

replace the old or simply be added to an already crowded category? Should the price of the new product be set higher than that set for the old? Should the product be launched at all?

READY-TO-EAT CEREAL

Loblaws sold more than \$14 million worth of family cereals (that is, cereals targeted at the "family" market) in Ontario in 1989. (See Exhibit 5.) Loblaws corporate brand share of the family cereal segment, at 14 percent, was lower than corporate objectives for this category. One of Scott Lindsay's goals was to increase Loblaws' share for this category. The brand leaders, such as Kellogg's Corn Flakes, Nabisco Shreddies, and General Mills' Cheerios, were as familiar to shoppers as any other product or brand in a store. With decades of advertising and promotional support, these brands had become thoroughly entrenched in the minds and pantries of generations of Canadians.

The brand names of these market leaders provided the manufacturers with strong protection against competitors. However, the manufacturing process did not. The manufacturing processes were well known in the industry, and many firms could produce identical products at favorable costs. Loblaws had found several products from domestic sources that appeared to be as good if not better than the national brands. One such product was a corn flake product that had a very high fiber content. The new product

would appeal to those customers who had been primed by the health claims of high-fiber diets. In sensory tests, it had proven to have an excellent taste and texture profile and was equal to or preferred in blind taste tests to some of the market leaders. Moreover, the product could be obtained for \$1.40 per 500g package.

The President's Choice brands were beginning to make inroads in this market, and this new product could increase the share. However, it was not clear how to position the high-fiber corn flake product. Should it go in the regular President's Choice line as a line extension of the current corn flake product, or should it be packaged as a G·R·E·E·N product? As a regular President's Choice product, it would be positioned directly against Kellogg's as an all-around cereal with extra value. As a G·R·E·E·N product, it would be positioned less against Kellogg's and much more towards a health/"good-for-you" claim. G·R·E·E·N positioning might also minimize any cannibalization of the President's Choice corn flakes. The lower sourcing costs provided some flexibility on pricing. It could be priced as low as \$1.75, like the current President's Choice corn flakes, and still maintain good margins; or it could be priced as high as Kellogg's Corn Flakes at \$2.30 and generate superior margins.

Having reviewed the three proposals, Scott began the process of preparing his recommendations. "I'll start with the financial projections," thought Scott, "then consider the pros and cons of each proposal. Then it's decision time."

allowance and merchandising incentives to ensure satisfactory margins for Loblaws and to facilitate retail price reductions that in turn would enhance turnover and maintain volume goals. Two national brands—Royale and Cottonelle—held shares of 46 percent and 30 percent, respectively.

For 1989, Loblaws' brands held 16 percent of the market with No Name White providing a total gross margin of over \$1 million. Loblaws' No Name White was sourced for an average cost of \$1.15 for a 4-roll package. These lower costs were largely based

on the fact that the tissue was manufactured with totally recycled material. This product feature made it a candidate for G·R·E·E·N line consideration. The existing product could simply be repackaged with the distinctive G·R·E·E·N labeling and an emphasis placed on the recycled character of the product. No development or testing costs would be required, and art work and new labeling costs would be minimal.

Several decisions needed to be considered with respect to the repackaging of the No Name product. Should the new product

	Average Retail Price* (\$)	Average Cost (\$)	Annual Sales (\$000)	Total Gross Margin (\$000)	Market Share (%)
President's Choice					
Bran with Raisins	2.35	1.50	1,051	380	7.4
Honey Nut Cereal	3.00	1.40	324	173	2.3
Toasted Oats	3.00	1.45	221	114	1.5
Corn Flakes	1.75	1.20	193	60	1.4
Crispy Rice	3.20	1.50	263	139	1.8
Loblaws Total			2,052	866	14.3
Kellogg's					
Corn Flakes	2.30	1.80	1,436	312	10.1
Raisin Bran	2.75	2.00	1,236	324	8.7
Honey Nut Corn Flakes	3.95	2.70	460	141	3.2
Rice Krispies	3.95	2.52	899	315	6.3
Common Sense	4.40	2.70	433	167	3.0
Mini-Wheat	3.30	2.00	326	129	2.3
Variety Pack	5.90	3.90	309	105	2.2
Other Kellogg's	3.41	2.26	258	87	1.8
Kellogg's Total			5,357	1,580	37.5
Nabisco					
Shreddies	2.35	1.70	2,725	754	19.1
Apple/Cinnamon	2.25	1.50	169	57	1.2
Raisin Wheat	3.30	2.10	139	50	1.0
Nabisco Total			3,033	861	21.2
General Mills					
Cheerios	3.80	2.60	1,171	370	8.2
Cheerios/Honey Nut	3.90	2.60	1,017	339	7.1
General Mills Total			2,188	709	15.3
Quaker					
Corn Bran	3.50	2.25	389	139	2.7
Life	3.15	2.10	358	119	2.5
Oat Bran	4.10	2.80	281	89	2.0
Muffets	2.65	1.60	92	36	0.6
Quaker Total			1,120	383	7.8
Others	2.40	1.45	573	227	4.0
Total			14,323	4,626	100.0

