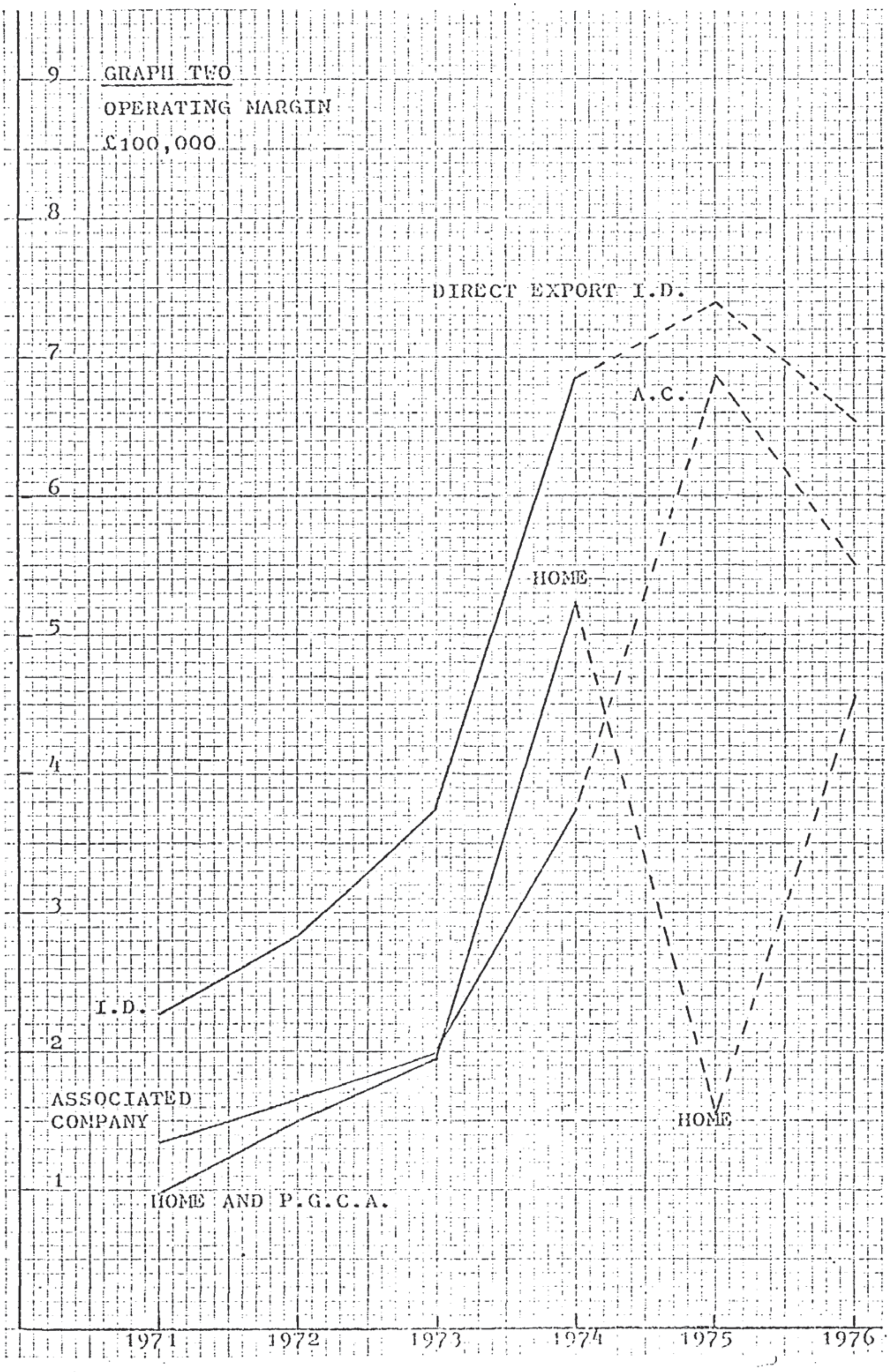
In 1974 the top eight I.D. markets (six European) represented 59% of all distributor exports. The top eight A.C. markets (two European) represented 82.5% of all A.C. exports. In the combined A.C. and I.D. breakdown the top eight markets supplied 52.5% of all D.S.C. exports.

In all some 160 markets were recorded as receiving orders in 1974 and 150 of these accounted for less than one half of the total exports.

These figures indicate that scope for concentration certainly exists within D.S.C. along the lines suggested in the B.E.T.R.O. Report, and it would appear that European I.D. areas would be substantial beneficiaries of such a policy.

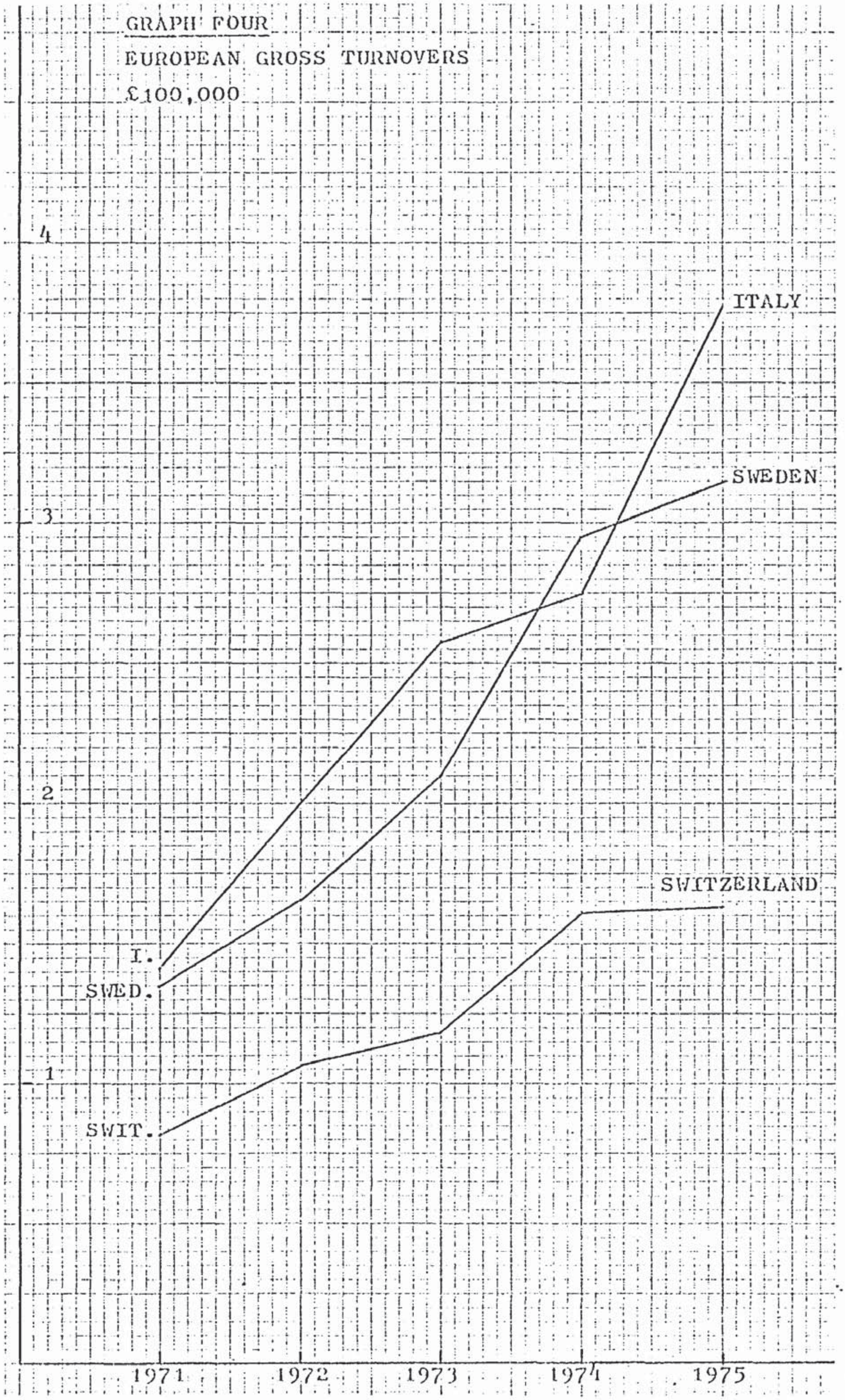
APPENDIX NINE: GRAPHICAL ANNEX TO CHAPTER FOUR

