

AMU643

UNIVERSITI SAINS MALAYSIA
MASTER OF BUSINESS ADMINISTRATION

Second Semester Examination
Academic Session 1999/2000

February 2000

AMU 643 - STRATEGIC MARKETING MANAGEMENT

Time: [3 hours]

INSTRUCTIONS:

Please ensure that this examination paper consist of **NINETEEN (19)** printed pages before you begin.

Answer **ALL** Questions.

1. Questions in this section refers to the case, CIMA MOUNTAINEERING, INC

a) What is the financial condition of CIMA Mountaineering?

(15 Marks)

b) What is the current marketing situation at CIMA Mountaineering?

(15 Marks)

c) Appraise Margaret's proposal to enter the "weekender" segment of the hiking boot market.

(25 Marks)

d) Appraise Anthony's proposal to extend existing product lines.

(25 Marks)

2. As pace of change accelerates, companies can no longer rely on their former business practices to sustain prosperity. The table below compares business assumptions and practices that were practices then with ones being increasingly practiced now. Those caught in the right column are viewed as more effective contemporary approaches to profitability. Companies can almost tell how much it has adopted contemporary business practices by placing a check in each row on either the left or the right. If most of the checks are on the left, then companies are seen locked in traditional practices

...2/-

THEN	NOW
Make everything inside the company. Improve on one's own. Go it alone. Operate with financial departments.	Buy more things outside (outsource) Improve by benchmarking others Network with other firms, collaborate. Manage business processes with Multidiscipline teams.
Focus domestically. Be product-centered. Make a standard product. Focus on the Product. Practice Mass Marketing. Find a sustainable competitive Advantage. Develop new products slowly and carefully. Use many suppliers. Manage from the top. Operate in the marketplace	Focus globally and locally Be market and customer centered Make adapted and/or customized products Focus on value chain. Practice target marketing Keep inventing new advantages Speed up the new product development process cycle Use few suppliers Manage up and down and across Operate also in the marketplace

Source: Philip Kotler, "Kotler on Marketing: How to Create, Win And Dominate Markets", 1999, The Free Press.

Choose a business that you are familiar of and discuss whether they are in the "then" column or the "now" column.? Which "now" practices would make sense to adopt and why?

(20 Marks)

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CASE

Cima Mountaineering, Inc.

"What a great hike," exclaimed Anthony Simon as he tossed his Summit HX 350 hiking boots into his car. He had just finished hiking the challenging Cascade Canyon Trail in the Tetons north of Jackson, Wyoming. Anthony hiked often because it was a great way to test the hiking boots made by Cima Mountaineering, Inc., the business he inherited from his parents and owned with his sister, Margaret. As he drove back to Jackson, he began thinking about next week's meeting with Margaret, the President of Cima. During the past month they had been discussing marketing strategies for increasing the sales and profits of the company. No decisions had been made, but the preferences of each owner were becoming clear.

As illustrated in Table 1, sales and profits had grown steadily for Cima and by most measures the company was successful. However, growth was beginning to slow as a result of foreign competition and a changing market. Margaret observed that the market had shifted to a more casual, stylish hiking boot that appealed to hikers interested in a boot for a variety of uses. She favored a strategy of diversifying the company by marketing a new line of boots for the less experienced, weekend hiker. Anthony also recognized that the market had changed, but he supported expanding the existing lines of boots for mountaineers and hikers. The company had been successful with these boots, and Anthony had some ideas about how to extend the lines and expand distribution. "This is a better way to grow," he thought. "I'm concerned about the risk in Margaret's recommendation. If we move to a more casual boot, then we have to resolve a new set of marketing and competitive issues and finance a new line. I'm not sure we can do it."

When he returned to Jackson that evening, Anthony stopped by his office to check his messages. The financial statements shown in Table 2 and Table 3 were on his desk along with a marketing study from a Denver consulting firm. Harris Fleming, Vice President of Marketing, had commissioned a study of the hiking boot market several months earlier to help the company plan for the future. As Anthony paged through the

Table 1
Cima Mountaineering, Inc. Revenues and Net Income, 1990–1995

<i>Year</i>	<i>Revenues</i>	<i>Net Income</i>	<i>Profit Margin (%)</i>
1995	\$20,091,450	\$857,134	4.27
1994	18,738,529	809,505	4.32
1993	17,281,683	838,162	4.85
1992	15,614,803	776,056	4.97
1991	14,221,132	602,976	4.24
1990	13,034,562	522,606	4.01

Lawrence M. Lamont is Professor of Management at Washington and Lee University. Eva Cid and Wade Drew Hammond are seniors in the class of 1995 at Washington and Lee, majoring in Management and Accounting, respectively.

Case material is prepared as a basis for class discussion, and not designed to present illustrations of either effective or ineffective handling of administrative problems. Some names, locations, and financial information have been disguised. Copyright © 1995, Washington and Lee University.

Table 2
Cima Mountaineering, Inc. Income Statement (Years Ended December 31, 1995 and December 31, 1994)

	1995	1994
Net Sales	\$20,091,450	\$18,738,529
Cost of goods sold	14,381,460	13,426,156
Gross margin	5,709,990	5,312,373
Selling and admin. expenses	4,285,730	3,973,419
Operating income	1,424,260	1,338,954
Other income (expenses)		
Interest expense	(160,733)	(131,170)
Interest income	35,161	18,739
Total other income (net)	(125,572)	(112,431)
Earnings before income taxes	1,298,688	1,226,523
Income taxes	441,554	417,018
Net income	<u>\$ 857,134</u>	<u>\$ 809,505</u>

report, two figures caught his eye. One was a segmentation of the hiking boot market (see Exhibit 1 on page 617) and the other was a summary of market competition (see Exhibit 2 on page 618). "This is interesting," he mused. "I hope Margaret reads it before our meeting."

■ HISTORY OF CIMA MOUNTAINEERING

As children, Anthony and Margaret Simon watched their parents make western boots at the Hoback Boot Company, a small business they owned in Jackson, Wyoming. They learned the craft as they grew up and joined the company after college.

