Take VX Next, for example—a group of 30 or so frequent fliers who act as a brain trust for Virgin America, generating ideas for the company at no charge. Among other winning ideas, this group was instrumental in developing the company's recent interactive promotional campaign. At the center of the campaign is a slick cinematic site that provides viewers with a virtual tour of a Virgin America flight. Demonstrating the airline's in-flight perks are founders and CEOs of companies such as Pandora, Gilt, and Pitchfork. As part of the tour, visitors to the site discover that several of the passengers on board are Virgin America frequent fliers and Silicon Valley celebrities who have made creative contributions to the airline's services with things such as curating in-flight music and menu items.

Virgin America's home-brewed tech panel was also instrumental in creating the company's latest safety video. When the company started operations, it delighted customers with a safety video like no other—an animated short featuring a techie nun and a matador with his bull. Posted online as well, the video racked up millions of views and cemented Virgin America's image as a company that could find creative alternatives to just about anything, even a federally mandated reminder to wear seatbelts. That image has carried over to Virgin America's new safety video—one created by a top Hollywood director and world-class choreographers that features 10 *So You Think You Can Dance* alums, two former Olympians, and one *American Idol* finalist. Debuting in Times Square and getting plenty of coverage from the press, the new safety video racked up 6 million views in less than two weeks.

Above the Clouds

Although there is plenty of anecdotal evidence that Virgin America's customers are thrilled with its service, it's the industry quality ratings that count. Virgin America is coming through with flying colors there as well. In the most recent annual Airline Quality Report—a survey that ranks airlines based on mishandled baggage, customer complaints, denied boardings, and on-time percent—Virgin America was number one. Virgin America is also in the top spot for customer satisfaction on *Consumer Reports*. In fact, Virgin America came away with the highest score achieved by any U.S. airline in many years.

Not to get too cocky, Virgin knows that maintaining such high rankings will be a challenge. In the coming years, the airline will expand service to more cities with cold climates, a factor that will increase the likelihood of canceled or delayed flights. It will also increase the number of passengers on flights, which will lead to longer boarding and deplaning times, affecting multiple customer service metrics. And with Virgin's techy and connected clientele, any screwup is likely to be texted, Tweeted, or otherwise broadcast for all the world to see.

Playing the features and amenities game is also problematic. Things that delight customers today become ho hum tomorrow, especially when competitors are constantly trying to improve their offerings.

That's why Virgin America views its operations as a work in progress, continually changing and improving, no matter how good current operations are. "If we stand still, they'll catch us," says David Cush, Virgin America's CEO. And Virgin America sees all those Tweeting customers as an opportunity to address customer service issues in real time, not to mention a powerful source of word of mouth.

With all its success, after six years, Virgin America still had not achieved an annual profit. With still-skeptical experts looking on, however, the company has now crossed that threshold, posting net profits for the past two years. For the most recent year, Virgin America achieved $84 million in profit—the highest ever for a young airline—on $1.5 billion in revenues. The company also went public in the second-largest airline IPO in history. Although the company is far from being out of the woods, Virgin America will continue to slowly expand its services by doing what it has done for its first eight years—wow every customer with exceptional service while giving the tech community a little something extra. It's a formula that Virgin aims to keep applying, even after it grows up.

Questions for Discussion

1. Using the full spectrum of segmentation variables, describe how Virgin America segments and targets the market for airline services.
2. Which market targeting strategy is Virgin America following? Justify your answer.
3. Write a positioning statement for Virgin America.
4. Will Virgin America succeed in the long run? Why or why not?

Sources: Lauren Schwartzberg, "Most Innovative Companies: 2015, Virgin America," *Fast Company*, March, 2015, pp. 135–137; Joe Berkowitz, "Silicon Valley Celebs Star in New Virgin America Campaign," *Fast Company*, September 5, 2012, www.fastcocreate.com/1681551/silicon-valley-celebs-star-in-new-virgin-america-campaign; Grant Martin, "America's Best Airlines," *Forbes*, April 15, 2015, www.forbes.com/sites/grantmartin/2015/04/15/americas-best-airlines/; Matt Richtel, "At Virgin America, a Fine Line between Pizazz and Profit," *New York Times*, September 8, 2013, p. BU1; Charisse Jones, "Virgin America Posts Record Profit for 2014," *USA Today*, February 18, 2015, www.usatoday.com/story/money/2015/02/18/virgin-america-posts-record-profit/23608205/; and information from www.virginamerica.com/cms/about-our-airline/corporate-facts.html, accessed September 2015.