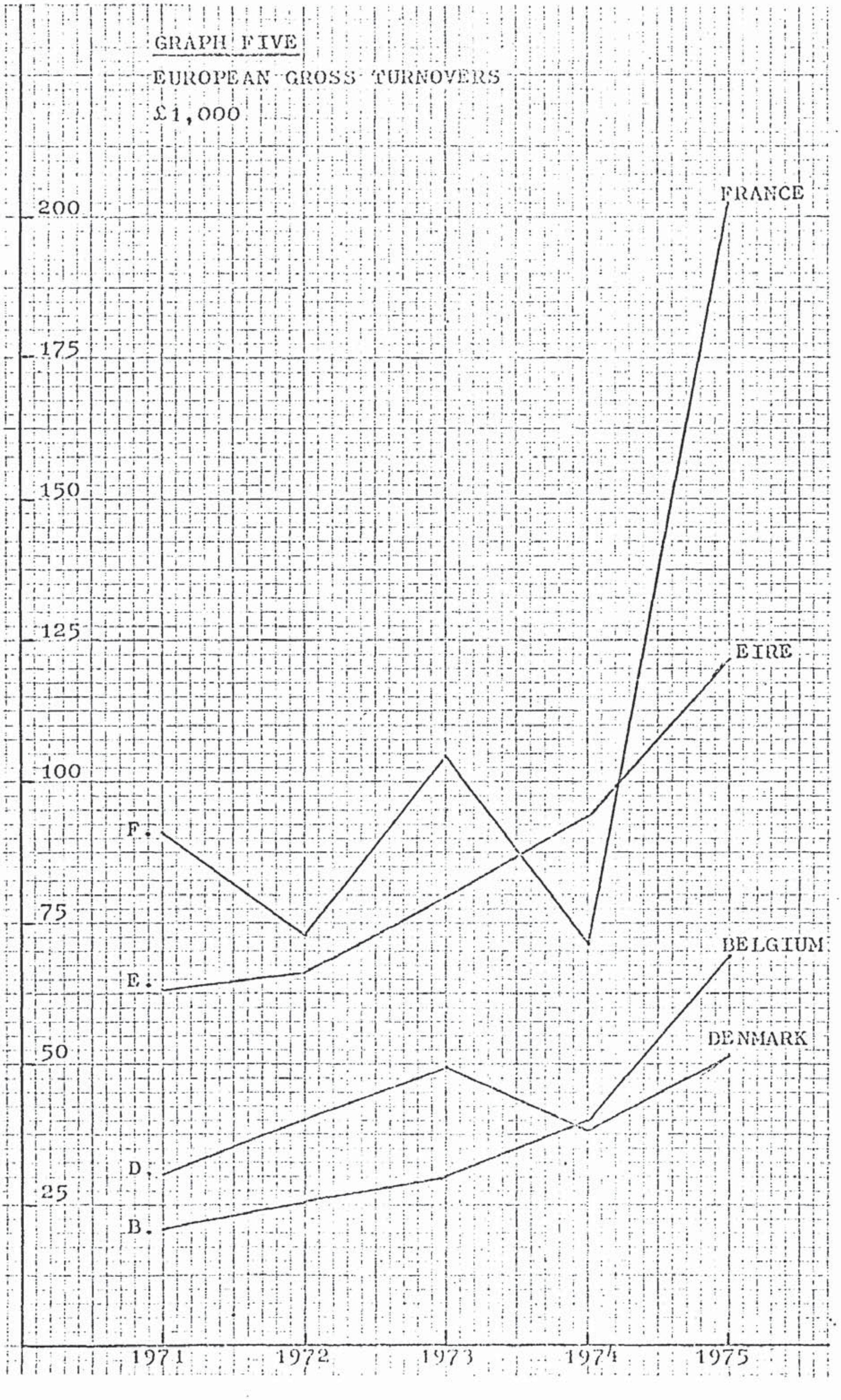


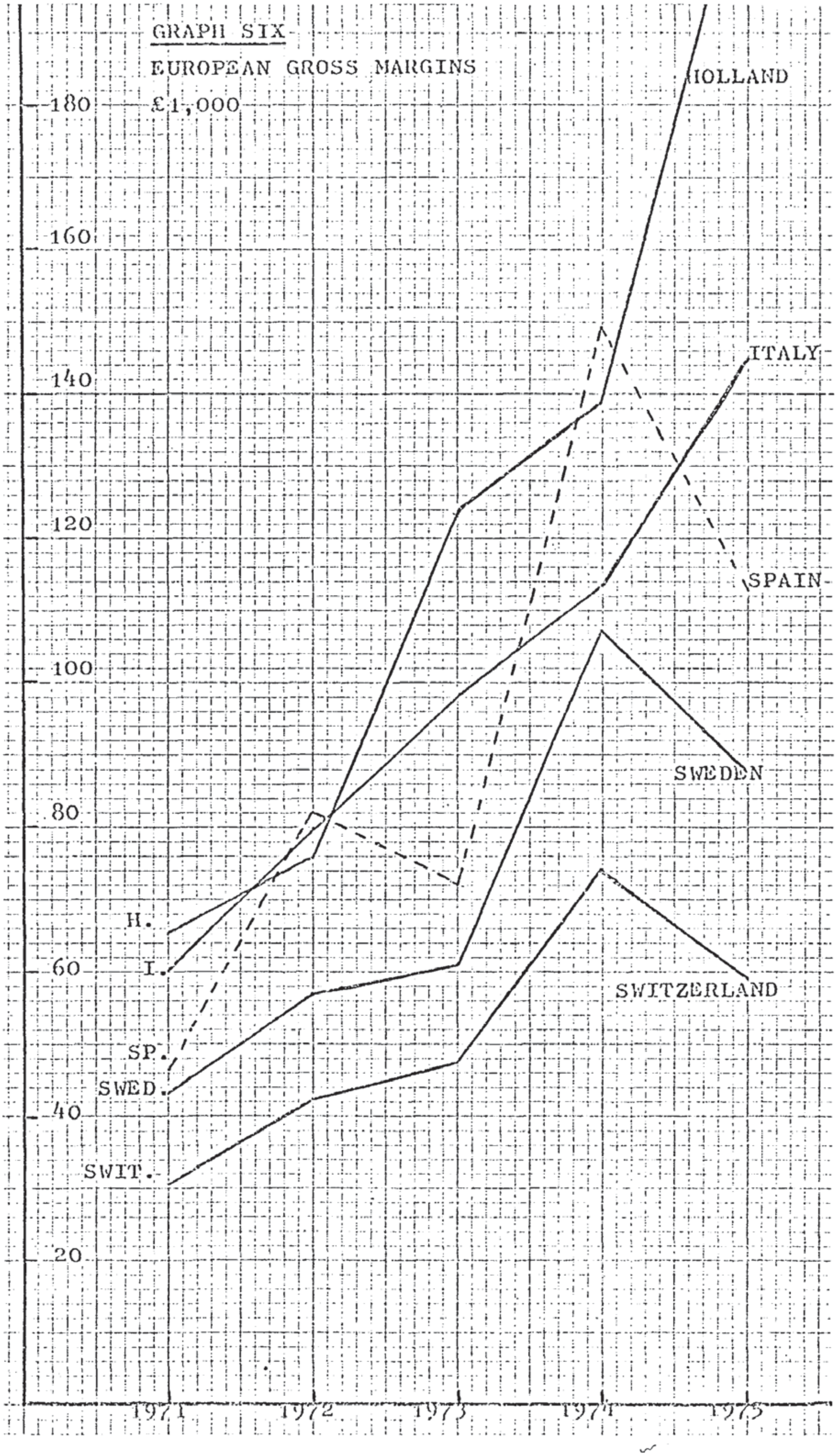


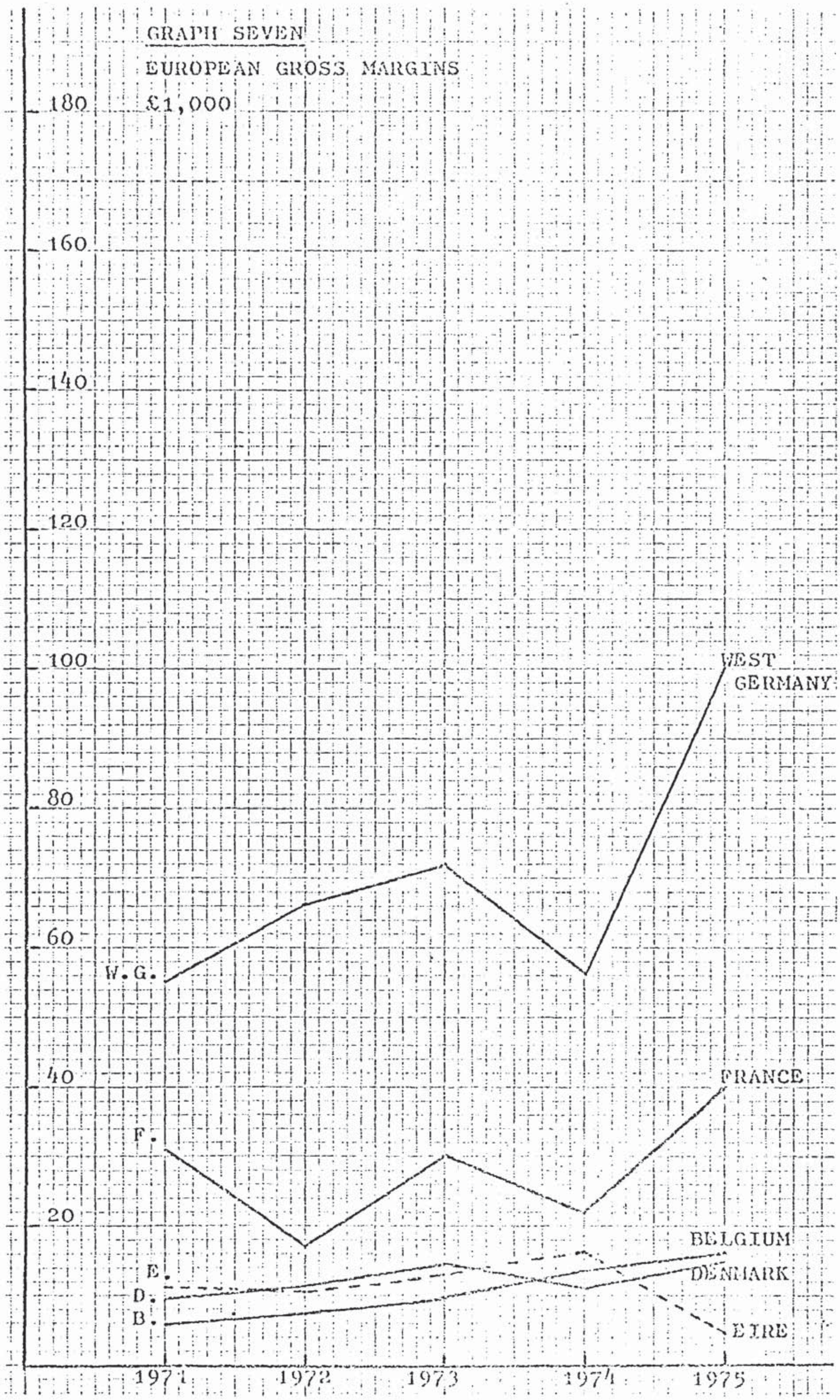
GRAPH TWO
OPERATING MARGIN
£100,000
9
8
7
6
5
4
3
2
1
DIRECT EXPORT I.D.
A.C.
HOME
I.D.
ASSOCIATED COMPANY
HOME
HOME AND P.G.C.A.
1971
1972
1973
1974
1975
1976

GRAPH THREE
EUROPEAN GROSS TURNOVERS
£100,000
6
5
4
3
2
1
HOLLAND
WEST GERMANY
SPAIN
W.G.
H.
SP.
1971
1972
1973
1974
1975

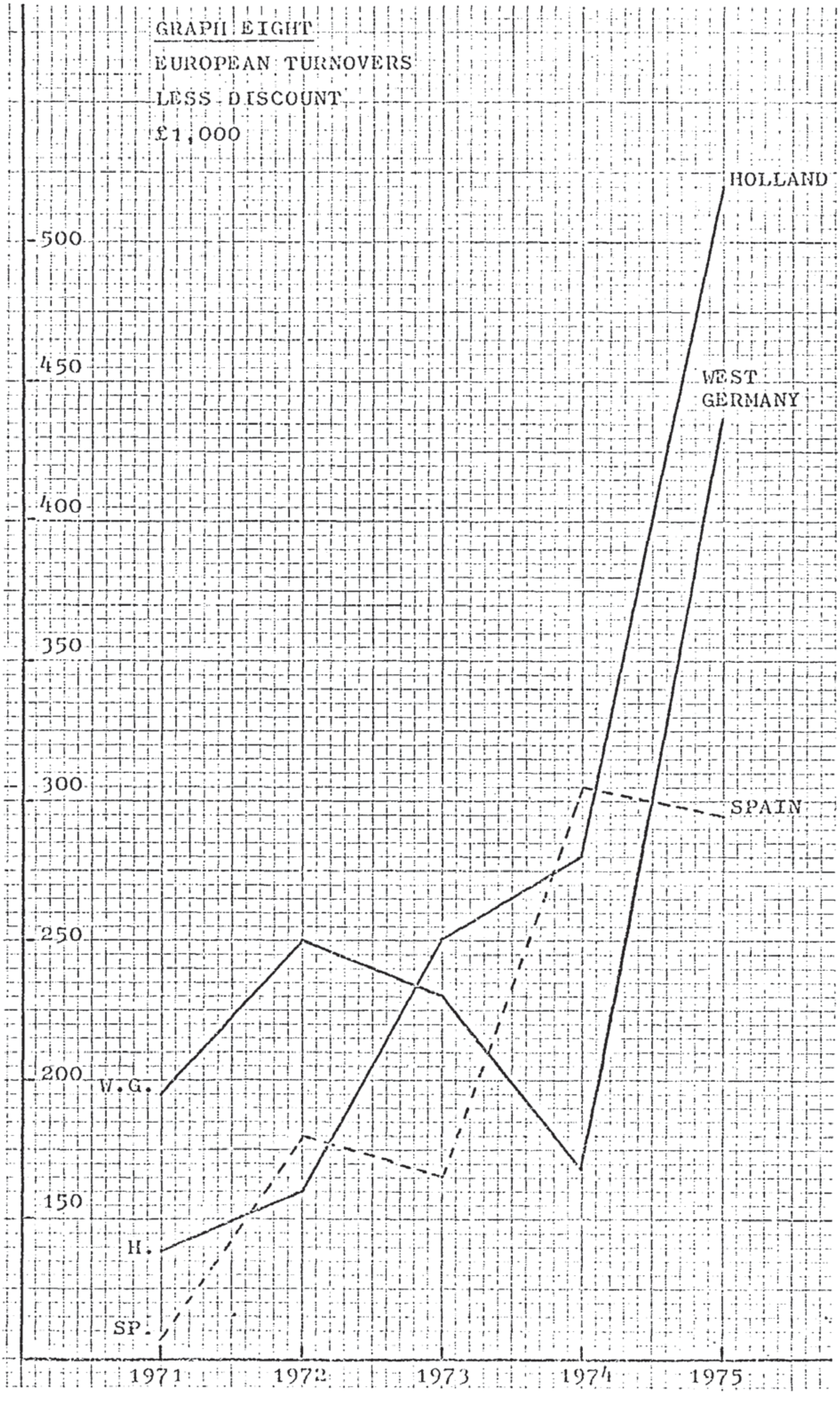

GRAPH FOUR
EUROPEAN GROSS TURNOVERS
£100,000
4
3
2
1
ITALY
SWEDEN
SWITZERLAND
I.
SWED.
SWIT.
1971
1972
1973
1974
1975

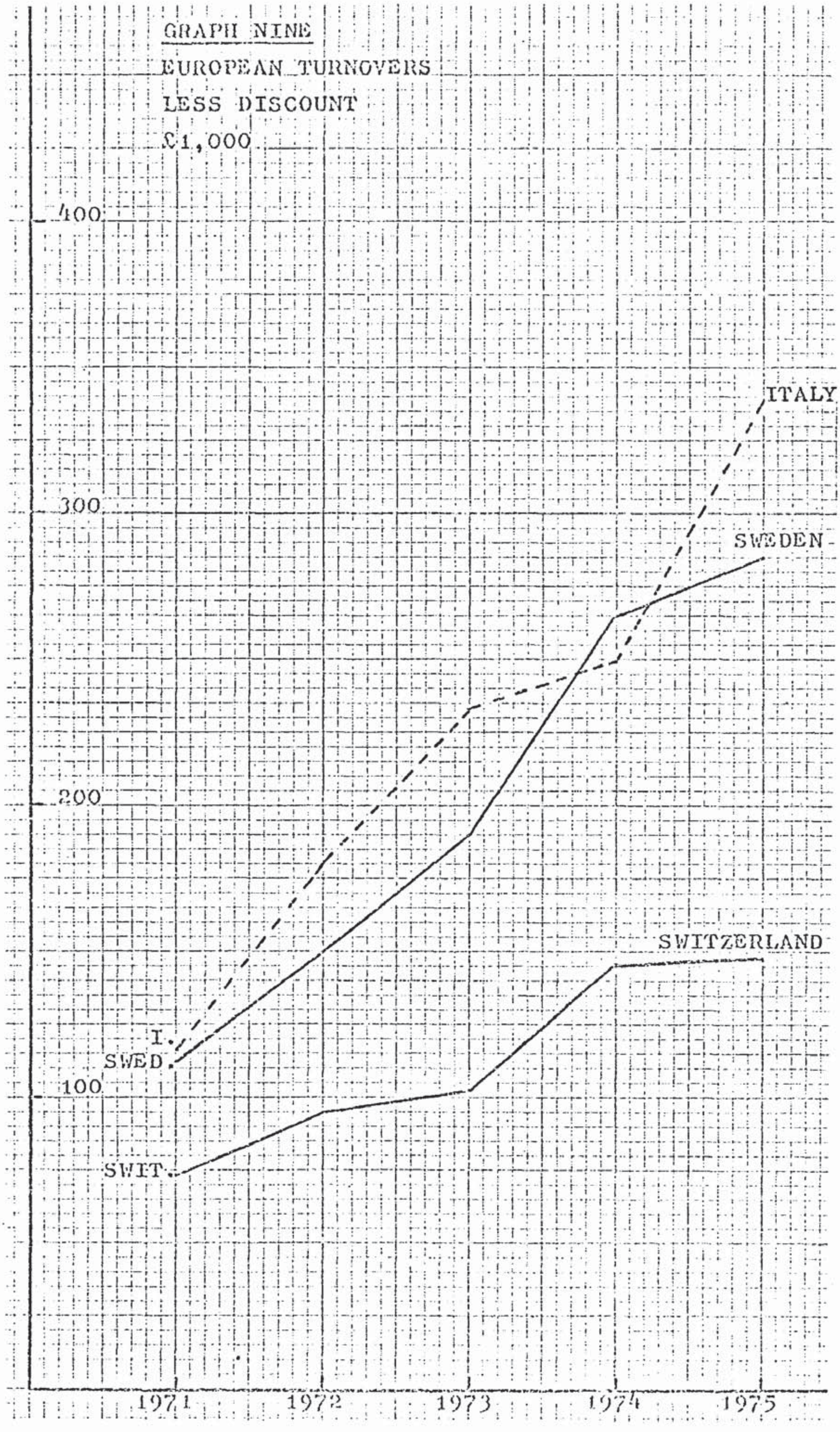

GRAPH FIVE
EUROPEAN GROSS TURNOVERS
£1,000
200
175
150
125
100
75
50
25
F.
E.
D.
B.
FRANCE
EIRE
BELGIUM
DENMARK
1971
1972
1973
1974
1975