In the late 1960s the demand for western boots began to decline and the Hoback Boot Company struggled to survive. By 1975, the parents were close to retirement and they seemed content to close the business, but Margaret and Anthony decided to try to salvage the company. Margaret, the older, became President and Anthony became the Executive Vice President. By the end of 1976, sales had declined to \$1.5 million and the company earned profits of only \$45,000. It became clear that to survive, the business would have to be refocused on products with a more promising future.

Refocusing the Business

As a college student, Anthony attended a mountaineering school north of Jackson in Teton National Park. As he learned to climb and hike, he became aware of the growing popularity of the sport and the boots being used. Because of his experience with western boots, he also noticed their limitations. Although the boots had good traction, they were heavy, uncomfortable, and had little resistance to the snow and water always present in the mountains. He convinced Margaret that Hoback should explore the possibility of developing boots for mountaineering and hiking.

In 1977, Anthony and Margaret began 12 months of marketing research. They investigated the market, the competition, and the extent to which Hoback's existing equipment could be used to produce the new boots. By the summer of 1978, Hoback had developed a mountaineering and a hiking boot that were ready for testing. Several instructors from the mountaineering school tested the boots and gave them excellent reviews.

Table 3
Cima Mountaineering, Inc. Balance Sheet (Years Ending December 31, 1995 and December 31, 1994)

	1995	1994
Assets		
Current assets		
Cash and equivalents	\$1,571,441	\$1,228,296
Accounts receivable	4,696,260	3,976,608
Inventory	6,195,450	5,327,733
Other	270,938	276,367
Total	<u>12,734,089</u>	<u>10,809,004</u>
Fixed assets		
Property, plant and equipment	3,899,568	2,961,667
Less: accumulated depreciation	<u>(1,117,937)</u>	<u>(858,210)</u>
Total fixed assets (net)	2,781,631	2,103,457
Other assets		
Intangibles	379,313	568,087
Other long-term assets	<u>2,167,504</u>	<u>1,873,151</u>
Total fixed assets (net)	<u>\$18,062,537</u>	<u>\$15,353,699</u>
Liabilities and shareholder equity		
Current liabilities:		
Accounts payable	\$4,280,821	\$4,097,595
Notes payable	1,083,752	951,929
Current maturities of long-term debt	496,720	303,236
Accrued liabilities		
Expenses	2,754,537	2,360,631
Salaries and wages	1,408,878	1,259,003
Other	<u>1,137,940</u>	<u>991,235</u>
Total current liabilities	11,162,648	9,963,629
Long-term liabilities		
Long-term debt	3,070,631	2,303,055
Lease obligations	<u>90,313</u>	<u>31,629</u>
Total long-term liabilities	3,702,820	2,334,684
Other liabilities		
Deferred taxes	36,125	92,122
Other noncurrent liabilities	<u>312,326</u>	<u>429,904</u>
Total liabilities	14,672,043	12,820,339
Owner's equity		
Retained earnings	<u>3,390,494</u>	2,533,360
Total liabilities and owner's equity	<u>\$18,062,537</u>	<u>\$15,353,699</u>

The Transition

By 1981, Hoback was ready to enter the market with two styles of boots: one for the mountaineer who wanted a boot for all-weather climbing, and the other for men and women who were advanced hikers. Both styles were made of water-repellent leather uppers and cleated soles for superior traction. Distribution was secured through mountaineering shops in Wyoming and Colorado.

Hoback continued to manufacture western boots for its loyal customers, but Margaret planned to phase them out as the hiking boot business developed. How-

EXHIBIT 1

Segmentation of the Hiking Boot Market

	<i>Mountaineers</i>	<i>Serious Hikers</i>	<i>Weekenders</i>	<i>Practical Users</i>	<i>Children</i>	<i>Fashion Seekers</i>
Benefits	Durability/Ruggedness Stability/Support Dryness/Warmth Grip/Traction	Stability Durability Traction Comfort/Protection	Lightweight Comfort Durability Versatility	Lightweight Durability Good value Versatility	Durability Protection Lightweight Traction	Fashion/Style Appearance Lightweight Inexpensive
Demographics	Young Primarily male Shops in specialty stores and specialized catalogs	Young, middle aged Male and female Shops in specialty stores and outdoor catalogs	Young, middle aged Male and female Shops in shoe retailers, sporting goods stores, and mail-order catalogs	Young, middle aged Primarily male Shops in shoe retailers and department stores	Young marrieds Male and female Shops in department stores and outdoor catalogs	Young Male and female Shops in shoe retailers, department stores and catalogs
Lifestyle	Adventuresome Independent Risk taker Enjoys challenge	Nature lover Outdoorsman Sportsman Backpacker	Recreational hiker Social, spends time with family and friends Enjoys the outdoors	Practical Sociable Outdoors for work and recreation	Enjoys family activities Enjoys outdoors and hiking Children are active and play outdoors Parents are value conscious	Materialistic Trendy Socially conscious Nonhikers Brand name shoppers Price conscious
Examples of Brands	Asolo Cliff Raichle Mt. Blanc Salomon Adventure 9	Raichle Explorer Vasque Clarion Technica Pegasus Dry Hi-Tec Piramide	Reebok R-Evolution Timberland Topozotic Merrell Acadia Nike Air Mada, Zion Vasque Alpha	Merrell Eagle Nike Air Khyber Technica Volcano	Vasque Kids Klimber Nike Merrell Caribou	Nike Spirit Reebok Telos Hi-Tec Magnum
Estimated Market Share	5% Slow growth	17% Moderate growth	25% High growth	20% Stable growth	5% Slow growth	28% At peak of rapid growth cycle
Price Range	\$210-\$450	\$120-\$215	\$70-\$125	\$40-\$80	Will pay up to \$40	\$65-\$100