Company Case 7

Target: Where Store Brands Offer More Than Low Prices

When it comes to discount retailing, Target doesn't need to make many excuses. In little more than 50 years, the Minnesota-based company has dotted the United States and Canada with more than 1,800 stores bearing the famous red-and-white bull's-eye. With $72 billion in annual sales, Target plays second fiddle in the U.S. discount retail market only to Walmart—the world's biggest corporation. And although it is only one-seventh Walmart's size, Target has managed to keep its much larger rival on its toes with a "cheap chic" image that has revolutionized discount retailing with heavy doses of style and fashion.

Throughout the past decade, however, Target has experienced its share of ups and downs. Whereas it outpaced Walmart in growth during the early 2000s, that growth has cooled as even the trendiest value shoppers have been drawn to the more-low-price positioning of Walmart and dollar stores. Through several years of changes that have included cost-cutting, store remodeling, and inventory restructuring, Target has better positioned itself strategically to fulfill its mission to deliver "outstanding value, continuous innovation and exceptional guest experiences by consistently fulfilling our 'Expect More. Pay Less.' brand promise."

One of the ways Target is carrying out this mission is through a strong portfolio of private brands. Although store brands are nothing new for Target, it has sought not only to expand its portfolio of store brands but also to raise the perceived value of those brands in the minds of consumers. Target still sells plenty of national brands. But as customers snatch up dozens of owned and exclusive brands that can be found only in Target stores, the chain has set a benchmark for retailers of every stripe to follow when it comes to executing a store-brand strategy.

Bringing Designer Labels to Discount Retail

Not that long ago, store brands everywhere carried a "low quality" and "bland" stigma. With those less-than-attractive perceptions, such brands were purchased primarily because they were priced much lower than comparable name-brand products. Perhaps more than any other retailer, Target has fought to establish its exclusive brands as anything but traditional. In fact, Target has clung to two mission-supporting corporate values to guide store brand development: "design and innovation" and "value as more for less."

As part its private-brand strategy, Target is forging collaborative relationships with high-end designers to create exclusive product lines. Since 1999, when it introduced design partners Michael Graves and Sonia Kashuk, Target has covered just about every category of goods with designer labels. It has signed more than 50 different designers to Target-exclusive agreements, from Graves's housewares line to Mulberry for Target handbags to Isaac Mizrahi's lines of clothing, accessories, bedding, and pet products. In the last year alone, Target introduced collections by Adam Lippes (plaid apparel, accessories, home furnishings, and pet goods), Eddie Borgo (jewelry and wall art), and Lilly Pulitzer (outdoor and beach apparel, shoes, and accessories).

With these alliances, everybody benefits. The designers get tremendous exposure, a large customer base, and the power and deep pockets of a mass retailer. Target gets brand cachet that enhances the chicness of its image, and customers get style at affordable prices. As products with a designer label that might normally adorn goods with a three- or four-figure price tag, Target's designer items have been huge hits. Tales have circulated of Target customers fighting over apparel items and filling their carts to the brim on days when new items go on sale. Sellouts are common, and Target's designer labels have been known to show up on eBay with significantly higher prices.

Setting a High Bar for Store Brands

As popular as Target's designer lines have been, they represent the smaller portion of the company's exclusive store brand efforts. Rather, Target has applied its value philosophy and design expertise to creating more than a dozen store brands. The most pervasive of these is "Up & Up," which replaced the main "Target" store brand a few years ago. Instead of the familiar bull's-eye, the Up & Up lines come in white packages with big, colorful, upward-pointing arrows. With more than 800 different products in more than 50 different categories, the Up & Up brand can be found in every department of a Target store.

While Up & Up follows the more traditional approach of store brands that provide budget-friendly basics, Target has taken great care to match the quality levels of national brands wherever possible. For certain basics such as hand sanitizer ($1.74 versus $2.69 for Purell), napkins ($2.66 versus $2.99 for Bounty), and cotton swabs ($2.99 versus $4.79 for Q-tips), it's tough to tell the difference. And even when customers can see a difference, the savings are worth it. On average, Up & Up products are priced about 30 percent lower than comparable name-brand products.

But as with its designer labels, Target does not pursue a singularly low-price positioning for its store brands. This is perhaps most evident in grocery aisles, where Target now has not one but three distinct in-house food brands. Like Up & Up, Target's own Market Pantry brand covers basic staples such as cheese, milk, eggs, baking ingredients, juices, snacks, and prepared meal options. And like Up & Up, the positioning is also similar to national brands—the same quality and taste but for a lot less money.

Target's other two food brands, however, go beyond just offering customers a lower-priced option. Archer Farms is a "healthier" choice that promises no artificial flavors, artificial sweeteners, or trans fats. And although it is a "budget-friendly" brand, that budget friendliness is relative only to the types of foods that carry the Archer Farms label—items that would typically interest food snobs and gourmets. To that end, Archer Farms products are noticeably fancier.

