



# ICM

## MARKETING POLICY & STRATEGY CASE STUDY

### **Mallard Drake Corporation**

Simon Henderson is not quite as worried about the merger and acquisition ambitions of Walter H. Cordwainer III as he was a few months ago.

The mood was turning against the merger of same-size companies, which so often seemed to fail. And which, in any case, could cost many millions of pounds in legal and consultancy fees even if the merger was friendly and, ultimately, successful. If the merger/acquisition was hostile, the cost could easily be two or three times higher with no guarantee of success at the end.

Cordwainer always talked the language of merger, but Simon knew that, in practice, the larger of the two tended to take over, so that what in fact happened was virtually a take-over. Mallard Drake, although nearly the same size as Amco, was nevertheless the smaller of the two, and in any case, lacked Amco's ruthless streak.

Simon had no intention of being taken over if he could avoid it and had made it clear that he would fight. Even if Cordwainer had the stomach for a fight, Simon doubted that he would get the support he needed from Amco's major shareholders. Financial institutions were increasingly looking more favourably on non-equity based strategic alliances rather than mergers (particularly mergers between same-size companies) because such alliances could offer many of the benefits of M&A without so many attendant costs and difficulties.

Nevertheless, Cordwainer was doing a good job at Amco and shareholders had been known to back the man, even when they were not so convinced about the ideas. Profit-hungry shareholders often liked a streak of ruthlessness in a CEO and Cordwainer might, even yet, get his own way.

Simon Henderson was taking nothing for granted and was looking for a development strategy which would be good for Mallard Drake whilst at the same time putting it out of the reach of Amco.

One of the things that Simon admired about Amco was its dedication to research and development in the field of the multi-billion pound global electronic toys and games market. Simon was beginning to think that it was time he put Mallard Drake's new product strategy under the microscope. Design was important in the toy industry, which was always hungry for something new and Simon felt that a new initiative in this area would go a long way toward raising the value of Mallard Drake.

Because of the traditional 'hands-off' approach towards the management of its acquisitions (which now formed the bulk of Mallard Drake businesses), product design was very much a piecemeal activity. It had, to be fair, produced many very good designs in a whole range of products, from soft toys to construction sets, but it was something of a hit-and-miss approach.

Some Mallard Drake businesses employed full-time designers whereas others made use on an ad-hoc basis of out-of-house designers. There were some who did no serious product development at all apart from relatively undemanding exercises like printing new jigsaw puzzles and producing paper party hats in more modern colours.

Simon wondered whether or not he might take a leaf out of Amco's book and begin to centralise research and design strategies. Perhaps design expertise could even become a Mallard Drake core competency under a new 'Creative Development Executive'.

He is also wondering whether Mallard Drake is losing out on the opportunity to create strategic alliances with other companies. Large corporations like Disney and McDonald's have successfully mounted strategic joint exercises where McDonald's have enjoyed the exclusive rights to offer figurines based on Disney movies to young diners buying a child's meal.

Disney is not the only owner of popular characters which could spin off into jigsaw puzzles, poseable models and the like. Books, comics and TV series all offer opportunities which, so far, Mallard Drake has failed to exploit.

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Simon thinks that a new push to get into this lucrative licensing market could ride side-by-side with a new product design strategy. Owners of merchandisable characters would be able to see the quality of Mallard Drake toys and the commitment to detail and would, at least, be willing to talk about some sort of strategic alliance. Since he is already thinking of taking a leaf out of Amco's book he decides that it might be time to take another leaf, this time out of Disney's book, and appoint an 'Alliance Executive' to seek out and develop such possibilities.

Going back to the threat of a hostile bid from Amco, Simon believes that Mallard Drake shareholders will be sufficiently impressed with these two proposals that they might give him their whole-hearted support and not be quite so willing to listen to an Amco bid.

With the shareholders behind him and a positive initiative on both fronts, backed by the appointment of the two new top-level executives, he envisages that Mallard Drake could soon be as big as, if not bigger than, Amco. If nothing else it would raise the value of Mallard Drake which is always a good way of scaring off a predatory bidder.

A more immediate possibility is on the horizon. Mallard Drake's Acquisition Team have advised him that they are having a second look at Montmorency Dolls and he is quite happy that they should do so.

Generally, he accepts their recommendations on acquisitions, but it is always understood that he has the final word. Privately he would be surprised if they found any substantial reason to change their minds. They had looked at Montmorency Dolls not so very long ago and decided against it.

They have, however, also drawn his attention to Xcel Toys. Simon had heard about the difficulties faced by Xcel and knew that it was on the market and could be bought cheaply by a corporation willing to make the attempt to turn it around.