EXHIBIT 2

Summary of Competitors

Company	Location	Mountaineering (Styles)	Hiking (Styles)	Men's	Women's	Children's	Price Range
Raichle	Switzerland	Yes (7)	Yes (16)	Yes	Yes	Yes	High
Salomon	France	Yes (1)	Yes (9)	Yes	Yes	No	Mid
Asolo	Italy	Yes (4)	Yes (26)	Yes	Yes	No	High
Tecnica	Italy	Yes (3)	Yes (9)	Yes	Yes	No	Mid/High
Hi-Tec	U.K.	Yes (2)	Yes (29)	Yes	Yes	Yes	Mid/Low
Vasque	Minnesota	Yes (4)	Yes (18)	Yes	Yes	Yes	Mid/High
Merrell	Vermont	Yes (5)	Yes (31)	Yes	Yes	Yes	Mid
Timberland	New Hampshire	No	Yes (4)	Yes	No	No	Mid
Nike	Oregon	No	Yes (5)	Yes	Yes	Yes	Low
Reebok	Massachusetts	No	Yes (3)	Yes	Yes	Yes	Low
Cima	Wyoming	Yes (3)	Yes (5)	Yes	Yes	No	High

Source: Published literature and company product brochures, 1995.

ever, because they did not completely understand the needs of the market, they hired Harris Fleming, a mountaineering instructor to help them with product design and marketing.

A New Company

During the 1980s, Hoback prospered as the market expanded along with the popularity of outdoor recreation. The company slowly increased its product line and achieved success by focusing on classic boots that were relatively insensitive to fashion trends. By 1986, sales of Hoback Boots had reached \$3.5 million.

Over the next several years, distribution was steadily expanded. In 1987, Hoback employed independent sales representatives to handle the sales and service. Before long, Hoback boots were sold throughout Wyoming, Colorado, and Montana by retailers specializing in mountaineering and hiking equipment. Margaret decided to discontinue western boots to make room for the growing hiking boot business. To reflect the new direction of the company, the name was changed to Cima Mountaineering, Inc.

Cima Boots "Take Off"

The late 1980s were a period of exceptional growth. Demand for Cima boots grew quickly as consumers caught the trend toward healthy, active lifestyles. The company expanded its line for advanced hikers and improved the performance of its boots. By 1990, sales had reached \$13 million and the company earned profits of \$522,606. Margaret was satisfied with the growth, but she was concerned about low profitability as a result of foreign competition. She challenged the company to find new ways to design and manufacture boots at lower cost.

Growth and Innovation

The next five years were marked by growth, innovation, and increasing foreign and domestic competition. Market growth continued as hiking boots became popular for casual wear in addition to hiking in mountains and on trails. Cima and its com-

petitors began to make boots with molded footbeds and utilize materials that reduced weight.¹ Fashion also became a factor, and companies like Nike and Reebok marketed lightweight boots in a variety of materials and colors to meet the demand for styling in addition to performance. Cima implemented a computer-aided design (CAD) system in 1993 to shorten product development and devote more attention to design. Late in 1994, Cima restructured its facilities and implemented a modular approach to manufacturing. The company switched from a production line to a system in which a work team applied multiple processes to each pair of boots. Significant cost savings were achieved as the new approach improved the profit and quality of the company's boots.

The Situation in 1995

As the company ended 1995, sales had grown to \$20.0 million, up 7.2 percent from the previous year. Employment was at 425, and the facility was operating at 85 percent of capacity, producing several styles of mountaineering and hiking boots. Time-saving innovations and cost reduction had also worked, and profits reached an all-time high. Margaret, now 57, was still President, and Anthony remained Executive Vice President.

■ CIMA MARKETING STRATEGY

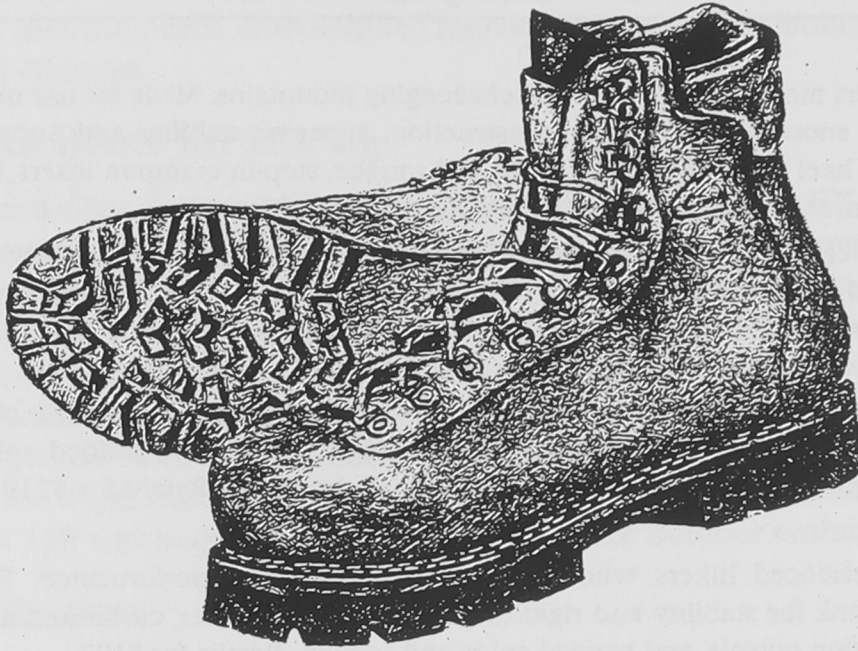
According to estimates, 1994 was a record year for sales of hiking and mountaineering boots in the United States. Retail sales exceeded \$600 million, and about 15 million pairs of boots were sold. Consumers wore the boots for activities ranging from mountaineering to casual social events. In recent years, changes were beginning to occur in the market. Inexpensive, lightweight hiking boots were becoming increasingly popular for day hikes and trail walking and a new category of comfortable, light "trekking" shoes were being marketed by the manufacturers of athletic shoes.

Only a part of the market was targeted by Cima. Most of its customers were serious outdoor enthusiasts. They included mountaineers who climbed in rugged terrain and advanced hikers who used the boots on challenging trails and extended backpacking trips. The demand for Cima boots was seasonal, and most of the purchases were made during the summer months when the mountains and trails were most accessible.