For example, why settle for a basic variety of trail mix from Planters when you can get Caramel Cashew, Sunny Cranberry, Tex Mex, or Cinnamon Raisin Nut Breakfast from Archer Farms? As with many Archer Farms categories, Target offers far more varieties with its store brands than it does with national brands. It also focuses on flavors that consumers won't find anywhere else. "One of the best-selling Archer Farms' chips is a blue corn chip with flax seed," says Annette Miller, who oversees Target's grocery business. "One of our best-selling Archer Farms pizzas is a goat cheese, potato, and spinach pizza." Priced 10 to 30 percent lower than name brands, Archer Farms products are still cheaper. And with options such as Key Lime Cookie Straws and organic milk, Archer Farms is very much in keeping with Target's "cheap chic" image.

If Archer Farms products still aren't fancy enough for some shoppers, Target has them covered with its third and latest food brand, Simply Balanced—a mostly organic line of more than 250 products originally launched as an Archer Farms sub-brand. Claiming 40 percent organic content, Simply Balanced also claims to be mostly free of genetically modified organisms. This newest Target brand is hardly cheap, but its prices compare favorably with those of other organic upscale brands that Target doesn't even stock.

With its food brands, Target focuses on products that customers are more inclined to try, such as snacks, coffee, and dairy. Especially with its two upper-tier brands, Target's store brand foods are expected to be at least as good if not better than those made by national brands. To keep costs down and maintain quality, Target focuses on developing its own food products rather than sourcing them out to other companies. In its Minneapolis test kitchens, Target employees prepare, cook, and taste-test every product before it makes it onto Target's grocery shelves.

Capitalizing on Trends

The fact that Target pushes three separate in-house food brands clearly indicates that store brands have come a long way. Similar to trends for store brands in general, Target's brands are benefiting from—if not contributing to—a national trend in acceptance and consumption of private-label foods. According to recent studies, store brands are increasingly found in U.S. kitchens. Fewer consumers feel that they are sacrificing when they purchase store food brands, and fewer consumers indicate an intention to purchase fewer store brands in the future. In fact, a surprisingly high 80 percent of all shoppers believe that private-label brands are equal to or better than national brands in terms of quality. "I'll buy Target brand and not have any qualms about the product," said one budget-minded college student. "It is a bit cheaper, and it's still really good quality." And it's not just lower-income consumers who are turning to store brands. Fortunately for Target, the greatest surge in store-brand purchases is among more affluent shoppers.

Similar to the path that Target has pursued with its private-label food brands, the company has covered many other product categories as well. Target's Cherokee brand offers "classically cool kidswear at prices that make moms and dads everywhere smile." The Xhilaration brand helps juniors to "stay on top of the latest trends." Mossimo Supply Co. "boasts funkier, more laid-back casual looks for both women and men," and Merona is "Modern classic style ... shoes, accessories, and separates." Circo covers infants and children, and Gilligan & O'Malley has women's sleepwear and lingerie covered. When it comes to furniture and household accessories, RE (Room Essentials) appeals to the needs of young adults, whereas Threshold's claim of "quality & design" is more for the established household.

In many ways, Target's store-brand strategy is paying off. About one-third of Target's sales volume comes from its private brands, and that number is rising. "We've grown our own brand foods faster than our total food growth over the past five years, as we've continued to expand our product offering into new product categories that we hadn't developed before," says Target's Miller. Additionally, 10 of Target's private-label brands generate more than $1 billion a year. Not one to rest on its laurels, Target recently extended the return window for many of its private-label brands from 90 days to one year, a bold move that signals confidence in brand quality.

But Target continues to face a tough battle in the highly competitive discount retail sector. Net revenues have remained flat over the past few years, while Walmart's have been increasing by low single digits. Target's net profits have languished as well. This tepid financial performance seems to be despite Target's store-brand efforts rather than because of them. As Target deals with various factors in the marketing environment in its struggles to get financials back on track, its store brands have staved off higher losses and provide promise for the future. If general growth trends of store brands continue, you will likely see more and more Target brands on the retailer's shelves. Fortunately for Target, it is far better prepared for such developments than many of its competitors.

Questions for Discussion

1. What benefits does Target receive from its store brands?
2. Is Target's store brand strategy working? Explain.
3. What could Target do in the future to further develop its strengths in store brands?
4. What potential problems does Target face in continuing its focus on store brands?