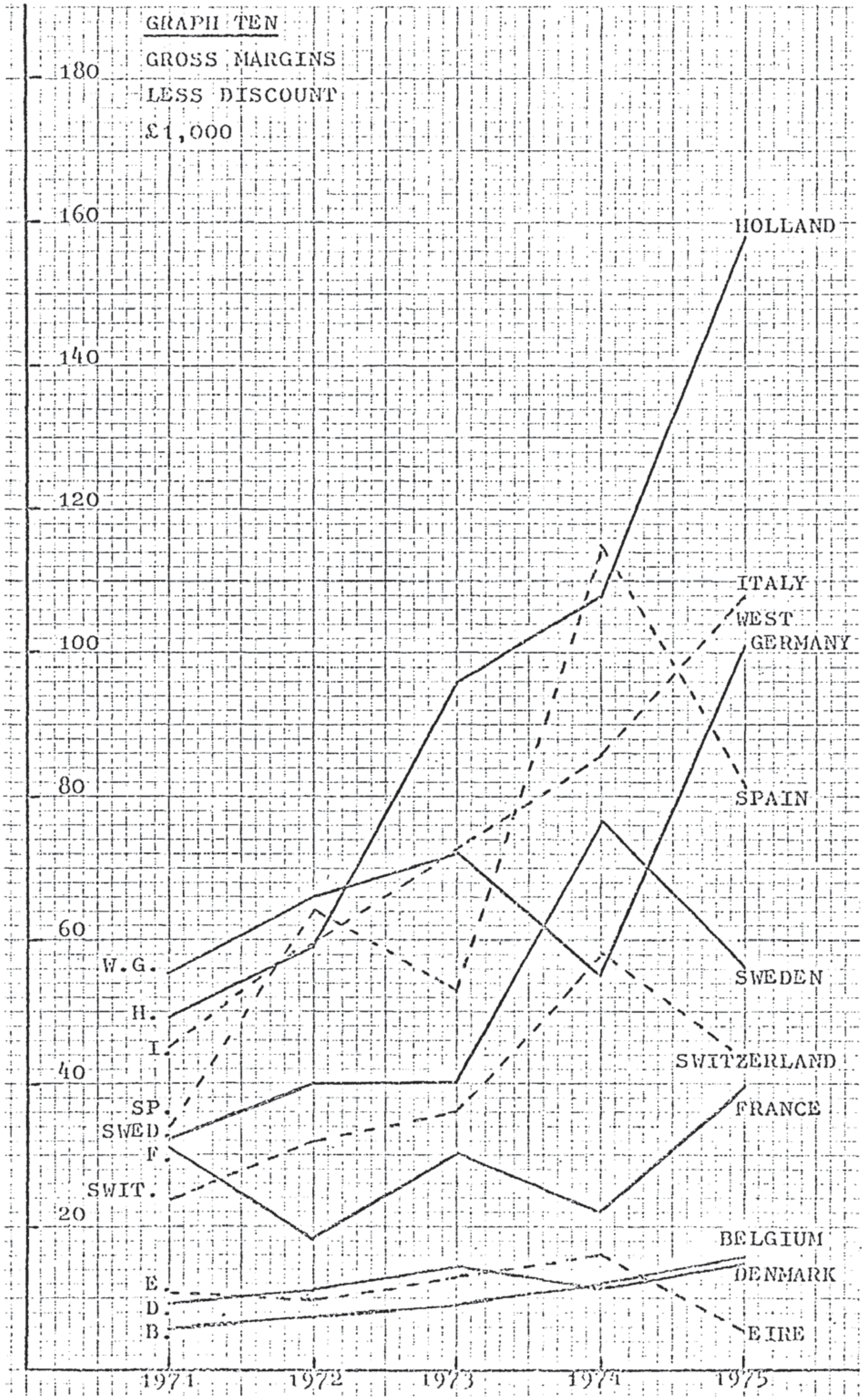

GRAPH SIX
EUROPEAN GROSS MARGINS
£1,000
180
160
140
120
100
80
60
40
20
HOLLAND
ITALY
SPAIN
SWEDEN
SWITZERLAND
H.
I.
SP.
SWED.
SWIT.
1971
1972
1973
1974
1975

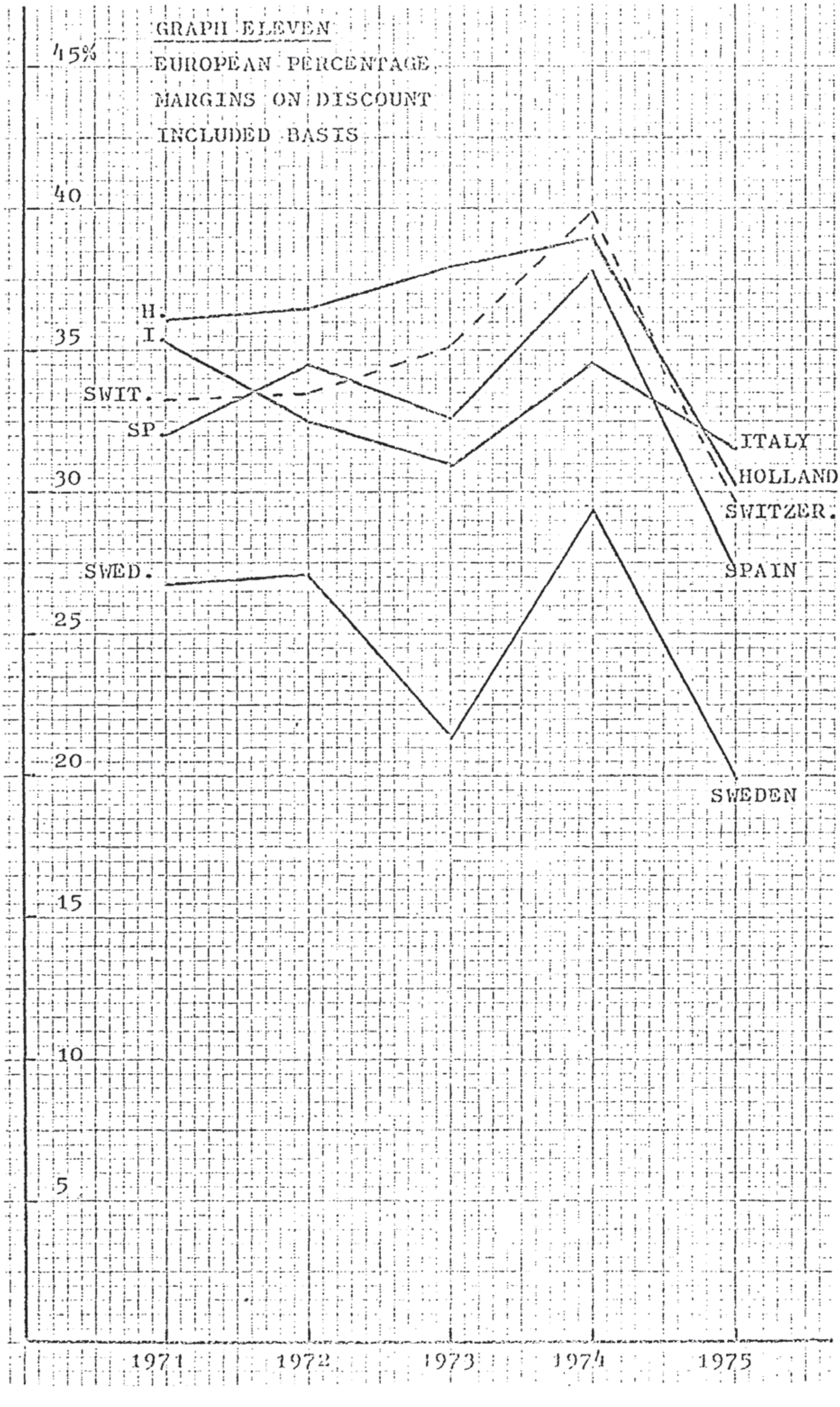


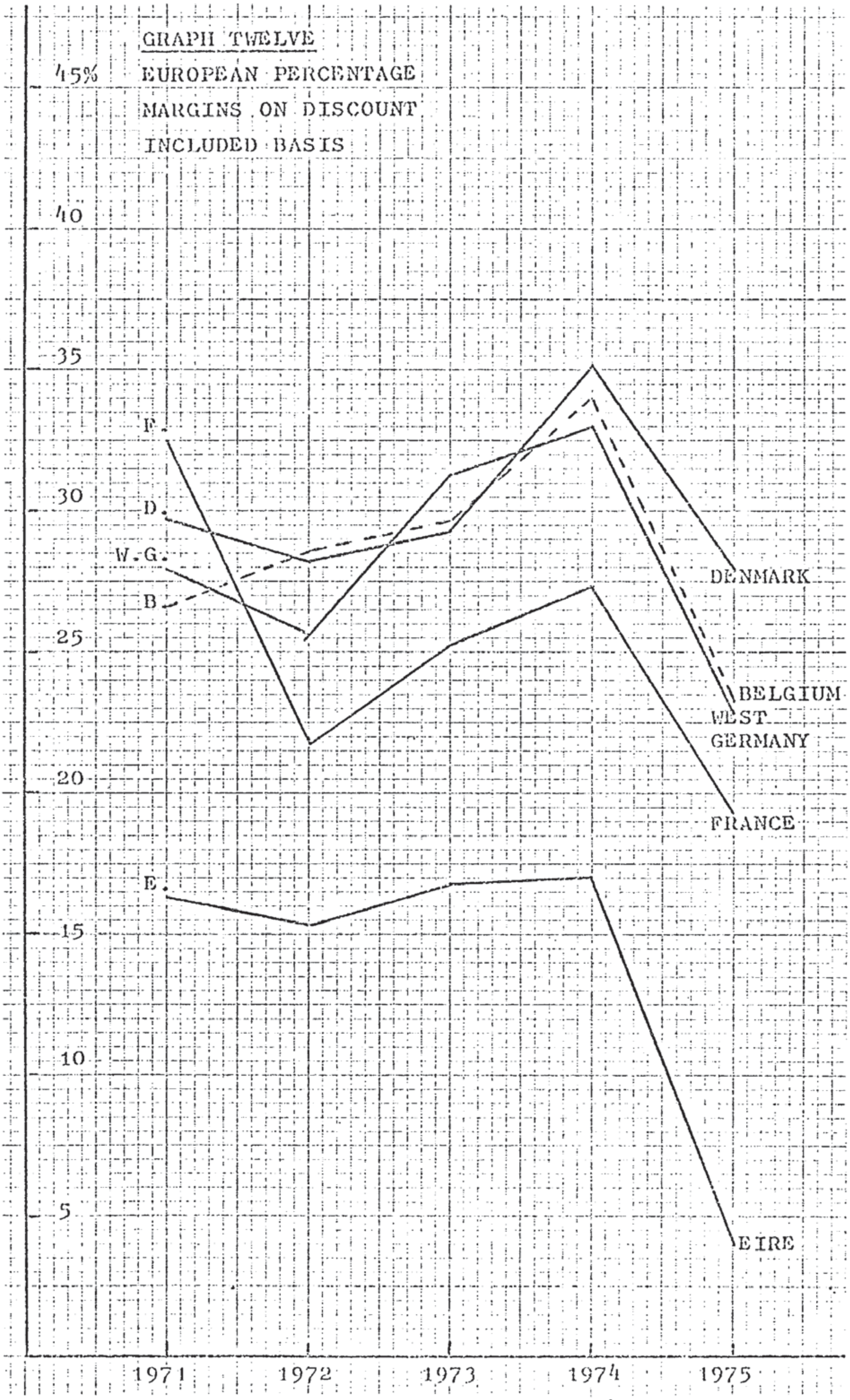
GRAPH SEVEN
EUROPEAN GROSS MARGINS
£1,000
180
160
140
120
100
80
60
40
20
W.G.
F.
E.
D.
B.
WEST GERMANY
FRANCE
BELGIUM
DENMARK
EIRE
1971
1972
1973
1974
1975


GRAPH EIGHT
EUROPEAN TURNOVERS
LESS DISCOUNT
£1,000
500
450
400
350
300
250
200
150
W.G.
H.
SP.
HOLLAND
WEST GERMANY
SPAIN
1971
1972
1973
1974
1975

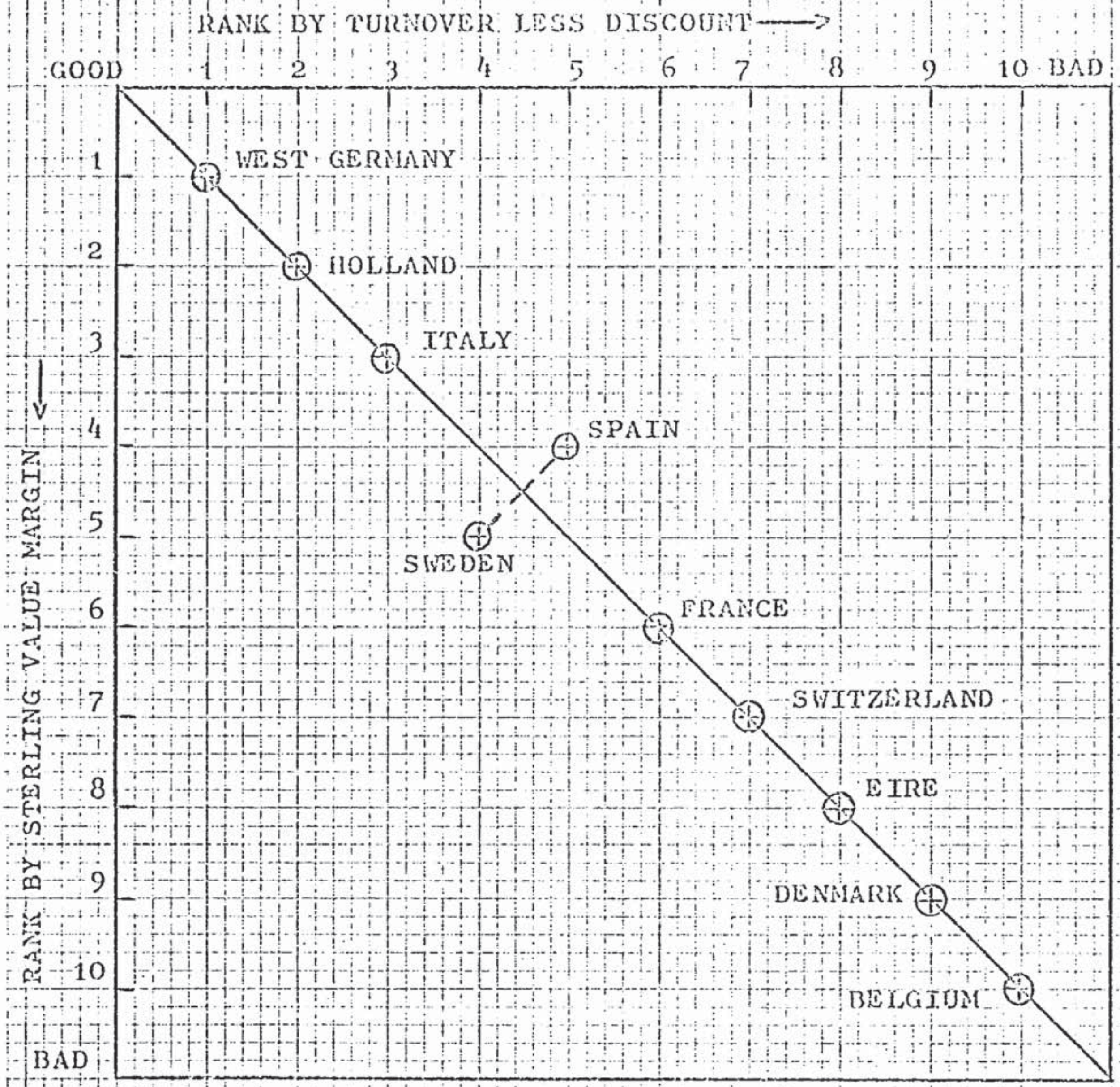

GRAPH NINE
EUROPEAN TURNOVERS
LESS DISCOUNT
£1,000
400
300
200
100
ITALY
SWEDEN
SWITZERLAND
I.
SWED.
SWIT.
1971
1972
1973
1974
1975


GRAPH TEN
GROSS MARGINS
LESS DISCOUNT
£1,000
180
160
140
120
100
80
60
40
20
HOLLAND
ITALY
WEST
GERMANY
SPAIN
SWEDEN
SWITZERLAND
FRANCE
BELGIUM
DENMARK
EIRE
W.G.
H.
I.
SP.
SWED.
F.
SWIT.
E.
D.
B.
1971
1972
1973
1974
1975