Positioning

Cima boots were positioned as the best available for their intended purpose. Consumers saw them as durable and comfortable with exceptional performance. Retailers viewed the company as quick to adopt innovative construction techniques but conservative in styling. Cima intentionally used traditional styling to avoid fashion obsolescence and the need for frequent design changes. Some of the most popular styles had been in the market for several years without any significant modifications. The Glacier MX 350 shown in Exhibit 3 on page 620 and the Summit HX 350 boot shown in Exhibit 4, also on page 620, are good examples. The MX 350, priced at \$219.00, was positioned as a classic boot for men with a unique tread design for be-

¹ Two processes are used to attach the uppers to the soles of boots. In classic welt construction, the uppers and soles are stitched. In the more contemporary method, a molded polyurethane footbed (including a one-piece heel and sole) is cemented to the upper with a waterproof adhesive. Many mountaineering boots use classic welt construction because it provides outstanding stability, while the contemporary method is often used with hiking boots to achieve lightweight construction. Cima used the classic method of construction for mountaineering boots and the contemporary method for hiking boots.

EXHIBIT 3**The Glacier MX 350 Mountaineering Boot**

ginning mountaineers. The Summit HX 350 was priced at \$159.00 and was a boot for men and women hiking rough trails. Exhibit 5 describes the items in the mountaineering and hiking boot lines, and Table 4 provides a sales history for Cima boots.

Product Lines

Corporate branding was used and "Cima" was embossed into the leather on the side of the boot to enhance consumer recognition. Product lines were also branded, and

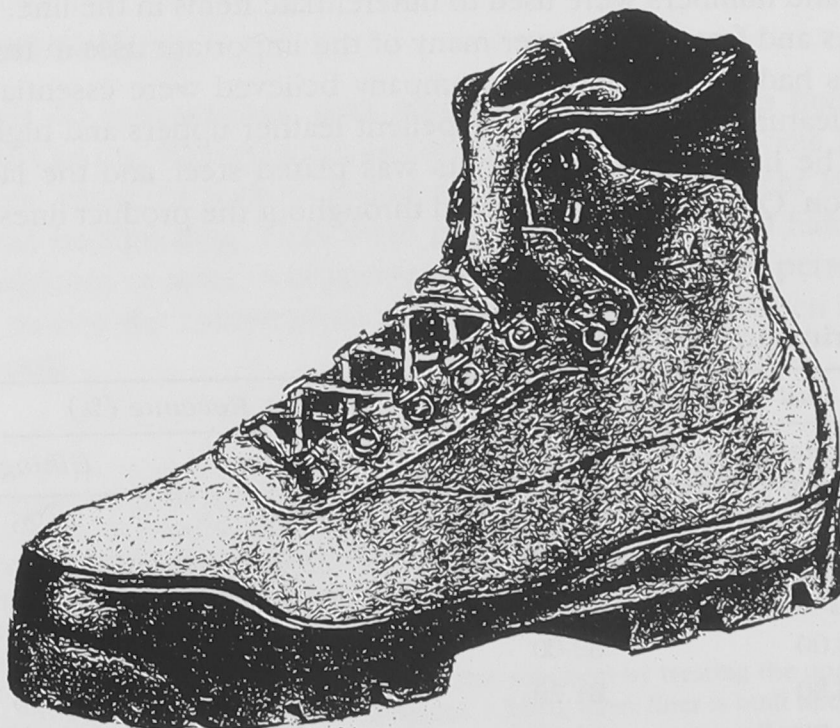
EXHIBIT 4**The Summit HX 350 Hiking Boot**

EXHIBIT 5

Cima Mountaineering, Inc. Mountaineering and Hiking Boot Lines

<i>Product Line</i>	<i>Description</i>
Glacier	
MX 550	For expert mountaineers climbing challenging mountains. Made for use on rocks, ice, and snow. Features welt construction, superior stability and support, reinforced heel and toe, padded ankle and tongue, step-in crampon insert, thermal insulation, and waterproof inner liner. Retail for \$299.
MX 450	For proficient mountaineers engaging in rigorous, high-altitude hiking. Offers long-term comfort and stability on rough terrain. Features welt construction, deep cleated soles and heels, reinforced heel and toe, padded ankle and tongue, step-in crampon insert, and waterproof inner liner. Retail for \$249.
MX 350	For beginning mountaineers climbing in moderate terrain and temperate climates. Features welt construction, unique tread design for traction, padded ankle and tongue, good stability and support, and a quick-dry lining. Retail for \$219.
Summit	
HX 550	For experienced hikers who require uncompromising performance. Features nylon shank for stability and rigidity, waterproof inner liner, cushioned midsole, high-traction outsole, and padded ankle and tongue. Retail for \$197.
HX 450	For backpackers who carry heavy loads on extended trips. Features thermal insulation, cushioned midsole, waterproof inner liner, excellent foot protection, and high-traction outsole. Retail for \$179.
HX 350	For hikers who travel rough trails and a variety of backcountry terrain. Features extra cushioning, good stability and support, waterproof inner liner, and high-traction outsole for good grip in muddy and sloping surfaces. Retail for \$159.
HX 250	For hikers who hike developed trails. Made with only the necessary technical features, including cushioning, foot and ankle support, waterproof inner liner, and high-traction outsole. Retail for \$139.
HX 150	For individuals taking more than day and weekend hikes. Versatile boot for all kinds of excursions. Features cushioning, good support, waterproof inner liner, and high-traction outsoles for use on a variety of surfaces. Retail for \$129.

alphabetic letters and numbers were used to differentiate items in the line. Each line had different styles and features to cover many of the important uses in the market. However, all boots had features that the company believed were essential to positioning. Standard features included water-repellent leather uppers and high-traction soles and heels. The hardware for the boots was plated steel, and the laces were tough, durable nylon. Quality was emphasized throughout the product lines.