It has never been Mallard Drake's policy to buy ailing businesses, but he also knows that corporate policies have to evolve. Maybe the time is right for a change. He tells the Acquisition Team to go ahead and see if Xcel is worth buying. He awaits their findings with interest.

### **Xcel Toys**

Xcel Toys (Excellent Toys at Affordable Prices) was a business in crisis. Whilst never being anything like as big as either Mallard Drake or Amco, it had, not so very long ago, been able to stand shoulder to shoulder with them as a respected provider to the toys and games market. But its profits had dropped badly in recent years and were now only about 55% of its peak profits figures.

Industry analysts blamed Managing Director Mike Hall who had been brought in when Gerald Allders had bought the business as a going concern in 1997.

Allders, a very successful American businessman, who had built a multi-billion dollar fortune putting together a conglomerate which included everything from clothes to cosmetics and publishing to pharmaceuticals, had spotted the chance to get into the multi-billion dollar toys and games industry when Xcel came on the market. The then owner of Xcel, the son of the founder, had never married and had nobody to leave his business to. He had decided to sell up and retire and was very happy to take the deal offered by Allders.

Gerald Allders, for all his success, was something of a recluse who shunned the limelight. Consistent with his treatment of earlier acquisitions he was quite content to run Xcel under its original name and, again consistent with his earlier decisions, he put in charge a man who had proved himself in one of Allders' other businesses. Mike Hall knew a great deal about fashion; he knew absolutely nothing about toys.

Undeterred by this lack of experience (Allders was famous for making cross-industry promotions of his top executives and expecting them to succeed), Hall very quickly put together a plan which, he believed, would increase Xcel sales to a level which would, at least, equal Mallard Drake's sales if not the somewhat larger Amco's. He believed that under the old ownership the concept of 'Excellent Toys at Affordable Prices' had not been pushed nearly far enough. He initiated a drive to produce more excellent toys at even more competitive prices.

He decided to hit the market with 100 new toys under a new logo 'Xcelsior Toys'. To make some room for this new range, he stripped out some 40 or 50 of Xcel's traditional toys, partly because he believed them to be too old-fashioned and partly to release resources to divert to the new range. He also, with Gerald Allders' agreement, borrowed heavily to finance new production capacity. Even with the cancellation of the retired Xcel toys the business now had a product portfolio of some 340 toys, more than it had ever previously produced at any one time in its entire history. It simply did not have the capacity to handle such a portfolio.

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The Xcelsior range was to be given a much brighter and more modern packaging than the remaining Xcel range and some longer-serving Xcel employees remarked that in comparison to the Xcelsior range Xcel Toys were now in danger of looking rather dull. They expressed the fear that Xcel branded toys would suffer in the market place alongside Xcelsior branded toys.

They failed to persuade Mike Hall that all the old products should be re-branded with the new name. He thought that this would take the gloss off Xcelsior, which he wanted to be a totally new concept.

But they did persuade him to at least re-package Xcel so that Xcel toys would not look quite so dated next to Xcelsior toys on the retail shelf. This concession was to cost Xcel in excess of another \$1 million re-packaging old lines and was just one of the nails in the coffin of Mike Hall's plans.

However, in the overall scheme of things it turned out to be a fairly small nail. Mike Hall's undoing lay in his failure to co-ordinate. He had simply moved ahead too quickly on three fronts, 'product design and development', 'production' and 'marketing', and in the process had created a terrible muddle.

His marketing strategy for the new range involved increasing the size of the sales-force; introducing sales-force incentives for pushing the new Xcelsior range; a massive advertising campaign; and trade-incentives to 'buy his way onto the retailers' shelves'. It was this latter tactic which was to prove most critical in bringing about the collapse.

Mike offered the trade two main benefits: massive discounts on bulk orders and a 'no questions asked' Sale or Return (SOR) guarantee. Retailers could not lose and cheerfully placed very large orders. It was not long before the order books were full to overflowing and, in fact, some of the products ordered had not even gone into mass production before it became obvious that the orders could not be filled.

Disappointed retailers vented their anger by cutting back on their traditional orders for Xcel goods. In any case, the sales-force, eager to earn the bonuses for pushing Xcelsior, had been neglecting Xcel in the process. Xcel became the victim of a 'double-whammy'. Mike Hall's plans had assumed that Xcel sales would not suffer as a consequence of the push on Xcelsior and so he had done nothing to protect them beyond the production and marketing plans already in place.

Furthermore, those retailers whose orders had been filled experienced disappointing sales. It soon became apparent that the most excellent thing about the ranges was, in fact, the packaging. The toys offered very little that was new. The new Xcelsior range never really took off and over a period of months there was a steady trickle, which soon became a flood, of unsold stock returned under the SOR guarantee.