GRAPH ELEVEN
EUROPEAN PERCENTAGE
MARGINS ON DISCOUNT
INCLUDED BASIS
45%
40
35
30
25
20
15
10
5
H.
I.
SWIT.
SP
SWED.
ITALY
HOLLAND
SWITZER.
SPAIN
SWEDEN
1971
1972
1973
1974
1975


GRAPH TWELVE
EUROPEAN PERCENTAGE
MARGINS ON DISCOUNT
INCLUDED BASIS
45%
40
35
30
25
20
15
10
5
F
D
W.G.
B
E
DENMARK
BELGIUM
WEST
GERMANY
FRANCE
EIRE
1971
1972
1973
1974
1975

GRAPH THIRTEEN

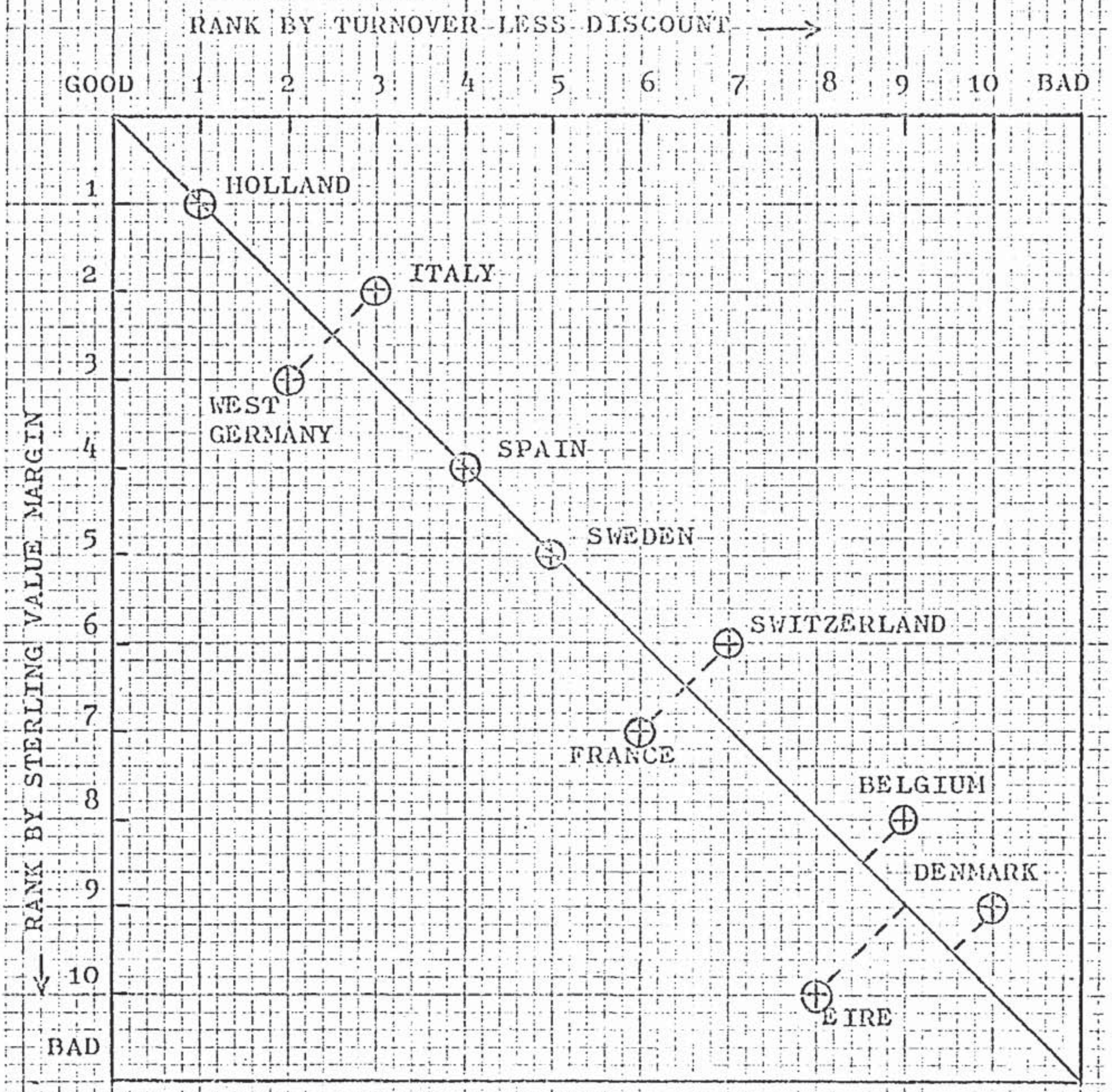


RESULT:-

1. WEST GERMANY
2. HOLLAND
3. ITALY
4. SWEDEN, SPAIN
6. FRANCE
7. SWITZERLAND
8. EIRE
9. DENMARK
10. BELGIUM

ACTUAL FIGURES 1971

GRAPH FOURTEEN

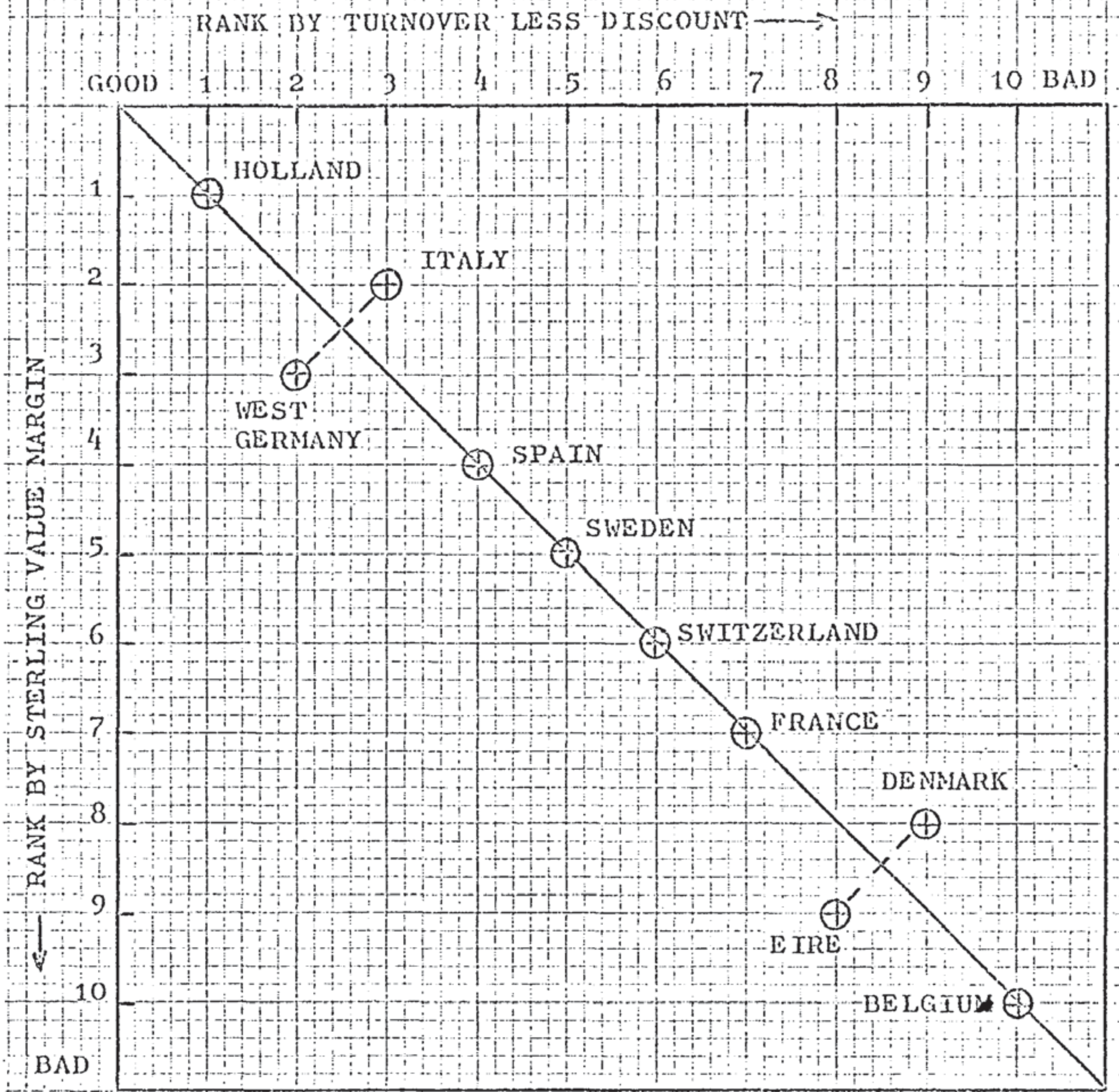


RESULT:-

1. HOLLAND
2. ITALY, WEST GERMANY
4. SPAIN
5. SWEDEN
6. FRANCE, SWITZERLAND
8. BELGIUM
9. EIRE
10. DENMARK

ACTUAL FIGURES 1975

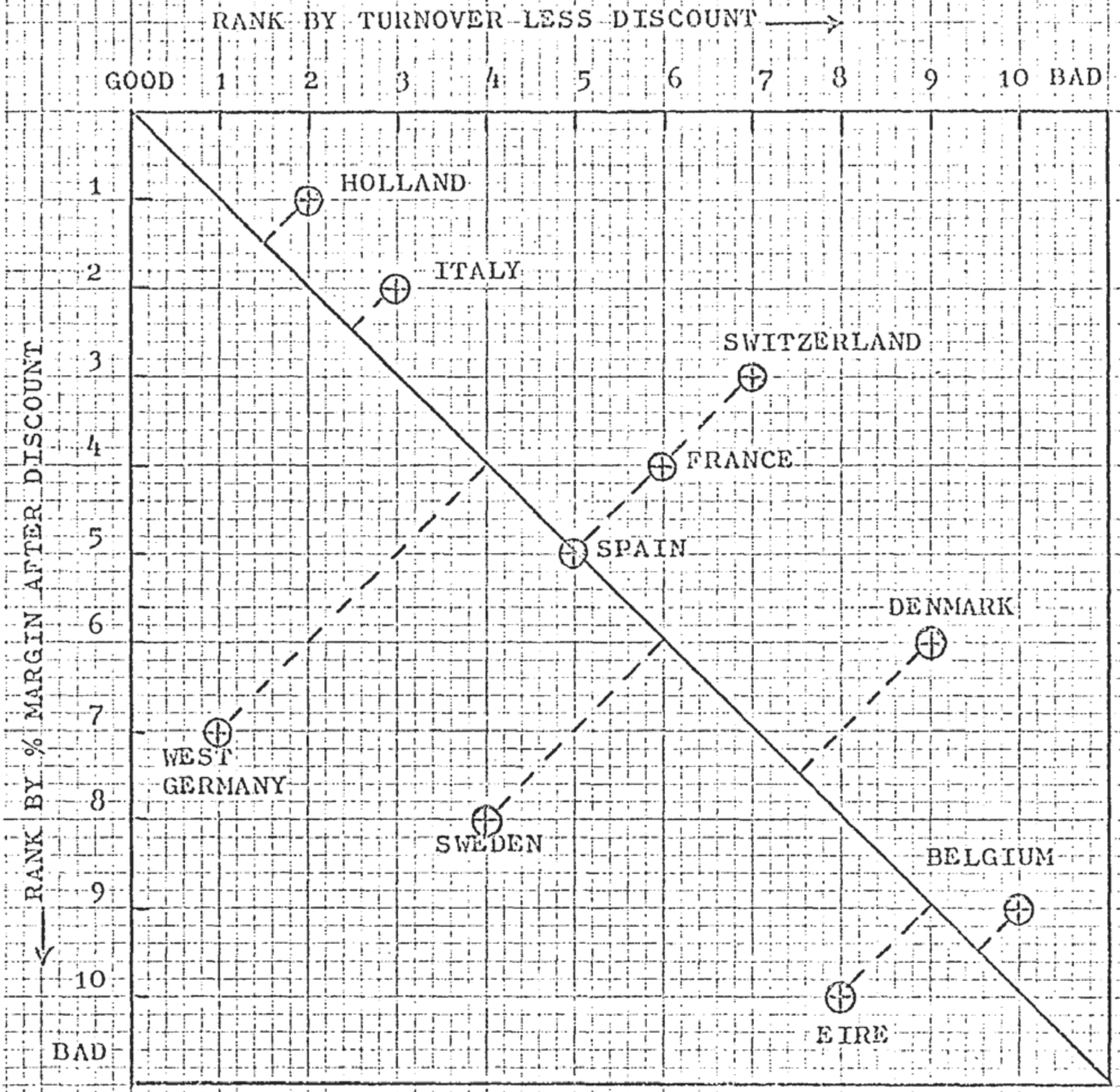
GRAPH FIFTEEN



RESULT:-
1. HOLLAND
2. ITALY, WEST GERMANY
4. SPAIN
5. SWEDEN
6. SWITZERLAND
7. FRANCE
8. EIRE, DENMARK
10. BELGIUM