* Based on 500-gram size. Total unit sales were 4,950,000 (500-gram size).

Cereals are packaged in several different sizes. Some brands, such as Kellogg's Corn Flakes, could have four different sizes (e.g., 350g, 425g, 675g, 800g) on the shelf at one time. To facilitate comparisons, all figures have been converted to a standard 500g size; where brands had multiple sizes, the figures are reported as averages, weighted by the sales volume of the size.

customers in the next decade and was engaged in aggressive energy conservation programs. Ontario Hydro was prepared to offer a \$5 rebate for every light bulb that was sold in Ontario in the three months following the launch. Although it meant customers would need to request the rebate by mail, it reduced the effective price of the bulb to the consumer to \$14.99.

Scott felt that the combination of the rebate, a retail price at only half that paid by German consumers, and a strong environmental message had strong merchandising appeal that could be exploited in the launch of the bulb. Nevertheless, the sales potential was still unclear. Loblaws' annual sales in Ontario were nearly four million bulbs, or \$2.7 million. Because this product was unique and new, Scott had difficulty estimating its sales potential. His best guess was that Loblaws might sell anywhere from 10,000 to 50,000 Osram bulbs in one year. Scott thought that half the sales would come from regular customers and the other half from customers coming to Loblaws specifically to buy the bulb. Scott also felt that after three months, the price should be raised to \$24.99 retail to generate a reasonable margin for Loblaws.

Scott thought that if half the volume were generated at the higher price, it would certainly be easier to maintain the support of the store managers. At the \$24.99 price, the margin would be

\$5.99 per bulb. Even considering the cannibalization issue, the margin on the higher priced Osram would be about four times higher than the margin for a four-pack of regular bulbs. However, it would be necessary to calculate the contribution for the year to see what the net effect would be for the line. The shelf space required for these bulbs would be minimal and could be handled by some minor changes to the layout of the existing bulbs.

BATHROOM TISSUE

The bathroom tissue category was a highly competitive, price-sensitive market. The category was one of the largest in the Loblaws lineup, generating over \$31 million in retail sales in Ontario and \$7 million in contribution. (See Exhibit 4.) Bathroom tissue was more important to Loblaws than just a volume generator. It was one of the few product categories that would draw price-conscious buyers into the store. Loblaws listed 40 different sizes and colors from various manufacturers. There were six Loblaws brands in the category. Loblaws was aggressive at delisting any competitive or corporate brand that did not meet turnover or profitability goals. Manufacturers were just as aggressive at providing

	Average Retail Price ¹ (\$)	Average Cost (\$)	Annual Sales (\$000)	Total Gross Margin (\$000)	Market Share (%)
Loblaws ²					
President's Choice	2.50	1.95	1,542	339	5
No Name White	1.75	1.15	3,084	1,052	10
No Name Coloured	1.80	1.35	386	96	1
Loblaws Total			5,012	1,487	16
Royale					
White	1.85	1.55	10,795	1,751	34
Coloured	2.00	1.60	3,855	771	12
Royale Total			14,650	2,522	46
Cottonelle					
White	1.85	1.45	4,627	1,000	15
Coloured	1.95	1.50	4,627	1,068	15
Cottonelle Total			9,254	2,068	30
Other Brands					
Capri	1.50	0.90	945	378	3
April Soft	1.40	0.95	721	232	2
Jubilee	1.35	0.70	386	186	1
Dunet	2.45	1.60	405	140	1
White Swan	1.55	1.00	463	164	1
Other Brands Total			2,920	1,100	8
Total			31,836	7,177	100

¹ Statistics for the prices, costs, and sales have been collapsed over the various sizes and reported in equivalent four-roll packs. Total unit sales were 17,125,000 (four-roll packs).