Table 4
Cima Mountaineering, Inc. Product Line Sales

<i>Year</i>	<i>Unit Sales (%)</i>		<i>Sales Revenue (%)</i>	
	<i>Mountaineering</i>	<i>Hiking</i>	<i>Mountaineering</i>	<i>Hiking</i>
1995	15.00	85.00	21.74	78.26
1994	15.90	84.10	22.93	77.07
1993	17.20	82.80	24.64	75.36
1992	18.00	82.00	25.68	74.32
1991	18.80	81.20	26.71	73.29
1990	19.70	80.30	27.86	72.14

Glacier Boots for Mountaineering

The Glacier line featured three boots for men. The MX 550 was designed for expert all-weather climbers looking for the ultimate in traction, protection, and warmth. The MX 450 was for experienced climbers taking extended excursions, while the MX 350 met the needs of less-skilled individuals beginning climbing in moderate terrain and climates.

Summit Boots for Hiking

The Summit line featured five styles for men and women. The HX 550 was preferred by experienced hikers who demanded the best possible performance. The boot featured water-repellent leather uppers, a waterproof inner liner, a cushioned midsole, a nylon shank for rigidity, and a sole designed for high traction. It was available in gray and brown with different types of leather.² The Summit HX 150 was the least expensive boot in the line, designed for individuals who were beginning to hike more than the occasional "weekend hike." It was a versatile boot for all kinds of excursions and featured a water-repellent leather upper, a cushioned midsole, and excellent traction. The HX 150 was popular as an entry-level boot for outdoor enthusiasts.

Distribution

Cima boots were distributed in Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Washington, Wyoming, and western Canada through specialty retailers selling mountaineering, backpacking, and hiking equipment. Occasionally, Cima was approached by mail-order catalog companies and chain sporting goods stores offering to sell their boots. The company considered the proposals, but had not used these channels.

Promotion

The Cima sales and marketing office was located in Jackson. It was managed by Harris Fleming and staffed with several marketing personnel. Promotion was an important aspect of the marketing strategy, and advertising, personal selling, and sales promotion were used to gain exposure for Cima branded boots. Promotion was directed to consumers and to the retailers that stocked Cima mountaineering and hiking boots.

Personal Selling

Cima used 10 independent sales representatives to sell its boots in the western states and Canada. Representatives did not sell competing boots, but they sold complementary products such as outdoor apparel and equipment for mountaineering, hiking, and backpacking. They were paid a commission and handled customer service in addition to sales. Management was also involved in personal selling. Harris Fleming trained the independent sales representatives and often accompanied them on sales calls.

² Different types of leather are used to make hiking boots. *Full Grain*: High-quality, durable, upper layer of the hide. It has a natural finish, and is strong and breathable. *Split Grain*: Underside of the hide after the full-grain leather has been removed from the top. Lightweight and comfort are the primary characteristics. *Suede*: A very fine split-grain leather. *Nubuk*: Brushed full-grain leather. *Waxed*: A process in which leather is coated with wax to help shed water. Most Cima boots were available in two or more types of leather.

Mountaineering and hiking boots are made water repellent by treating the uppers with wax or chemical coatings. To make the boots waterproof, a fabric inner liner is built into the boot to provide waterproof protection and breathability. All Cima boots were water repellent, but only those styles with an inner liner were waterproof.

Advertising and Sales Promotion

Advertising and sales promotion were also important promotional methods. Print advertising was used to increase brand awareness and assist retailers with promotion. Advertising was placed in leading magazines such as *Summit*, *Outside*, and *Backpacker* to reach mountaineers and hikers with the message that Cima boots were functional and durable with classic styling. In addition, cooperative advertising was offered to encourage retailers to advertise Cima boots and identify their locations.

Sales promotion was an important part of the promotion program. Along with the focus on brand name recognition, Cima provided product literature and point-of-sale display materials to assist retailers in promoting the boots. In addition, the company regularly exhibited at industry trade shows. The exhibits, staffed by marketing personnel and the company's independent sales representatives, were effective for maintaining relationships with retailers and presenting the company's products.

Pricing

Cima selling prices to retailers ranged from \$64.50 to \$149.50 a pair depending on the style. Mountaineering boots were more expensive because of their construction and features, while hiking boots were priced lower. Retailers were encouraged to take a 50 percent margin on the retail selling price, so retail prices shown in Figure 5 should be divided by two to get the Cima selling price. Cima priced its boots higher than competitors, supporting the positioning of the boots as the top quality product at each price point. Payment terms were net 30 days (similar to competitors), and boots were shipped to retailers from a warehouse located in Jackson, Wyoming.

■ SEGMENTATION OF THE HIKING BOOT MARKET

As Anthony reviewed the marketing study commissioned by Harris Fleming, his attention focused on the market segmentation shown in Exhibit 1. It was interesting, because management had never seriously thought about the segmentation in the market. Of course, Anthony was aware that not everyone was a potential customer for Cima boots, but he was surprised to see how well the product lines met the needs of mountaineers and serious hikers. As he reviewed the market segmentation, he read the descriptions for mountaineers, serious hikers, and weekenders carefully because Cima was trying to decide which of these segments to target for expansion.

Mountaineers

Mountain climbers and high-altitude hikers are in this segment. They are serious about climbing and enjoy risk and adventure. Because mountaineers' safety may often depend on their boots, they need maximum stability and support, traction for a variety of climbing conditions, and protection from wet and cold weather.

Serious Hikers

Outdoorsmen, who love nature and have a strong interest in health and fitness, comprise the serious hikers. They hike rough trails and take extended backpacking or hiking excursions. Serious hikers are brand conscious and look for durable, high-performance boots with good support, comfortable fit, and good traction.

Weekenders

Consumers in this segment are recreational hikers who enjoy casual weekend and day hikes with family and friends. They are interested in light, comfortable boots that provide good fit, protection, and traction on a variety of surfaces. Weekenders prefer versatile boots that can be worn for a variety of activities.