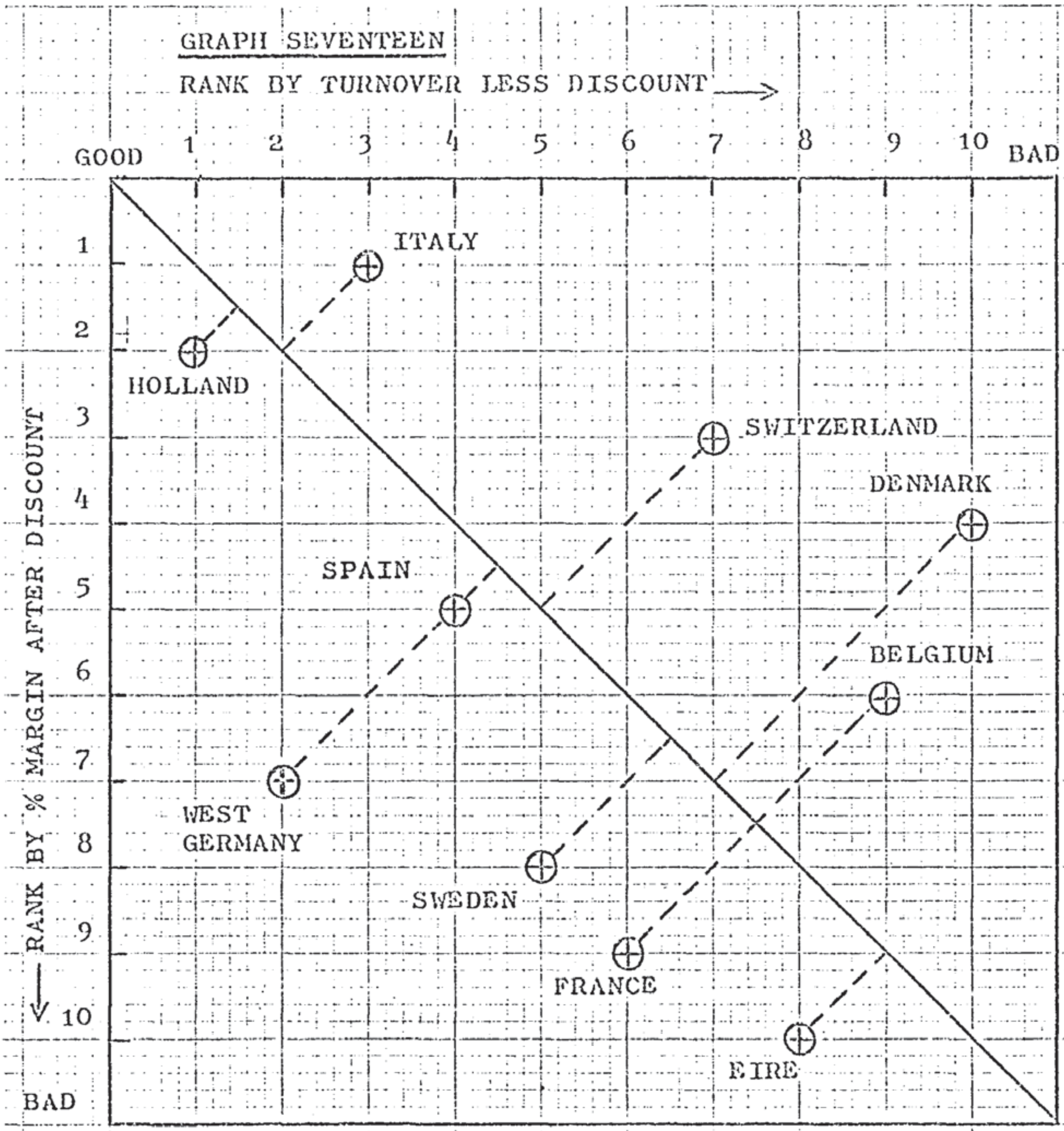
AVERAGES
OVER 1971/75

GRAPH SIXTEEN



RESULT:-
1. HOLLAND
2. ITALY
3. WEST GERMANY
4. SPAIN, FRANCE, SWITZERLAND
7. SWEDEN
8. DENMARK
9. EIRE
10. BELGIUM

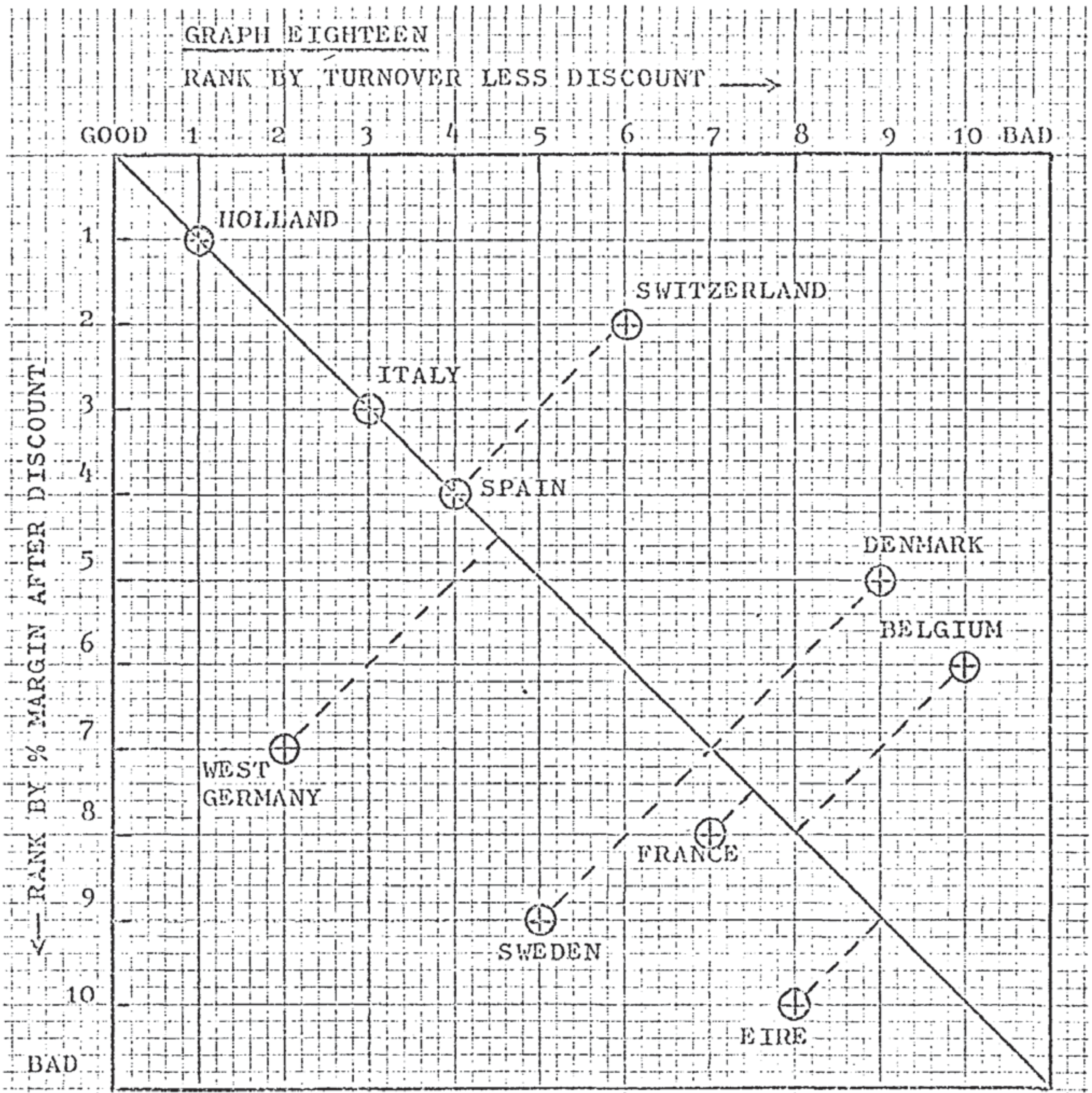
ACTUAL FIGURES 1971



ACTUAL FIGURES 1975

RESULT:-

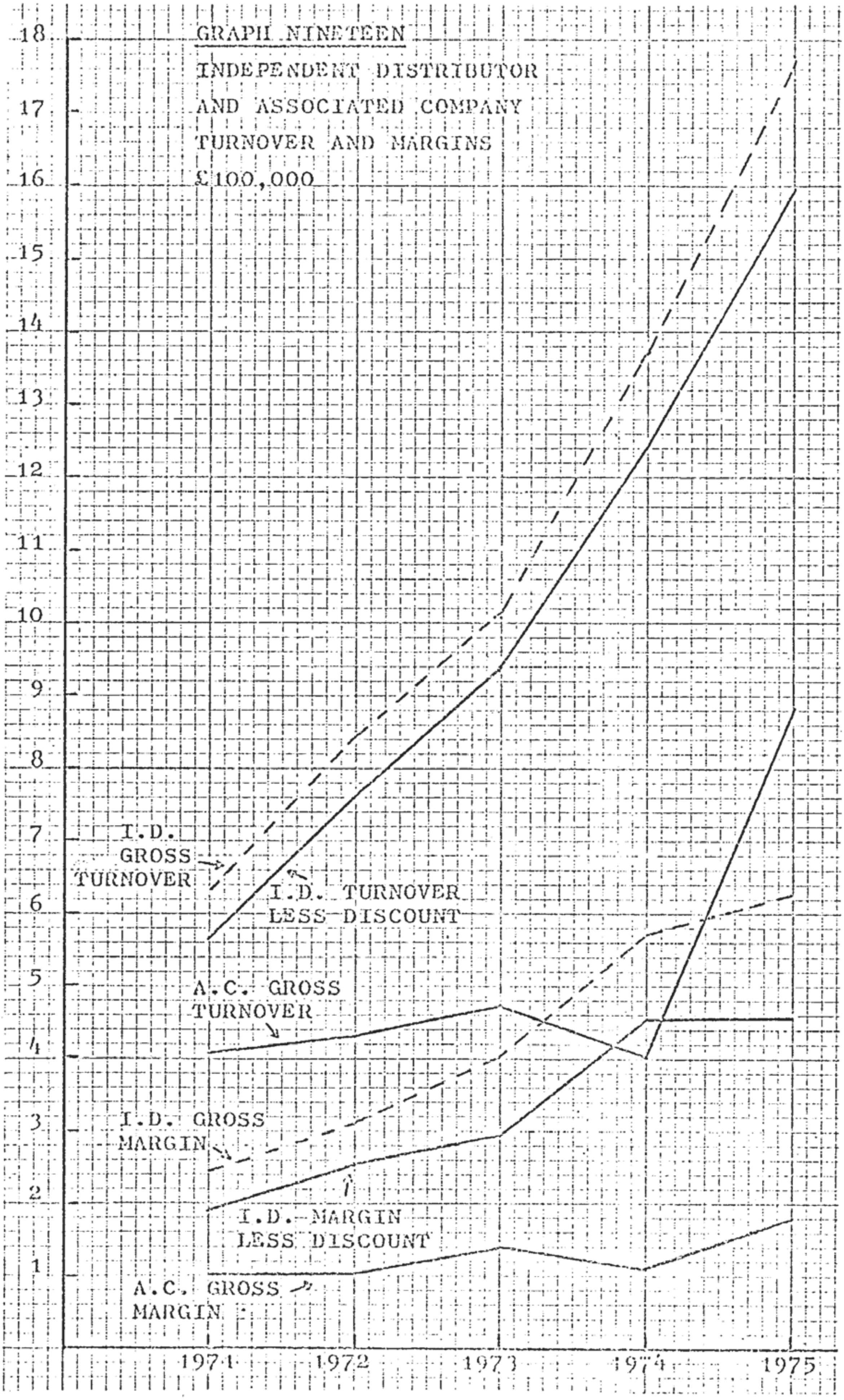
1. HOLLAND
2. ITALY
3. SPAIN, WEST GERMANY
5. SWITZERLAND
6. SWEDEN
7. DENMARK
8. BELGIUM, FRANCE
10. EIRE

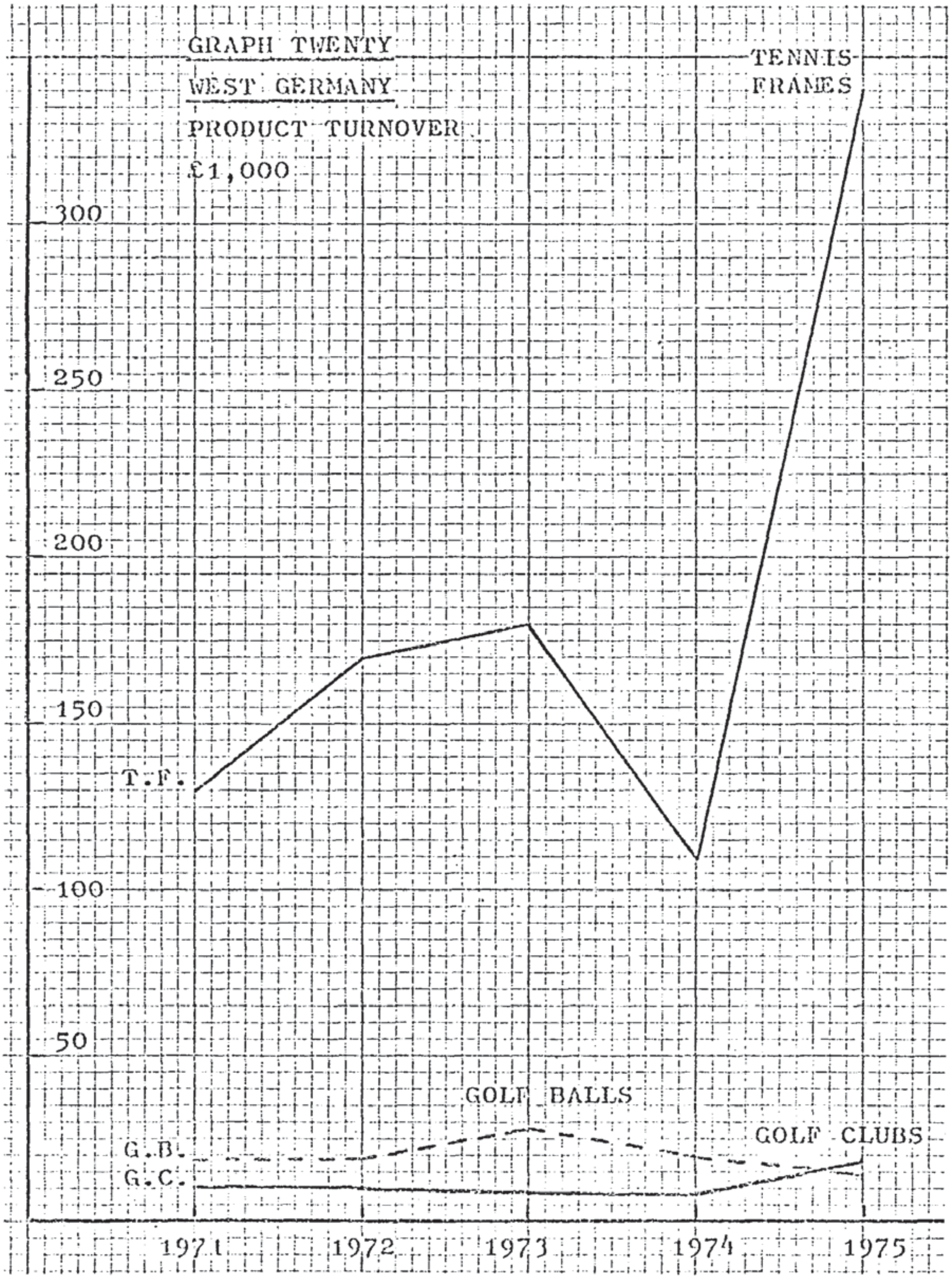


RESULT:-

1. HOLLAND
2. ITALY
3. SPAIN, SWITZERLAND
5. WEST GERMANY
6. SWEDEN, DENMARK
8. FRANCE
9. BELGIUM
10. EIRE

AVERAGES
OVER 1971/75


GRAPH NINETEEN
INDEPENDENT DISTRIBUTOR
AND ASSOCIATED COMPANY
TURNOVER AND MARGINS
£100,000
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
I.D. GROSS TURNOVER
I.D. TURNOVER LESS DISCOUNT
A.C. GROSS TURNOVER
I.D. GROSS MARGIN
I.D. MARGIN LESS DISCOUNT
A.C. GROSS MARGIN
1971
1972
1973
1974
1975