² With respect to colors and sizes, Loblaws offered six varieties, Royale (eight varieties), Cottonelle (eight varieties), Capri (four varieties), April Soft (three varieties), Jubilee (two varieties), Dunet (one variety), and White Swan (eight varieties).

During the year, Loblaws continued to develop and promote the G·R·E·E·N product line. In the first year of G·R·E·E·N, Loblaws sold approximately \$60 million worth of G·R·E·E·N products and “broke even” on the line.

THE DECISIONS

As Scott began to make his decisions on the three products, he reflected on the past year. He thought that \$60 million in sales for the G·R·E·E·N line was reasonable, but he had hoped the line would do better. He remembered some of the products that just didn't fit in the line, such as “green” sardines. “I don't think we sold 20 cans of that stuff.” Scott and the other buyers at Intersave were very concerned when a product didn't sell. Individual store managers, who were held accountable for the sales and profits of their stores, did not have to list (that is, stock in the store that he or she managed) any product, including any in the G·R·E·E·N line. If a store manager thought the product was unsuitable for the store, it wasn't listed. As well, if a buyer got a product listed and it didn't sell, his or her reputation with the store managers would suffer.

LIGHT BULB

The proposal by Osram, a well-known German manufacturer, was a true green product. The Osram light bulb was a compact fluorescent bulb that could replace the traditional incandescent light bulb in specific applications. The unique aspect of this product was that while fluorescent light technology was commonplace (these long-tube lights were common in office buildings), only recently had the product been modified for use as a replacement for traditional

light bulbs. The major benefits of fluorescent light bulbs were that they used considerably less energy than incandescent light bulbs (for example, a nine watt fluorescent bulb could replace a 40 watt incandescent bulb and still provide the same lighting level, while using only 22.5 percent of the energy) and it lasted at least 10 times longer (an estimated 2,000 hours versus 200 hours for the incandescent bulb). To date, the major application for compact fluorescents had been in apartment buildings in stairwells where lights remained on 24 hours a day. Apartment building owners purchased them because the bulbs lowered both energy costs and maintenance costs (less frequent replacement).

The compact fluorescent had limited applications in the home. Because of its unique shape, it could not be used with a typical lampshade. The main application was likely to be in hallways where it was difficult to replace a burned-out bulb. Even in these situations, a new fixture (that is, an enclosure) might be required so that the compact fluorescent would fit.

The bulb's energy efficiency and long-lasting features were well tested and had been sold for specialized industrial use for several years. The bulb was making satisfactory inroads in Germany even though it was priced at the equivalent of \$40 Canadian.

Loblaws sold a variety of 60 and 100 watt No Name and Phillips light bulbs in packages of four. In total, the light bulb category generated over \$1 million in gross margin for Loblaws in 1989. (See Exhibit 3.)

The initial Osram proposal was to sell the product to Loblaws at \$19.00 per bulb. Even if the mark-up was set at 5 percent, Loblaw's retail price would be \$19.99. Scott talked this over with a number of people at Loblaws and concluded that the price was too high to be accepted by Canadian consumers. At this time, Ontario Hydro entered the picture. Ontario Hydro was extremely concerned about its ability to meet the power demands of its

	Average Retail Price* (\$)	Average Cost (\$)	Annual Sales (\$000)	Total Gross Margin (\$000)	Market Share (%)
Loblaws					
60 Watt	2.25	1.25	470	209	18
60 Watt Soft	2.75	1.50	426	193	16
100 Watt	2.25	1.25	294	130	11
100 Watt Soft	2.75	1.50	279	127	11
Total Loblaws			1,468	659	56
Phillips					
60 Watt	2.40	1.50	367	138	14
60 Watt Soft	3.20	1.65	341	165	13
100 Watt	2.40	1.50	236	88	9
100 Watt Soft	3.20	1.65	102	102	8
Total Phillips			1,153	493	44
Total			2,621	1,152	100

* Based on four-packs (that is, four light bulbs in a package). Total unit sales were 1,019,000 (four-packs).