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Company Case 8

3M: Where Innovation Is a Way of Life

In recent years, companies topping the world's "most innovative" lists are typically high-tech leaders such as Google, Apple, Samsung, and Amazon. When thinking of companies that set the world on fire with one revolutionary product after another, the image of a stodgy company that originated in the mining industry more than 100 years ago is hardly the icon. But while 3M may not be as flashy as today's high-tech headliners, it's anything but stodgy.

3M—the Minnesota Mining and Manufacturing Company—is a multinational powerhouse with more than $31 billion in annual sales. Year after year, with machine-like precision, 20 percent of 3M's sales filter down as operating profits, allowing the company to increase its dividend to shareholders—something it has done every year for the past 57 years.

3M sells more than 50,000 products in nearly 200 countries across dozens of industries, including office products, construction, telecommunications, electronics, health care, aerospace, and automotive. Among its products are some of the world's most recognizable consumer brands, such as Scotch Tape, Nexcare first aid products, Filtrete home filtration products, Command mounting products, and Post-it Notes. But 3M's portfolio is also packed with hundreds of brands that most people have never heard of—like Peltor hearing protection equipment or Pruven waste bags for picking up dog poop.

The unusual breadth of 3M's product portfolio is both a blessing and a curse for the company. Having a hand in so many industries shields the company from overreliance on any given market. Even when multiple industries are down, many more are doing just fine. That explains 3M's financial strength. But it also explains why 3M has a hard time thrilling Wall Street. Even a hit new product doesn't make much of a difference in 3M's steady but unspectacular growth rate—one that is consistently in the low single digits.

Like 3M, the company's current CEO, Inge Thulin, is methodical and understated. He keeps a long-term focus and places strong emphasis on maintaining 3M's reliable profitability. But Thulin is also interested in stoking the fire just a bit, to put a little more heat under sales growth. One of the first things Thulin did when he took over as CEO a few years ago was to trim 3M's annual sales growth goal from 7 or 8 percent—a goal the company consistently missed—to between 4 and 6 percent. Then, as the world watched, 3M's organic sales growth grew to 5.8 percent. And under Thulin's leadership, 3M is now on track to maintain that stronger growth rate.

How did Thulin do it? By doing the same thing 3M has been doing it for decades. At the core of 3M's success is its business model—organic growth comes from innovation and the creation of market-changing products. Such market-changing products have at times created entirely new industries. 3M has sustained this type of innovation decade after decade by fostering a deep culture of innovation, encouraging collaboration, and maintaining a dedication to research and development.

Culture of Innovation

From its earliest days, 3M created a culture of innovation by allowing team members to take risks in a protected environment. 3M knows that it must try thousands of product ideas to hit the new product jackpot. One well-worn slogan at 3M is "You have to kiss a lot of frogs to find a prince." "Kissing frogs" often means making mistakes, but 3M accepts blunders and dead ends as a normal part of creativity and innovation. In fact, its philosophy seems to be "If you aren't making mistakes, you probably aren't doing anything."

As it turns out, "blunders" have turned into some of 3M's most successful products. Old-timers at 3M love to tell the story about the chemist who accidentally spilled a new chemical on her sneakers. Some days later, she noticed that the spots hit by the chemical had not gotten dirty—an attractive benefit. It was that discovery that eventually led to the creation of Scotchgard fabric protector. They tell about the early 3M scientist who had a deathly fear of shaving with a straight razor. So he invented a very fine, waterproof sandpaper, which he used to sand the stubble from his face each morning. Although this invention never caught on as a shaving solution, it became one of 3M's best-selling products—wet-dry sandpaper, now used for a wide variety of commercial and industrial applications.

And then there's the one about 3M scientist Spencer Silver. Silver started out to develop a super-strong adhesive; instead he came up with one that didn't stick very well at all. He sent the apparently useless substance on to other 3M researchers to see whether they could find something to do with it. Nothing happened for several years. Then 3M scientist Arthur Fry had an idea. As a choir member in a local church, Mr. Fry was having trouble marking places in his hymnal—the little scraps of paper he used kept falling out. He tried dabbing some of Mr. Silver's weak glue on one of the scraps. It stuck nicely and later peeled off without damaging the book. Thus were born 3M's Post-it Notes, a product that is now one of the top-selling office supply products in the world.

One of the ways 3M fosters a culture of innovation is by encouraging everyone to look for new products. The company's renowned "15 percent rule" allows all employees to spend up to 15 percent of their time "bootlegging"—working on projects of personal interest whether those projects directly benefit the company or not. And yet there is a vibe throughout the company regarding these precious six hours a week. Who knows where the next Post-it Note will come from? "It's one of the things that sets 3M apart as an innovative company ... giving every one of our employees the ability to follow their instincts to take advantage of opportunities for the company," says Kurt Beinlich, a technical director who oversees a 70-person lab team. "It's really shaped what and who 3M is."