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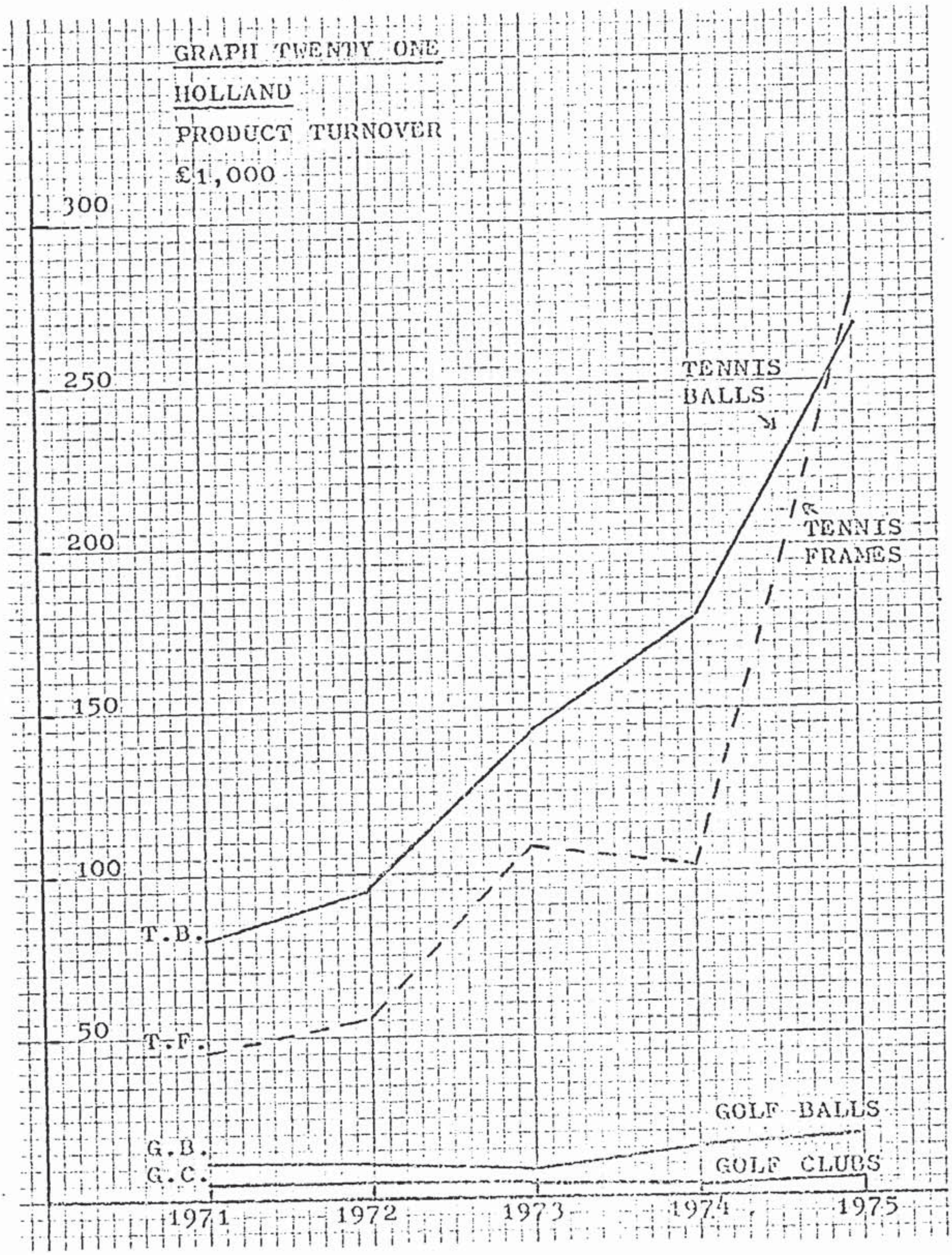
WEST GERMANY
PRODUCT TURNOVER
£1,000
TENNIS FRAMES
300
250
200
150
T.F.
100
50
GOLF BALLS
GOLF CLUBS
G.B.
G.C.
1971
1972
1973
1974
1975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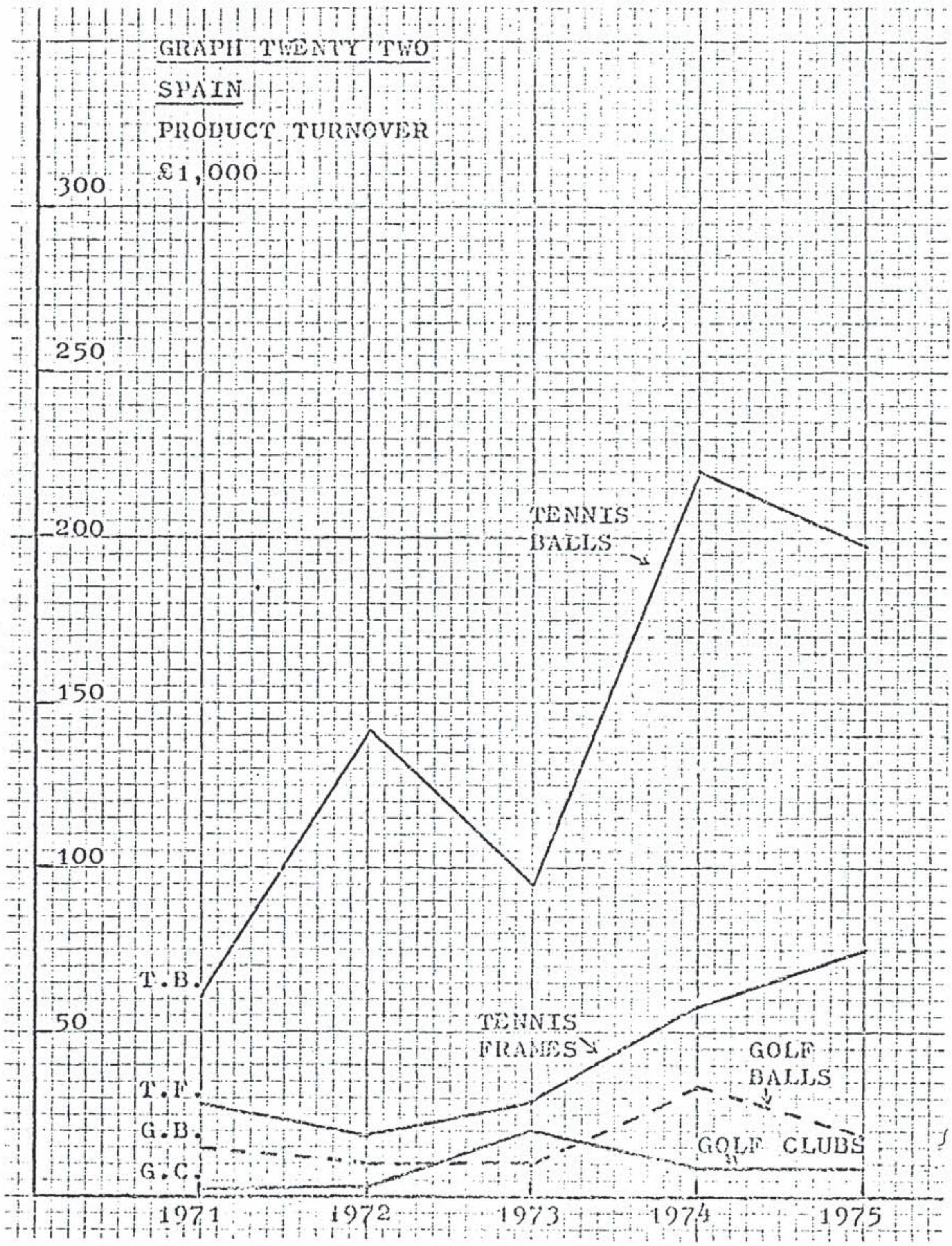
HOLLAND
PRODUCT TURNOVER
£1,000
300
250
200
150
100
50
TENNIS BALLS
TENNIS FRAMES
T.B.
T.F.
GOLF BALLS
G.B.
G.C.
GOLF CLUBS
1971
1972
1973
1974
1975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SPAIN
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£1,000
300
250
200
150
100
50
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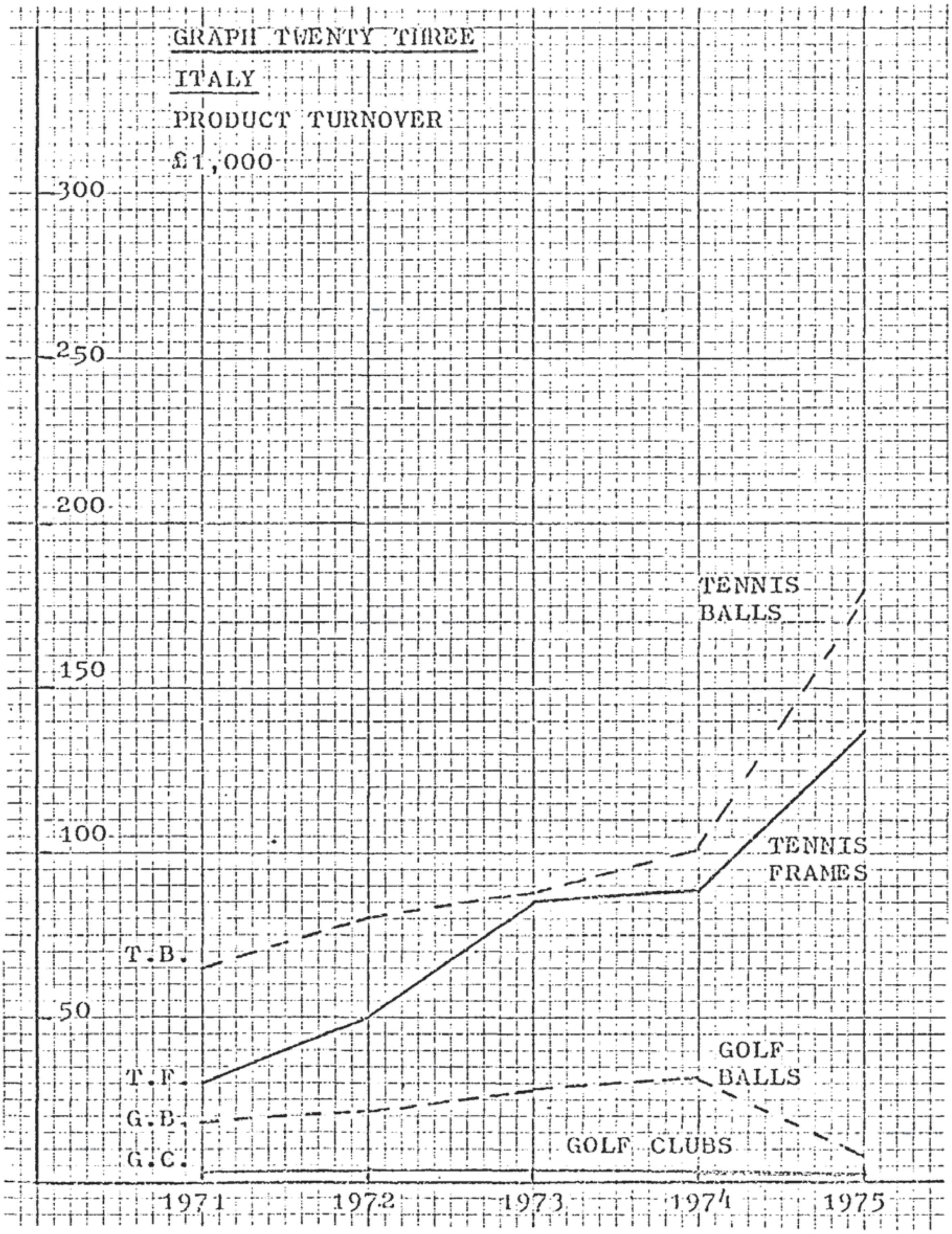
TENNIS FRAMES
GOLF BALLS
GOLF CLUBS
T.B.
T.F.
G.B.
G.C.
1971
1972
1973
1974
1975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ITALY
PRODUCT TURNOVER
£1,000
300
250
200
150
100
50
TENNIS BALLS
TENNIS FRAMES
GOLF BALLS
GOLF CLUBS
T.B.
T.F.
G.B.
G.C.
1971
1972
1973
1974
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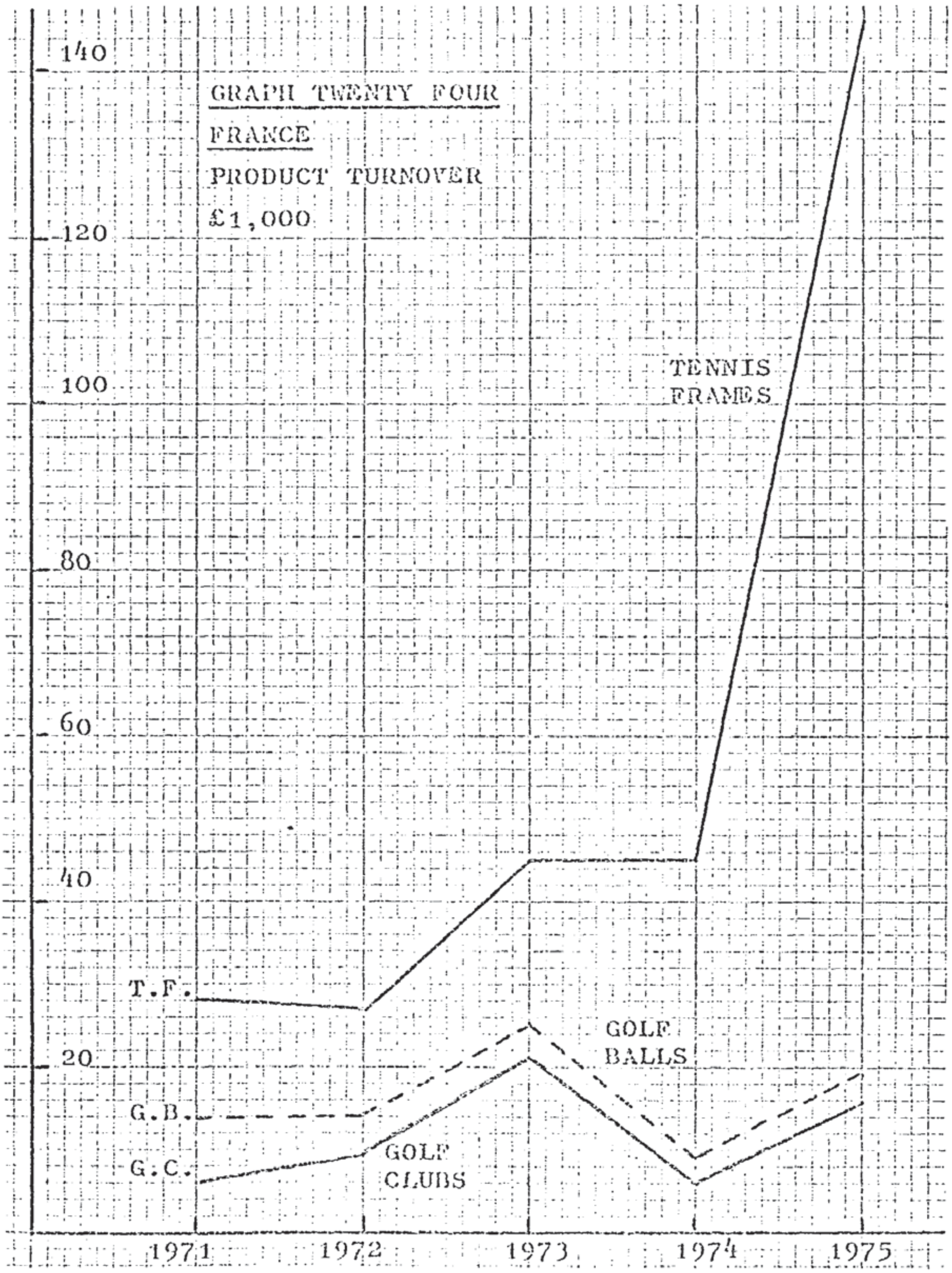
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FRANCE
PRODUCT TURNOVER
£1,000
140
120
100
80
60
40
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T.F.
GOLF BALLS
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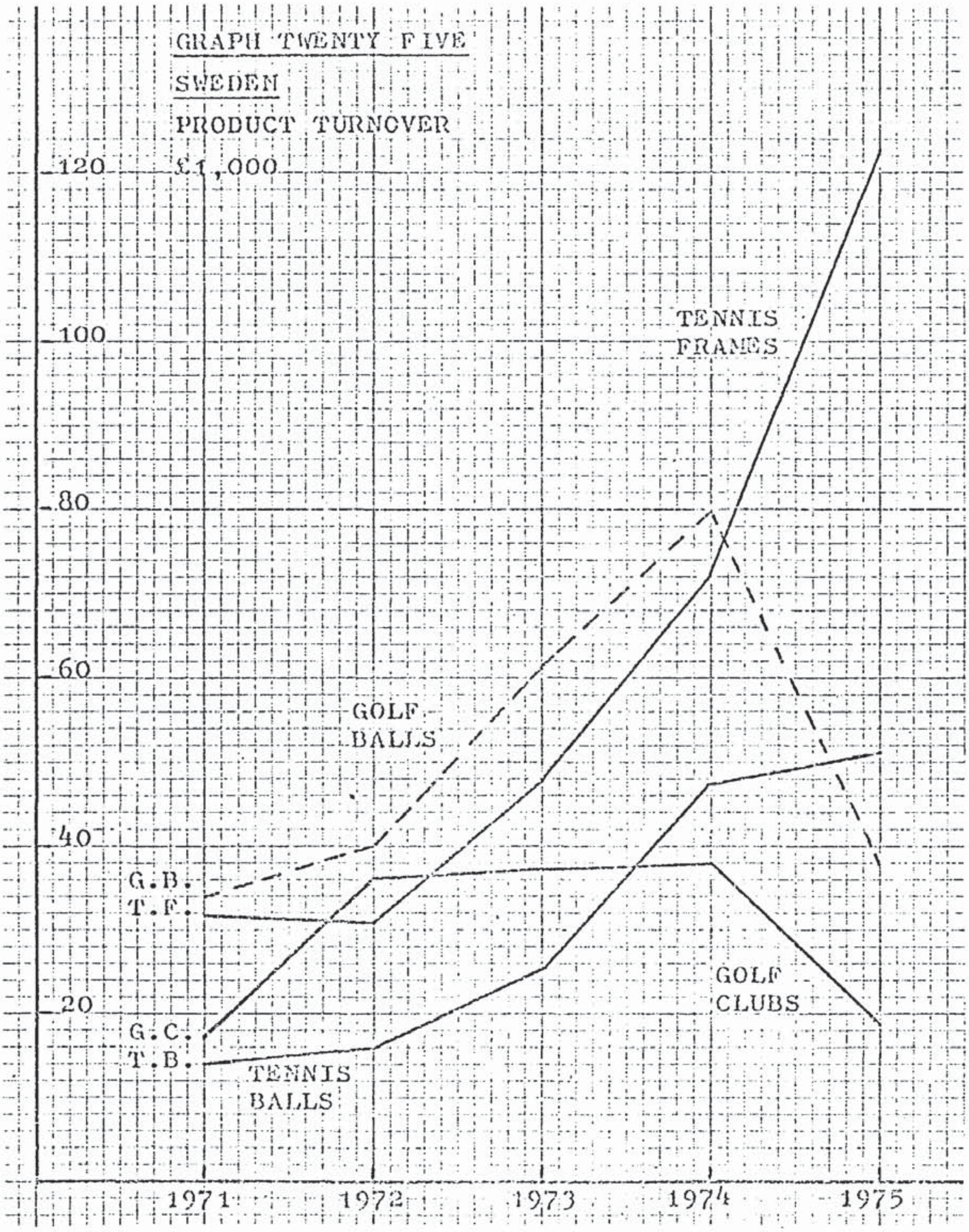
G.C.
GOLF CLUBS
1971
1972
1973
1974
1975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PRODUCT TURNOVER
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100
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60
40
20
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1971
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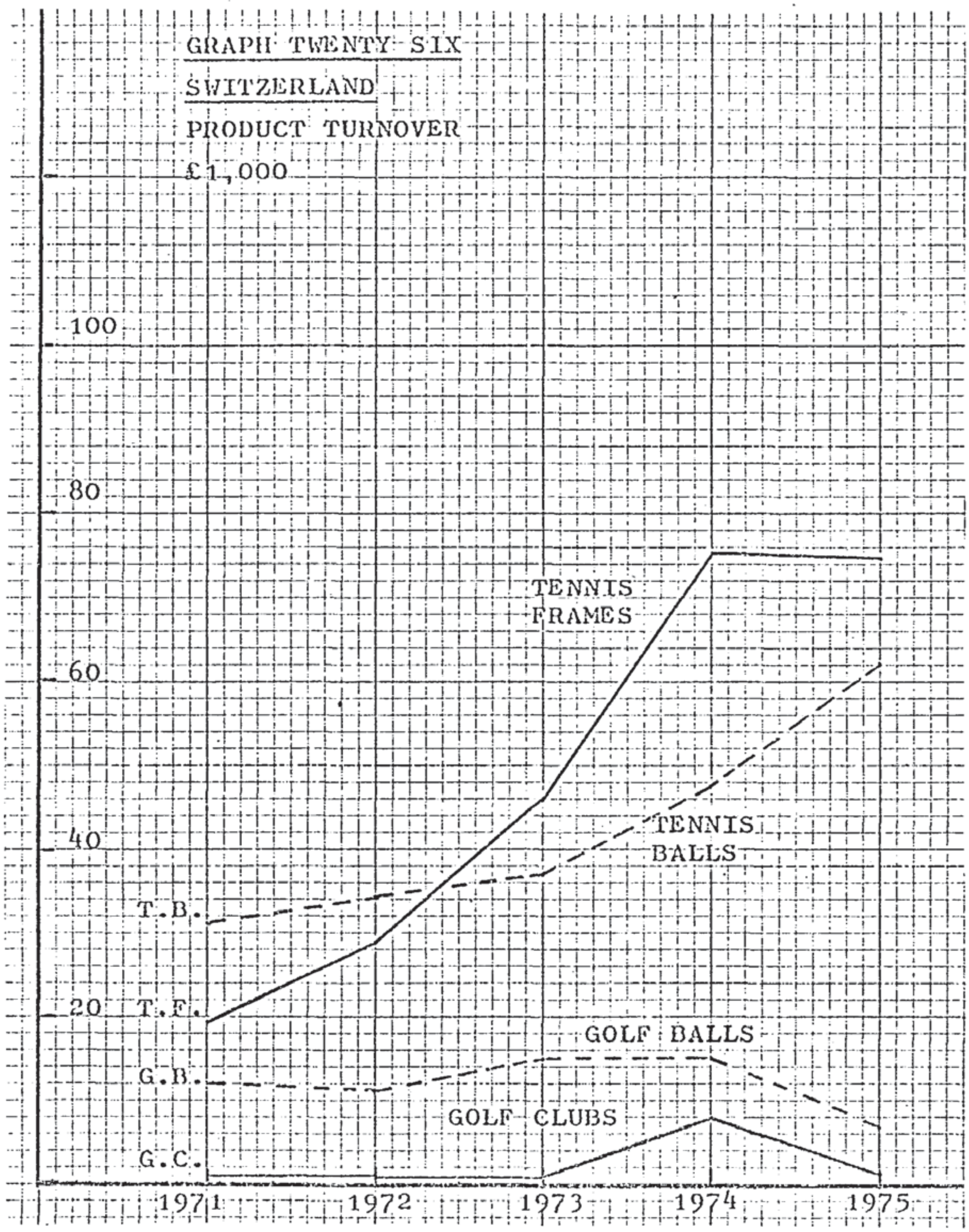
1974
1975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SWITZERLAND
PRODUCT TURNOVER
£1,000
100
80
60
40
20
TENNIS
FRAMES
TENNIS
BALLS
T.B.
T.F.
GOLF BALLS
G.B.
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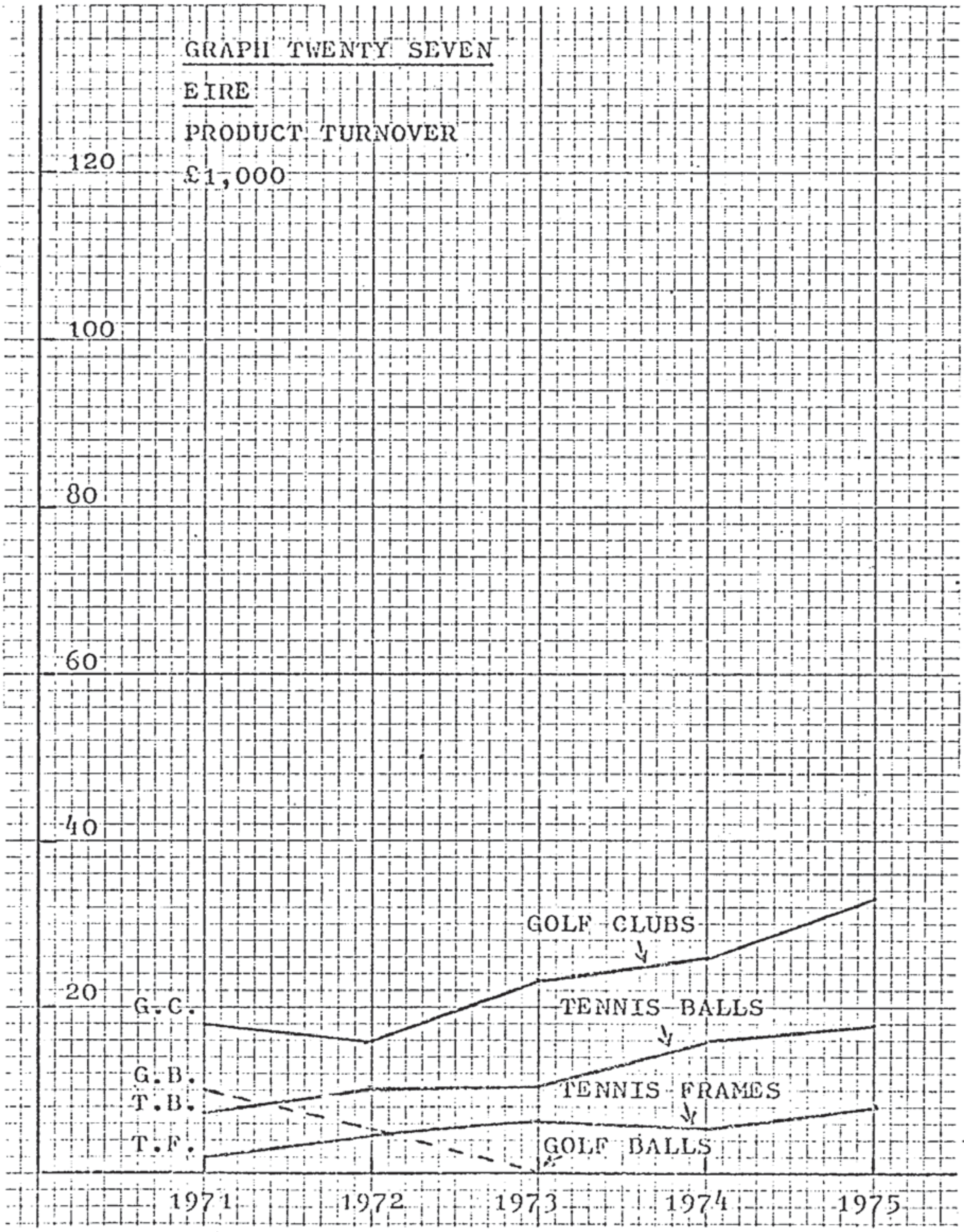
G.C.
1971
1972
1973
1974
1975