Food

Just Peanuts Peanut Butter
 Smart Snack Popcorn
 "The Virtuous" Soda Cracker
 Cox's Orange Pippin Apple Juice
 White Hull-less Popcorn
 Reduced Acid Coffee
 Boneless and Skinless Sardines
 "Green" Natural Oat Bran
 Naturally Flavoured Raisins: Lemon, Cherry, Strawberry
 "Green" Turkey Frankfurters
 100% Natural Rose Food
 Norwegian Crackers
 Whole Frozen Turkey
 Gourmet Frozen Foods (low-fat)
 "If the World Were PERFECT" Water

Cleaning/Detergent Products

All-Purpose Liquid Cleaner with Bitrex
 "Green" Automatic Dishwasher Detergent
 Ecover 100% Biodegradable Laundry Powder*
 Ecover Dishwasher Detergent
 Laundry Soil and Stain Remover with Bitrex
 Drain Opener with Bitrex
 Ecover Fabric Softener
 Ecover 100% Biodegradable Toilet Cleaner
 Ecover 100% Biodegradable Wool Wash
 Ecover Floor Soap
 "Green" 100% Phosphate-Free Laundry Detergent

Pet Food

Low Ash Cat Food
 Slim & Trim Cat Food
 All Natural Dog Biscuits

Cooking Products

"The Virtuous" Canola Oil
 "The Virtuous" Cooking Spray
 Baking Soda

Paper-Based Products

Bathroom Tissue
 "Green" Ultra Diapers
 "Green" Foam Plates
 Swedish 100% Chlorine-Free Coffee Filters
 "Green" Baby Wipes
 "Green" Maxi Pads

Oil-Based Products

Biodegradable Garbage Bags
 Hi-Performance Motor Oil
 Natural Fertilizer
 Lawn and Garden Soil

Other Products

Green T-Shirt/Sweatshirt
 Green Panda Stuffed Toy
 Green Polar Bear Stuffed Toy
 Cedar Balls

* The Ecover brands are a line of cleaning products made by Ecover of Belgium. These products are vegetable oil based and are rapidly biodegradable. Loblaw's marketed these products under the G·R·E·E·N umbrella.

Exhibit 2 The Initial G·R·E·E·N Products

friendly than any other disposable brand. However, it was not, in Pollution Probe's opinion, environmentally pure. Further, it was felt that endorsing such products compromised the integrity and independence of the organization. This prompted the resignation of Colin Issac, the director of Pollution Probe. The group subsequently discontinued its endorsement of the diaper, but continued its support of six other G·R·E·E·N products.

Controversy also arose around the introduction of the G·R·E·E·N fertilizer. Greenpeace, a prominent environmental group, rejected Loblaw's claims that the fertilizer had no toxic elements and therefore was environmentally pure. The group did not know that Loblaw's had spent substantial funds to determine that the product was free of toxic chemicals.

Both incidents, although unfortunate, focused the attention of Canadians on the G·R·E·E·N product line. The media highlighted Loblaw's as the only North American retailer to offer a line of environmentally friendly products. The publicity also prompted letters of encouragement from the public who supported Loblaw's initiative. Surveys conducted four weeks after the line introduction revealed an

82 percent awareness of the G·R·E·E·N line with 27 percent of the consumers actually purchasing at least one of the G·R·E·E·N products. In Ontario alone, the G·R·E·E·N line doubled its projected sales and sold \$5 million in June 1989.

THE FIRST YEAR OF G·R·E·E·N

The launch of G·R·E·E·N was soon followed by a virtual avalanche of "environmentally friendly" products. Major consumer goods companies such as Procter & Gamble, Lever Brothers, and Colgate-Palmolive introduced Enviro-Paks, phosphate-free detergents, and biodegradable cleaning products. Competing supermarket chains had varied responses from launching their own "green" line (Miracle Mart introduced three "Green Circle" products, Oshawa Foods introduced about 10 "Green-care" products) to highlighting environmentally sensitive products in their stores (Safeway) to improving its internal practices through recycling and other activities (Provigo).