The irony was that this unsold stock could have been delivered to the retailers whose orders had not been filled if the distribution had been better planned. The Xcel strategy of fulfilling each order in full on a 'First Come – First Served' bases had resulted in volumes of unsold stock sitting in one retailer's shelves whilst another was fuming over an unfulfilled order.

The massive advertising campaign had failed to save the day. It had impressed the retailers who had seen a preview of it and had been, along with the generous discounting policy and the SOR guarantee, a key factor in encouraging them to place large orders. Unfortunately it failed to impress the people who really mattered – the children themselves.

Furthermore, children who had got hold of Xcelsior toys had lost no time in telling their friends that they did not live up to the promise. This negative 'word of mouth' (WOM) effectively killed the advertising.

Xcel had lost a great deal of goodwill. It had accumulated warehouses full of unsold and unsellable stock. The new salespeople had to be laid off. The traditional Xcel range had been damaged alongside the failed Xcelsior range. Profits and the value of the business plummeted.

Mike Hall, ever ambitious, was nothing if not determined. He came up with another brainwave for Xcel Toys: a range of excellent educational toys and games. But Gerald Allders had had enough. Chalking up his first business failure and putting it down to experience, he resolved to put Xcel Toys back on the market.

### **Montmorency Dolls**

Marilyn Montmorency, the founder of Montmorency Dolls, died in the year 2000 aged 78 and, as she had always promised, she left her share of the company to be divided equally between her two surviving children.

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This meant that Frederick, then aged 61, owned 30% and his sister Joanna, then aged 56, owned the same. Between them, they had a controlling interest of 60%.

Marilyn's four grandchildren (Frederick's two sons, Alan and Keith Montmorency, and Joanna's children Brian and Marilyn Foster) owned 10% each. This gave them a total of 40% which was insufficient to force a sale of the business which was what the four had wanted for some time.

Their ambition to sell the business was not shared by their parents who remained loyal to their own mother's dream of keeping Montmorency Dolls as a family business.

By a cruel twist of fate, Joanna, whose health had been poor for some time, died within a year of her mother and her 30% share was inherited equally by Brian and Marilyn. This turn of events reduced Frederick to a minority shareholder position and gave the four grandchildren a 70% holding.

Frederick was not a fool. He knew only too well the mood of the younger shareholders and had no wish to get involved in a bitter struggle which he knew he could not win. Furthermore, he had always been a prudent man and as a result of good investment and a generous, company-funded, pension scheme, he could look forward to a comfortable retirement.

Not wishing to see his own children disadvantaged he made a gift without reservation of his share of the business to his sons equally. This meant that should he survive for another five years, there should not be death duty to pay on the gift but that if he died within five years, it would be treated as an inheritance and subject to death duty. He had no intention of following his sister into an early grave.

He was not surprised when, after a suitable period of grieving for their double loss, the four owners of the business told him that they had decided to sell. They now owned 25% of the business each and, therefore, between them they owned it outright. There was nothing to stop them.

Frederick saw difficulties ahead however, but wisely decided to keep his thoughts to himself. It was one thing to be unanimous in deciding to sell. It would be something else to agree as to who to sell to. He hated to admit it but his sons were much harder temperamentally than his nephew and niece, who had inherited some of their mother's sensitivity.

Alan and Keith would go for the highest bidder and let the small number of full-time employees and the larger number of part-time employees take their chances. Brian and Marilyn had quite different views on business parenting and would, he thought, go for the bidder who would undertake to provide employment for the current work-force, even if that meant accepting a lower price. A 50:50 stand-off was, at least, a probability.

The only thing that Frederick was sure of was that none of the four would, themselves, wish to stay. From what he believed he knew about them, with the possible exception of Marilyn, none of them even wished to stay in the toys and games industry.

Whatever the outcome, he wished them well. His gift without reservation meant that he now had absolutely no say in how the business was run. A comfortable retirement beckoned. The young (perhaps not so young) warriors could fight their own battles.

Frederick was not so far out in his assessment of his niece. Of the four, she was the one who might be persuaded to stay. She did like the toy and games industry. She really enjoyed taking part in the toy and craft fairs, particularly when these gave her the opportunity to travel abroad, and she loved being involved in the design process of creating new characters.

What she had actually felt frustrated about was the claustrophobic nature of a small family business together with what she thought was a narrow vision of producing mainly for the adult collector's market.

Unbeknown to either her brother or her two cousins, she had made an informal approach to Mallard Drake suggesting that they might like to have another look at Montmorency Dolls. She knew that Mallard Drake conducted a friendly open search strategy in selecting acquisition candidates and she thought that none of the other three would be surprised if Mallard Drake appeared to take the initiative.

She felt sure that they might take a different view the second time around.