GRAPH TWENTY SEVEN
EIRE
PRODUCT TURNOVER
£1,000
120
100
80
60
40
20
G.C.
G.B.
T.B.
T.F.
GOLF CLUBS
TENNIS BALLS
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GOLF BALLS
1971
1972
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1974
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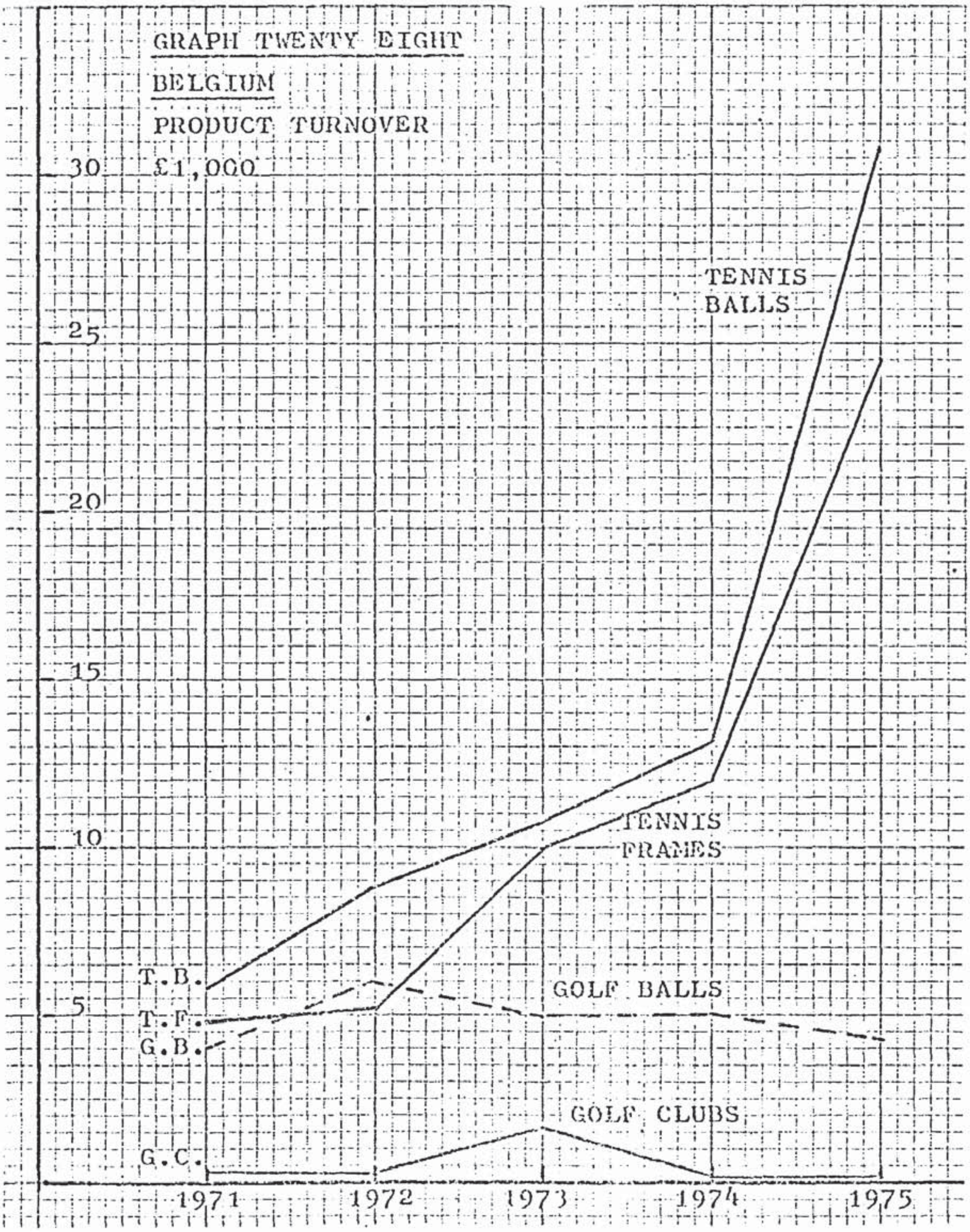
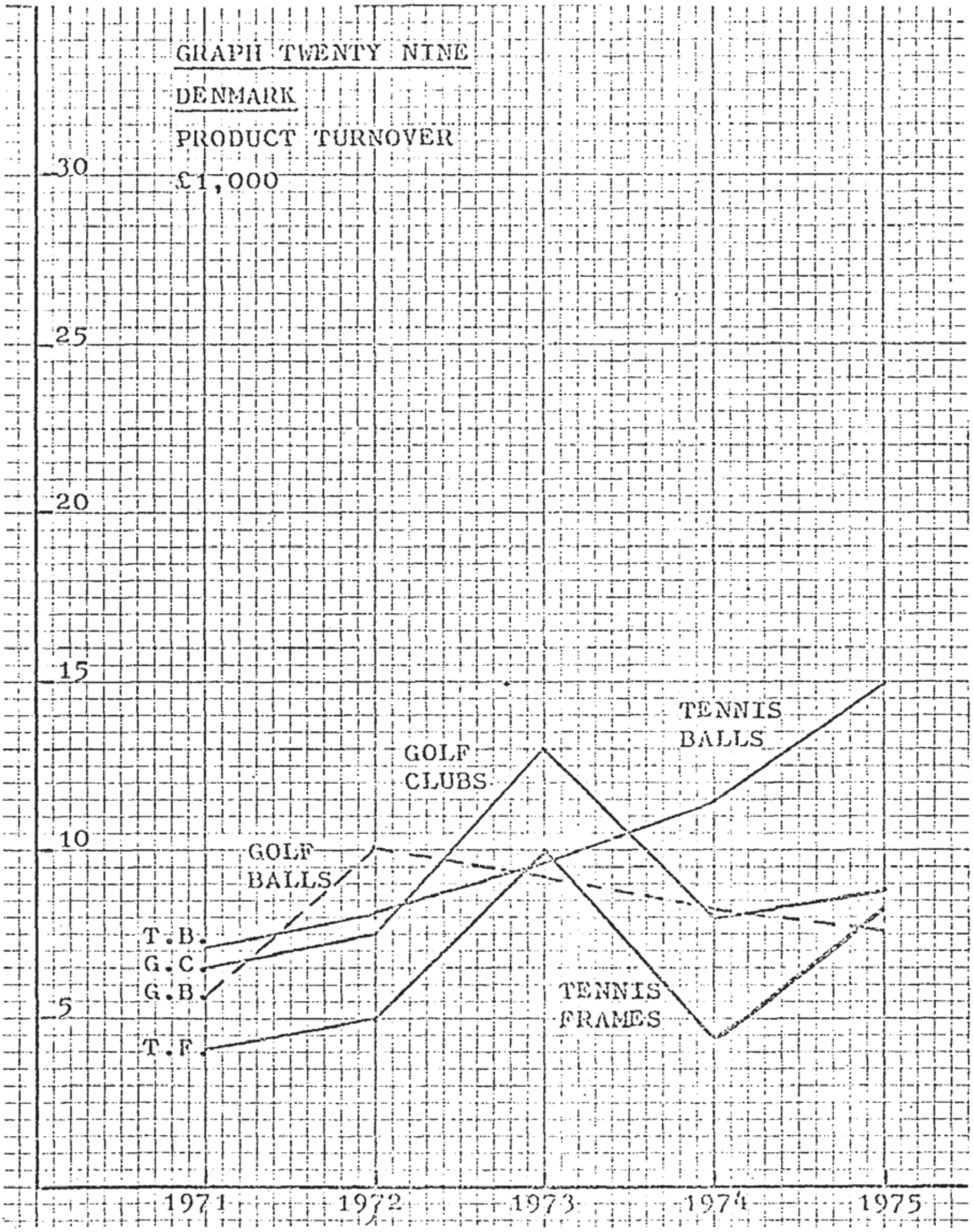