1. National survey on issues.

What is the most important issue facing Canada today?

Issues	1985	1986	1987	1988	1989
Environment	*	*	2	10	18
Goods and services tax	*	*	*	*	15
Inflation/Economy	16	12	12	5	10
Deficit/Government	6	10	10	6	10
National unity	*	*	*	*	7
Free trade	2	5	26	42	7
Abortion	*	*	*	*	6
Employment	45	39	20	10	6

Source: Maclean's/Decima Research

*Not cited by a significant number of poll respondents.

Note: Survey conducted in early January of each year.

2. Loblaws customers surveys.

How concerned are you about the environment? (%)

Extremely (32), Quite (37), Somewhat (24), Not Very (5), Don't Care (2)

How likely is it that you would purchase environmentally friendly products?

Very (49), Somewhat (43), Not too (2), Not at all (4)

How likely is it that you would switch supermarkets to purchase environmentally friendly products?

Very (2), Somewhat (45), Not too (24), Not at all (10)

Note: Survey conducted in early 1989.

THE G·R·E·E·N LAUNCH

Armed with this supportive data, in late January 1989, Loblaws management decided to launch, by July 1989, a line of 100 products that were either environmentally friendly or healthy for the body. These products would be added to the family of the corporate line and called G·R·E·E·N. Although the task was considered ambitious, the corporation believed it had the requisite size, strength, influence, network, imagination, and courage to be successful. Loblaws contacted a number of prominent environmental groups to assist in the choice of products. These groups were requested to make a "wish list" of environmentally safe products. Using this as a guide, Loblaws began to source the products for the G·R·E·E·N launch.

A few products, such as baking soda, simply required repackaging to advertise the already existing environmentally friendly qualities of the product. Intersave Buying and Merchandising Services was able to source some products through foreign suppliers, such as the Ecover line of household cleaning products, to be marketed under the G·R·E·E·N umbrella. All G·R·E·E·N products were rigorously tested as well as screened by environmental groups such as Pollution Probe and Friends of the Earth. This collaboration was developed to such an extent that a few of the products were endorsed by Pollution Probe.

The G·R·E·E·N product line, consisting of about 60 products, was launched on June 3, 1989. Initial G·R·E·E·N products included

phosphate-free laundry detergent, low-acid coffee, pet foods, and biodegradable garbage bags. (See Exhibit 2.) A holistic approach was taken in selecting these initial products; for example, the pet food products were included because they provided a more healthful blend of ingredients for cats and dogs. The G·R·E·E·N products were offered in a distinctively designed package with vivid green coloring. When the package design decisions were being made, it was learned that 20 percent of the Canadian population is functionally illiterate. Management felt that the distinct design would give these consumers a chance to readily identify these brands.

The G·R·E·E·N launch was supported with a \$3 million television and print campaign. Consumers were informed of the new product line using the June 1989 issue of the *Insider's Report*. In an open letter to consumers, Mr. Nichol addressed Loblaws' motivation for the G·R·E·E·N launch. Part of the motivation was also to offer consumers a choice that could, in the longer term, provide educational benefits for consumers on specific green issues. As well, by offering the choice, consumers could "vote at the cash register" and, in a sense, tell Loblaws what they were willing to buy and what green products they would accept. The G·R·E·E·N line was to be typically priced below national brand products.

The G·R·E·E·N introduction was not without its problems. Shortly after the launch, members of the Pollution Probe rejected their previous endorsement of the G·R·E·E·N disposable diaper. These members felt that the group should not support a less than perfect product. The G·R·E·E·N diaper was more environmentally

CASE 3 Loblaws

“It’s been a year since we introduced green products at Loblaws and the decisions still are not getting any easier.” In early July 1990, Scott Lindsay was reflecting upon his decision as to which, if any, of three possible products he would recommend for the G-R-E-E-N line: an energy-efficient light bulb, toilet tissue made from recycled paper, or a high-fiber cereal.

As Director of International Trade for Intersave Buying & Merchandising Services (a buying division for Loblaws), it was Scott’s job to source and manage about 400 corporate brands (No Name, President’s Choice, G-R-E-E-N)¹ for Loblaws in Canada. In four days, Scott would have to make his recommendations to the buyers’ meeting.