FOREIGN AND DOMESTIC COMPETITION

The second part of the marketing study that caught Anthony's attention was the analysis of competition. Although Anthony and Margaret were aware that competition had increased, they had overlooked the extent to which foreign bootmakers had entered the market. Apparently, foreign competitors had noticed the market growth and they were aggressively exporting their boots into the United States. They had established sales offices and independent sales agents to compete for the customers served by Cima. The leading foreign brands such as Asolo, Hi-Tec, Salomon, and Raichle were marketed on performance and reputation, usually to the mountaineering, serious hiker, and weekender segments of the market.

The study also summarized the most important domestic competitors. Vasque and Merrell marketed boots that competed with Cima, but others were offering products for segments of the market where the prospects for growth were better. As Anthony examined Exhibit 2, he realized that the entry of Reebok and Nike into the hiking boot market was quite logical. They had entered the market as consumer preference shifted from wearing athletic shoes for casual outdoor activities to a more rugged shoe. Each was marketing footwear that combined the appearance and durability of hiking boots with the lightness and fit of athletic shoes. The result was a line of fashionable hiking boots that appealed to brand- and style-conscious teens and young adults. Both firms were expanding their product lines and moving into segments of the market that demanded lower levels of performance.

MARGARET AND ANTHONY DISCUSS MARKETING STRATEGY

A few days after hiking in Cascade Canyon, Anthony met with Margaret and Harris Fleming to discuss marketing strategy. Each had read the consultant's report and studied the market segmentation and competitive summary. As the meeting opened, the conversation developed as follows:

MARGARET: It looks like we will have another record year. The economy is growing, and consumers seem confident and eager to buy. Yet, I'm concerned about the future. The foreign bootmakers are providing some stiff competition. Their boots have outstanding performance and attractive prices. The improvements we made in manufacturing helped to control costs and maintain margins, but it looks like the competition and slow growth in our markets will make it difficult to improve profits. We need to be thinking about new opportunities.

HARRIS: I agree, Margaret. Just this past week we lost Rocky Mountain Sports in Boulder, Colorado. John Kline, the sales manager, decided to drop us and pick up Asolo. We were doing \$70,000 a year with them and they carried our entire line. We also lost Great Western Outfitters in Colorado Springs. They replaced us with Merrell. The sales manager said that the college students there had been asking for the lower-priced Merrell boots. They bought \$60,000 last year.

ANTHONY: Rocky Mountain and Great Western were good customers. I guess I'm not surprised though. Our Glacier line needs another boot, and the Summit line is just not deep enough to cover the price points. We need to have some styles at lower prices to compete with Merrell and Asolo. I'm in favor of extending our existing lines to broaden their market appeal. It seems to me that the best way to compete is to stick with what we do best, making boots for mountaineers and serious hikers.

MARGARET: Not so fast, Anthony. The problem is that our markets are small and not growing fast enough to support the foreign competitors who have entered with

excellent products. We can probably hold our own, but I doubt if we can do much better. I think the future of this company is to move with the market. Consumers are demanding more style, lower prices, and a lightweight hiking boot that can be worn for a variety of uses. Look at the segmentation again. The "Weekender" segment is large and it's growing. That's where we need to go with some stylish new boots that depart from our classic leather lines.

ANTHONY: Maybe so, but we don't have much experience working with the leather and nylon combinations that are being used in these lighter boots. Besides, I'm not sure we can finance the product development and marketing for a new market that already has plenty of competition. And I'm concerned about the brand image that we have worked so hard to establish over the past 20 years. A line of inexpensive, casual boots just doesn't seem to fit with the perception consumers have of our products.

HARRIS: I can see advantages to each strategy. I do know that we don't have the time and resources to do both, so we had better make a thoughtful choice. Also, I think we should reconsider selling to the mail-order catalog companies that specialize in mountaineering and hiking equipment. Last week, I received another call from REI requesting us to sell them some of the boots in our Summit line for the 1997 season. This might be a good source of revenue and a way of expanding our geographic market.

MARGARET: You're right, Harris. We need to rethink our position on the mail-order companies. Most of them have good market penetration in the East where we don't have distribution. I noticed that Gander Mountain is carrying some of the Timberland line and that L.L. Bean is carrying some Vasque styles along with its own line of branded boots.

ANTHONY: I agree. Why don't we each put together a proposal that summarizes our recommendations and then we can get back together to continue the discussion.

HARRIS: Good idea. Eventually we will need a sales forecast and some cost data. Send me your proposals and I'll call the consulting firm and have them prepare some forecasts. I think we already have some cost information. Give me a few days and then we can get together again.

■ THE MEETING TO REVIEW THE PROPOSALS

The following week, the discussion continued. Margaret presented her proposal, which is summarized in Exhibit 6 on page 626. She proposed moving Cima into the "Weekender" segment by marketing two new hiking boots. Anthony countered with the proposal summarized in Exhibit 7 on page 627. He favored extending the existing lines by adding a new mountaineering boot and two new Summit hiking boots at lower price points. Harris presented sales forecasts for each proposal and after some discussion and modification, they were finalized as shown in Table 5 on page 628. Cost information was gathered by Harris from the Vice President of Manufacturing and is presented in Table 6 on page 629. Following a lengthy discussion, in which Margaret and Anthony were unable to agree on a course of action, Harris Fleming suggested that each proposal be explored further by conducting marketing research. He proposed the formation of teams from the Cima marketing staff to research each proposal and present it to Margaret and Anthony at a later date. Harris presented his directions to the teams in the memorandum shown in Exhibit 8 on page 629. The discussion between Margaret and Anthony continued as follows:

Margaret's Marketing Proposal

MEMORANDUM

TO: Anthony Simon, Executive Vice President
Harris Fleming, Vice President of Marketing

FROM: Margaret Simon, President

RE: Marketing Proposal

I believe we have an excellent opportunity to expand the sales and profits of Cima by entering the "Weekender" segment of the hiking boot market. The segment's estimated share of the market is 25 percent and according to the consultant's report it is growing quite rapidly. I propose that we begin immediately to develop two new products and prepare a marketing strategy as discussed below.