GRAPH TWENTY EIGHT
BELGIUM
PRODUCT TURNOVER
£1,000
30
25
20
15
10
5
TENNIS BALLS
TENNIS FRAMES
GOLF BALLS
GOLF CLUBS
T.B.
T.F.
G.B.
G.C.
1971
1972
1973
1974
1975


GRAPH TWENTY NINE
DENMARK
PRODUCT TURNOVER
£1,000
30
25
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15
10
5
TENNIS BALLS
GOLF CLUBS
GOLF BALLS
T.B.
G.C.
G.B.
T.F.
TENNIS FRAMES
1971
1972
1973
1974
1975

LITERATURE REVIEW AND BIBLIOGRAPHY

In each of Chapters Three, Five, Six and Seven a brief outline of relevant theory and literature has been presented at the start of the Chapter. This Review brings together the overall impression of available literature which has been gained during this project.

Of the large volume of literature on Business Studies and Economics which is produced, only a small proportion has been usefully relevant to the topic of export marketing. This has arisen from several causes:-

1. A considerable amount of research done on international operations remains within particular organizations. This is not only a case of businesses retaining confidential or even non-confidential research but also refers to the expertise evolved within marketing and advertising agencies and retained by them for their specific use.

   Consequently a whole range of techniques and statistics with constitute probably the single most closely relevant body of work, are simple unavailable to research on this subject. (For example much comparative analysis of export markets may be thought to lie within this category, (an exception being (4:v)). The problem seems to be greater for British research than in the U.S. where executives of agencies and of business in general seem far more inclined to divulge their work in journals and even textbooks. (see (4:iv) and (4:vii) for example).

2. This raises the second point which is that a whole range of published material is American in source and outlook. This of course does not necessarily prevent its relevance or application in a British exporting context. However there are usually sufficient differences in the background to the research and the requirements it sets on the marketing organization to severely limit the usefulness of comparison. This occurs for several reasons. A large part of U.S. marketing abroad is done on a scale which enables extensive use of the techniques originally evolved in the home market. A fine example of such a process is seen in (4:viii). The technique here depends upon an identification of "innovator characteristics" among consumers. In developing this into a cross-national comparison Green and Langread follow the traditional path of research on marketing; first develop and test an approach on the home market, then apply it abroad. While such a process may be appropriate in the U.S. context it is deficient in application by a U.K. firm where the resources, scale of operations and level of marketing actually carried on abroad would not justify the use of such sophisticated techniques.

3. This point leads to a general comment on the stage of evolution of export marketing. The marketing concept itself is comparatively recent even in the domestic field, export marketing has been a subsequent development. While this may well be out of all proportion to the importance of the export market to a very large number

of firms, it is still true that most research is concerned with the home market. To that extent the field is again narrowed as regards relevant literature. An illustration of the superior quality of domestic marketing material may be seen in the field of Pricing. As a marketing tool pricing has reached a high level of sophistication in a domestic market context (see (1:ii) and (1:iii)). Gabor and Granger are but two of the many exponents of sophisticated pricing techniques. The corresponding level in export pricing is far lower however. The exporting situation not only prevents the application of many domestic techniques by insulating the exporter from his market by distance and, usually, a distributor stage. It also requires a different pricing approach which recognises the limitations upon the exporter and examines the approaches which are in fact open to him. This has only been partly developed in export theory at the present time.

4. There is also a problem of topicality. In a dynamic situation such as export marketing major changes are continually occurring (for example Britain's entry into the E.E.C., the change from supply shortage in 1973/1974 to recession in 1975). Once again a section of the published literature loses relevance to the particular case under consideration. ((4:ix) for example seems overtaken by events).

These reasons have considerably restricted the volume of literature which has been useful in this study.

The background of marketing theory at the level intended for possible practical application is laid by such writers as Kotler, (1:iv), Adler, (3:i), Rachman, (5:i), and Ansoff, (1:i). A level of pure research also exists using techniques well outside the scope of most feasible operating situations but this is somewhat sterile ground for a project of this nature. The basic texts of the writers above then form a departure point from which most writing on marketing - domestic and export, begins.

The second general class of literature should be mentioned because the themes dealt with are so close to the project. This is the range of publications aimed at providing a businessman with very basic information on the process of exporting. The main difficulty here is that the level is often too simplistic to be viewed as a complete academic approach. Often it is based on sound common sense procedures but is hardly useful in producing complex marketing strategies. In fact the main emphasis is often on the setting up of new operations - i.e. for first time exporters. In a case where existing structures, products and strategies are concerned the complicated evaluation required is often beyond the scope of texts of this kind. (Examples of such literature are (2:iii), (3:v), (5:ii), (5:iii) and (5:iv)).

A particular feature of export marketing lore has been the usefulness or otherwise of standardizing approaches. The question of standardized advertising, pricing, distribution etc. is of particular relevance to the project in view of the section on the desirability and practicability of standardized pricing, (Appendix Five). Opinions on the problem are marvelously divided and support both for and against standardization is abundant. (See (4:vi), (4:vii), (4:ii), (5:v), (5:vi).

Specific improvements in British exporting performance are occasionally suggested in reports produced for various sponsors such as the Department of Trade, C.B.I. etc. Of these the subject matter of the B.E.T.R.O. Report on Concentration on Key Markets provides a background for the specific discussions of concentration and possible re-allocation of Company resources within the thesis. The report corroborated many of the themes of the project, (1:v).

Actual "International Strategy" literature is to a large extent American and aimed at very large scale enterprizes indeed. The basic principles can be applied in a different context and the classifications employed are often useful in clarifying the difficulties which arise at a practical level. But great care has to be exercised in this. The references give a selection of articles which proved amen-able to interpretation at a level suitable for the project. (5:vii), (5:viii), (3:iii), (5:ix).

The range of published work which possesses some relevance to the project is therefore wide - from cases only applicable in large multinational enterprizes to low key advice on agent selection. Within this range the material directly relevant to a case such as that which forms the subject of the project is much narrower. In fact there seems to be a definite blind spot in dealing with a situation of the following kind:-

a) A medium sized firm - smaller scale operation than those necessary for the multinational techniques, but large enough to warrant an approach involving more than mere "exporting" with no marketing involvement overseas.

b) A firm already established in the export scene. A historical pattern of distributors, and associates has been laid down. The major products are well established both at home and abroad.

c) Consequently the alternatives in marketing are restricted both by the distribution pattern and the size of the firm.

d) The real need is to examine and evaluate the existing situation and evolve a system for optimizing the export situation within the general strategy of the firm.

It is this need and this gap in suitable research which the project attempts to begin to fill.

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SPECIAL APPENDIX

RESEARCH METHODS EMPLOYED

Some further explanation of the procedures employed during this investigation would probably be useful. As explained in the body of the text, (2:7), ten markets were chosen for the study. These include all five A.C. European markets and the five largest I.D. territories. Three trips abroad were made. The first visit was to Belgium and Holland and lasted for a week in March 1974. The main objective was to collect price data and test the approach which had been suggested for further trips. The latter consisted of a fairly extensive interview of the distributor which examined:

a) his pricing and discount structure
b) the local retail and distribution scene (and changes occurring therein)
c) local distributor opinion as regards demand trends and competitive activity
d) the main causes of friction in the service provided by D.S.C.

It was found that such a relatively unstructured form of interview could be relied upon to reflect local (expert) opinion in as flexible a way as possible.

Local sales personnel were also interviewed to obtain a second opinion of the matters raised by the local management. The visits carried out to retail outlets also enabled a sampling of local market-place opinion.

It should be pointed out that though no formal questionnaire was employed to register the results of the interviews, a great deal of selection and preparation had taken place prior to the actual discussion:

a) Holland and Belgium were chosen for the first visit because they illustrate many of the features of I.D. and A.C. operations respectively.

b) A standard list of competitor products was used in the pricing survey. Local agents and retailers were invited to suggest additions if important brands were not included.
Products important on a local level only were included in reports on each market visited, those of wider availability appear in Tables One to Three in Appendix Five.

c) The Landed Cost, Trade Price and margin calculations (Table One, Page 203) were checked in each case to ensure that local distributors fully appreciated the terms used in the build up to retail level.
The diagram on Page 94 was of great value in this exercise.

d) The retailers visited were selected to include different types of outlet wherever possible (a small sports shop, a large sports shop, a sports department of a large store, a golf or tennis professional and a wholesaler operation was the sample aimed at).
The detailed structure of prices was presented to the Company in reports dealing with each visit made,

the prices in this text represent the most common level found, abstracting from discounts, special offers etc.

e) The experience gained from this first visit not only proved useful in subsequent trips abroad (to France, Italy, West Germany, Sweden and Denmark), but also enabled a good deal of information to be gathered from distributors by letter. Having established which competitor products were most widely available and suggested a consistent framework for the analysis of price structures, the reliability of data sent by letter was correspondingly increased.

The details gathered on these visits to the European markets have proved invaluable at many stages in this thesis where only a local point of view can adequately express a problem. If a formal market research facility is established they would form a first stage in improving the level of market intelligence available within the Company.