The “green line” for which Scott was sourcing products was a new concept for Loblaws and its customers. Launched in 1989 as part of the corporate President’s Choice brands, green products had characteristics that were less hazardous to the environment and/or contributed to a more healthy life-style. At issue for Scott was deciding what was “green” and balancing the financial requirements of the company with the socially responsible initiative of the green line.

As well, his most pressing concern was his ability to convince the president, Dave Nichol, of the merits of his recommendations. Mr. Nichol was the driving force behind the corporate brands, and he maintained involvement and final authority on these important product decisions.

In preparation for the buyers’ meeting, Scott had to have his written recommendations on Dave Nichol’s desk that day. Dave Nichol required that recommendations include retail price and cost data, projected annual sales in units and dollars, as well as total gross margin expected. In addition to the expected results, best and worst case scenarios were also required. As well, primary reasons for and against the proposal needed to be given. Typically, the recommendations were made based on the Ontario market as it was the proving ground for new products.

The first product Scott was considering was a new energy-efficient light bulb, which had been successfully marketed in Germany. The bulb lasted at least ten times longer than a regular light bulb but was substantially more expensive. There was no question in Scott’s mind that the energy-efficient bulb had strong “green” characteristics and would enhance Loblaws’ green image.

¹No Name, President’s Choice, and G-R-E-E-N are all trademarks, owned by Loblaws Companies Limited.

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However, a potential consumer price of \$20 and low retail margins were a troubling combination. He knew that store managers, who were measured on sales volume and profits, would not be enthusiastic about a product that would not deliver sales or profits. These store managers controlled the individual products and brands that were carried in their stores.

The second new product was, in fact, not a new product at all. Loblaws had been selling a toilet tissue manufactured with 100% recycled material under its No Name corporate label. The existing product could be repackaged under the G-R-E-E-N label and sold beside the No Name line of products. The green packaging might alert consumers sensitive to the recycled feature, thereby generating greater volumes for the product. Further, Scott realized there was an opportunity to price the “green” toilet tissue at a higher price than the No Name, providing a higher profit margin.

The final product under consideration was a new corn flake product for the very “crowded” breakfast cereal category. The new cereal had an unusually high fiber content. The “body friendly” nature of the cereal was the basis for considering it for the green line. Its additional feature was that it could be sourced at a cost much lower than the national brands.

LOBLAWS COMPANIES LIMITED

Loblaws Companies Limited is part of George Weston Ltd., a conglomerate of companies that operate in three basic areas: food processing, food distribution, and natural resources. George Weston is the sixth largest company in Canada with sales of \$10.5 billion and net income of \$988 million in 1989. The Loblaws Companies, an integrated group of food wholesaling and retailing companies, had total sales and net earnings in 1989 of \$7,934 million and \$70 million respectively.

THE GREEN IDEA

The G-R-E-E-N line launch had its origins in one of Dave Nichol’s buying trips to Germany in 1988, where he was struck by the number of grocery products that were promoted as “environmentally friendly.” He discovered that *The Green Consumer Guide*, a “how-to” book for consumers to become environmentally responsible, had become a best-seller in England. In late 1988, Loblaws began collecting information on Canadian attitudes about the environment. The results suggested that an increasing number of Canadians were concerned about environmental issues, and some expressed a willingness to pay extra to purchase environmentally safe products. Further, many said they were willing to change supermarkets to acquire these products. (See Exhibit 1.)

Physician Signature:

GUIDELINES FOR REVIEWING A JOURNAL ARTICLE

 Total Tests: 15
 Oper ID: nmoglevyc

A 10-STEP GUIDELINES

1. Write the title of the article and the authors names with their affiliation.
2. What is the purpose of this article?
3. Why is it important to investigate or examine the subject of the article?
4. How are the authors carrying out the task?
5. What do they claim to have found out? Are the findings clearly stated?
6. How did the author (s) collect data and What type (s) of data
7. Pick up three important keywords from the article and define these keywords indicating their importance to your study about the article
8. Summarize the literature review of the article (preferences)
9. Summarize the findings of the study.
10. How does this advance knowledge in this field?

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I need answers
 for all this questions,
 1 question - around 1 page

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