Target Market and Positioning

Male and female recreational hikers looking for a comfortable, lightweight boot that is attractively priced and acceptable for short hikes and casual wear. Weekenders enjoy the outdoors and a day or weekend hike with family and friends.

The new boots would be positioned with magazine advertising as hiking boots that deliver performance and style for the demands of light hiking and casual outdoor wear.

Product

Two boots in men's and women's sizes. The boots would be constructed of leather and nylon uppers with a molded rubber outsole. A new branded line would be created to meet the needs of the market segment. The boots (designated WX 550 and WX 450) would have the following features:

	WX 550	WX 450
Leather and nylon uppers	X	X
Molded rubber outsole	X	X
Cushioned midsole	X	X
Padded collar and tongue	X	X
Durable hardware and laces	X	X
Waterproof inner liner	X	

Uppers: To be designed. Options include brown full-grain, split-grain, or suede leather combined with durable nylon in two of the following colors: beige, black, blue, gray, green, and slate.

Boot design and brand name: To be decided.

Retail Outlets

Specialty shoe retailers carrying hiking boots and casual shoes and sporting goods stores. Eventually mail order catalogs carrying outdoor apparel and hiking, backpacking, and camping equipment.

Promotion

Independent sales representatives	Point-of-sale display materials
Magazine advertising	Product brochures
Co-op advertising	Trade shows

Suggested Retail Pricing

WX 550:	\$89.00
WX 450:	\$69.00

Competitors

Timberland, Hi-Tec, Vasque, Merrell, Asolo, Nike, and Reebok.

Product Development and Required Investment

We should allow about one year for the necessary product development and testing. I estimate these costs to be \$350,000. Additionally, we will need to make a capital expenditure of \$150,000 for new equipment.

EXHIBIT 7

Anthony's Marketing Proposal

MEMORANDUM

TO: Margaret Simon, President
Harris Fleming, Vice President of Marketing

FROM: Anthony Simon, Executive Vice President

RE: Marketing Proposal

We have been successful with boots for mountaineers and serious hikers for years, and this is where our strengths seem to be. I recommend extending our Glacier and Summit lines instead of venturing into a new, unfamiliar market. My recommendations are summarized below:

Product Development

Introduce two new boots in the Summit line (designated HX 100 and HX 50) and market the Glacier MX 350 in a style for women with the same features as the boot for men. The new women's Glacier boot would have a suggested retail price of \$219.99, while the suggested retail prices for the HX 100 and the HX 50 would be \$119.00 and \$89.00 respectively to provide price points at the low end of the line. The new Summit boots for men and women would be the first in the line to have leather and nylon uppers as well as the following features:

	<i>HX 100</i>	<i>HX 50</i>
Leather and nylon uppers	X	X
Molded rubber outsole	X	X
Cushioned midsole	X	X
Padded collar and tongue	X	X
Quick-dry lining	X	X
Waterproof inner liner	X	

The leather used in the uppers will have to be determined. We should consider full-grain, suede and nubuck since they are all popular with users in this segment. We need to select one for the initial introduction. The nylon fabric for the uppers should be available in two colors, selected from among the following: beige, brown, green, slate, maroon, and navy blue. Additional colors can be offered as sales develop and we gain a better understanding of consumer preferences.

Product Development and Required Investment

Product design and development costs of \$400,000 for the MX 350, HX 100 and HX 50 styles and a capital investment of \$150,000 to acquire equipment to cut and stitch the nylon/leather uppers. One year will be needed for product development and testing.

Positioning

The additions to the Summit line will be positioned as boots for serious hikers who want a quality hiking boot at a reasonable price. The boots will also be attractive to casual hikers who are looking to move up to a better boot as they gain experience in hiking and outdoor activity.

Retail Outlets

We can use our existing retail outlets. Additionally, the lower price points on the new styles will make these boots attractive to catalog shoppers. I recommend that we consider making the Summit boots available to consumers through mail order catalog companies.

Promotion

We will need to revise our product brochures and develop new advertising for the additions to the Summit line. The balance of the promotion program should remain as it exists since it is working quite well. I believe the sales representatives and retailers selling our lines will welcome the new boots since they broaden the consumer appeal of our lines.

EXHIBIT 7 (continued)**Suggested Retail Pricing**

MX 350 for women:	\$219.00
HX 100:	\$119.00
HX 50:	\$89.00

Competitors

Asolo, Hi-Tec, Merrell, Raichle, Salomon, Tecnica, and Vasque.

MARGARET: Once the marketing research is completed and we can read the reports and listen to the presentations, we should have a better idea of which strategy makes the best sense. Hopefully, a clear direction will emerge and we can move ahead with one of the proposals. In either case, I'm still intrigued with the possibility of moving into the mail order catalogs, since we really haven't developed these companies as customers. I just wish we knew how much business we could expect from them.

ANTHONY: We should seriously consider them, Margaret. Companies like L.L. Bean, Gander Mountain, and REI have been carrying a selection of hiking boots for several years. However, there may be a problem for us. Eventually the catalog companies expect their boot suppliers to make them a private brand. I'm not sure this is something we want to do since we built the company on a strategy of marketing our own brands that are made in the U.S.A. Also, I'm concerned about the reaction of our retailers when they discover we are selling to the catalog companies. It could create some problems.

HARRIS: That is a strategy issue we will have to address. However, I'm not even sure what percentage of sales the typical footwear company makes through the mail-order catalogs. If we were to solicit the catalog business, we would need an answer to this question to avoid exceeding our capacity. In the proposals, I asked

Table 5
Cima Mountaineering, Inc. Sales Forecasts for Proposed New Products
(Pairs of Boots)

<i>Year</i>	<i>Project 1</i>		<i>Project 2</i>		
	<i>WX 550</i>	<i>WX 450</i>	<i>MX 350</i>	<i>HX 100</i>	<i>HX 50</i>
2001-02	16,420	24,590	2,249	15,420	12,897
2000-01	14,104	21,115	1,778	13,285	11,733
1999-00	8,420	12,605	897	10,078	9,169
1998-99	5,590	8,430	538	5,470	5,049
1997-98	4,050	6,160	414	4,049	3,813

Note: Sales forecasts are expected values derived from minimum and maximum estimates.

Some cannibalization of existing boots will occur when the new styles are introduced. The sales forecasts provided above have taken into account the impact of sales losses on existing boots. No additional adjustments need to be made.

Forecasts for WX 550, WX 450, HX 100, and HX 50 include sales of both men's and women's boots.

Table 6
Cima Mountaineering, Inc. Cost Information for Mountaineering and Hiking Boots

	<i>Inner Liner</i>	<i>No Inner Liner</i>
Retail margin	50%	50%
Marketing and Manufacturing Costs		
Sales commissions	10	10
Advertising and sales promotion	5	5
Materials	42	35
Labor, overhead, and transportation	28	35

Cost information for 1997-1998 only. Sales commissions, advertising and sales promotion, materials, labor, overhead, and transportation costs are based on Cima selling prices. After 1997-1998, annual increases of 3.0 percent apply to marketing and manufacturing costs and 4.0 percent apply to Cima selling prices.

each of the teams to provide an estimate for us. I have to catch an early flight to Denver in the morning. It's 6:30; why don't we call it a day.

The meeting was adjourned at 6:35 P.M. Soon thereafter, the marketing teams were formed with a leader assigned to each team.

EXHIBIT 8

Harris Fleming's Memorandum to the Marketing Staff

MEMORANDUM

TO: Marketing Staff
 CC: Margaret Simon, President
 Anthony Simon, Executive Vice President
 FROM: Harris Fleming, Vice President of Marketing
 SUBJECT: Marketing Research Projects

Attached to this memorandum are two marketing proposals (see case Exhibits 6 and 7) under consideration by our company. Each proposal is a guide for additional marketing research. You have been selected to serve on a project team to investigate one of the proposals and report your conclusions and recommendations to management. At your earliest convenience, please complete the following.

Project Team 1: Proposal to enter the "Weekender" segment of the hiking boot market.

Review the market segmentation and summary of competition in Exhibits 1 and 2. Identify consumers that would match the profile described in the market segment and conduct field research using a focus group, a survey, or both. You may also visit retailers carrying hiking boots to examine displays and product brochures. Using the information in the proposal, supplemented with your research, prepare the following:

1. A design for the hiking boots (WX 550 and WX 450). Please prepare a sketch that shows the styling for the uppers. We propose to use the same design for each boot, the only difference being the waterproof inner liner on the WX 550 boot. On your design, list the features that your proposed boot would have, considering additions or deletions to those listed in the proposal.
2. Recommend a type of leather (from among those proposed) and two colors for the nylon to be used in the panels of the uppers. We plan to make two styles, one in each color for each boot.

EXHIBIT 8 (continued)

3. Recommend a brand name for the product line. Include a rationale for your choice.
4. Verify the acceptability of the suggested retail pricing.
5. Prepare a magazine advertisement for the hiking boot. Provide a rationale for the advertisement in the report.
6. Convert the suggested retail prices *in the proposal* to the Cima selling price and use the sales forecasts and costs (shown in Tables 5 and 6) to prepare an estimate of before-tax profits for the new product line covering a five-year period starting in 1997–98. Assume annual cost increases of 3.0 percent and price increases of 4.0 percent beginning in 1998–99. Discount the future profits to present value using a cost of capital of 15.0 percent. Use 1996–97 as the base year for all discounting.
7. Determine the payback period for the proposal. Assume product development and investment occurs in 1996–97.
8. Provide your conclusions on the attractiveness of these styles to mail order catalog companies and their customers. You may wish to review current mail order catalogs to observe the hiking boots featured. Assuming Cima is successful selling to mail order catalog companies, estimate the percentage of our sales that could be expected from these customers.
9. Prepare a report that summarizes the recommendations of your project team, including the advantages and disadvantages of the proposal. Be prepared to present your product design, branding, pro-forma projections, payback period and recommendations to management shortly after completion of this assignment.
10. Summarize your research and list the sources of information used to prepare the report.

Project Team 2: Proposal to extend the existing lines of boots for mountaineers and hikers.

Review the market segmentation and summary of competition in Exhibits 1 and 2. Identify consumers that match the profile described in the market segment and conduct field research using a focus group, a survey, or both. You may also visit retailers carrying hiking boots to examine displays and product brochures. Using the information in the proposal, supplemented with your research, prepare the following.

1. Designs for the hiking boots (HX 100 and HX 50). Please prepare sketches showing the styling for the uppers. We propose to use a different design for each boot, so you should provide a sketch for each. On each sketch, list the features that your proposed boots would have, considering additions or deletions to those listed in the proposal. No sketch is necessary for the mountaineering boot, MX 350, since we will use the same design as the men's boot and build it on a women's last.
2. Recommend one type of leather (from among those proposed) and two colors for the nylon to be used in the panels of the uppers. We plan to make two styles, one in each color for each boot.
3. Verify the market acceptability of the suggested retail pricing.
4. Prepare a magazine advertisement for your hiking boots. Include a rationale for the advertisement in the report.
5. Using the suggested retail prices *in the proposal*, convert them to the Cima selling prices and use the sales forecasts and costs (shown in Tables 5 and 6) to prepare an estimate of before-tax profits for the new products covering a five-year period starting in 1997–98. Assume annual cost increases of 3.0 percent and price increases of 4.0 percent beginning in 1998–99. Discount the profits to present value using a cost of capital of 15.0 percent. Use 1996–97 as the base year for all discounting.
6. Determine the payback period for the proposal. Assume product development and investment occurs in 1996–97.
7. Provide your conclusions on the attractiveness of these styles to mail order catalog companies and their customers. You may wish to review current mail order catalogs to observe the hiking boots featured. Assuming Cima is successful selling to mail order catalog companies, estimate the percentage of our sales that could be expected from these customers.