

Because of the new technology involved, the company decided to do its own contracting (at least for the first four to five years). Chen thought this was necessary to make sure that no mistakes were made by inexperienced contractor crews. (For example, if not applied properly, the plastic may burn.)

After building a few domes in the United States to demonstrate the concept, Chen contacted some leading U.S. architects. Reactions were as follows:

*"It's very interesting, but we're not sure the fire marshal of Chicago would ever give his OK."*

*"Your tests show that foamed domes can be protected against fires, but there are no good tests for unconventional building materials as far as I am concerned."*

*"I like the idea, but foam board does not have the impact resistance of cement."*

*"We design a lot of recreational facilities, and kids will find a way to poke holes in the foam."*

*"Building codes in our area are written for wood and cement structures. Maybe we'd be interested if the codes change."*

After this unexpected reaction, management didn't know what to do. Chen still thinks they should go ahead with the project. She wants to build several more demonstration projects in the United States and at least three each in Europe and Japan to expose the concept in the global market. She thinks architects outside the United States may be more receptive to really new ideas. Further, she says, it takes time for potential users to "see" and accept new ideas. She is sure that more exposure to more people will speed acceptance. And she is convinced that a few reports of well-constructed domes in leading trade papers and magazines will go a long way toward selling the idea. She is working on getting such reports right now. But her managers aren't sure they want to OK spending more money on "her" project. Her immediate boss is supportive, but the rest of the review board is less sure about more demonstration projects or going ahead at all—just in the United States or in global markets.

*Evaluate how Polystyrene Solutions got into the present situation. What should Paige Chen do? What should Chen's managers do? Explain.*

## 6. Applied Steel

Applied Steel is one of two major producers of wide-flange beams in the United States. The other producer is USX. A number of small firms also compete, but they tend to compete mainly on price in nearby markets where they can keep transport costs low. Typically, all interested competitors charge the same delivered price, which varies some depending on how far the customer is from either of the two major producers. In other words, local prices are higher in more remote geographic markets.

Wide-flange beams are one of the principal steel products used in construction. They are the modern version of what are commonly known as I-beams. USX rolls a full range of wide flanges from 6 to 36 inches. Applied Steel entered the field about 30 years ago, when it converted an existing mill to produce this product. Applied Steel's mill is limited to flanges up to 24 inches, however. At the time of the conversion, Applied Steel felt that customer usage of sizes over 24 inches was likely to be small. In recent years, however, there has been a definite trend toward the larger and heavier sections.

The beams produced by the various competitors are almost identical—since customers buy according to standard dimensional and physical-property specifications. In the smaller size range, there are a number of competitors. But above 14 inches, only USX and Applied Steel compete. Above 24 inches, USX has no competition.

All the steel companies sell these beams through their own sales forces. The customer for these beams is called a structural fabricator. This fabricator typically buys unshaped beams and other steel products from the mills and shapes them according to the specifications of each customer. The fabricator sells to the contractor or owner of the structure being built.

The structural fabricator usually must sell on a competitive-bid basis. The bidding is done on the plans and specifications prepared by an architectural or structural engineering firm and forwarded to the fabricator by the contractor who wants the bid. Although thousands of structural fabricators compete in the

United States, relatively few account for the majority of wide-flange tonnage in the various geographical regions. Since the price is the same from all producers, they typically buy beams on the basis of availability (i.e., availability to meet production schedules) and performance (i.e., reliability in meeting the promised delivery schedule).

Several years ago, Applied Steel's production schedulers saw that they were going to have an excess of hot-rolled plate capacity in the near future. At the same time, development of a new production technology allowed Applied Steel to weld three plates together into a section with the same dimensional and physical properties and almost the same cross section as a rolled wide-flange beam. This development appeared to offer two key advantages to Applied Steel: (1) It would enable Applied Steel to use some of the excess plate capacity, and (2) larger sizes of wide-flange beams could be offered. Cost analysts showed that by using a fully depreciated plate mill and the new welding process it would be possible to produce and sell larger wide-flange beams at competitive prices—that is, at the same price charged by USX.

Applied Steel's managers were excited about the possibilities, because customers usually appreciate having a second source of supply. Also, the new approach would allow the production of up to a 60-inch flange. With a little imagination, these larger sizes might offer a significant breakthrough for the construction industry.

Applied Steel decided to go ahead with the new project. As the production capacity was converted, the salespeople were kept well informed of the progress. They, in turn, promoted this new capability to their customers, emphasizing that soon they would be able to offer a full range of beam products. Applied Steel sent several general information letters to a broad mailing list but did not advertise. The market development section of the sales department was very busy explaining the new possibilities of the process to fabricators at engineering trade associations and shows.

When the new production line was finally ready to go, the market reaction was disappointing. No orders came in and none

were expected. In general, customers were wary of the new product. The structural fabricators felt they couldn't use it without the approval of their customers, because it would involve deviating from the specified rolled sections. And as long as they could still get the rolled section, why make the extra effort for something unfamiliar, especially with no price advantage. The salespeople were also bothered with a very common question: How can you

take plate that you sell for about \$460 per ton and make a product that you can sell for \$470 per ton? This question came up frequently and tended to divert the whole discussion to the cost of production rather than to the way the new product might be used or its value in the construction process.

*Evaluate Applied Steel's situation. What should Applied Steel do?*

## 7. Omarama Mountain Lodge

Nestled in the high country of New Zealand's South Island is a getaway adventure playground aimed unashamedly at the world's very wealthy. Presidents, movie stars, and other such globe-trotters are the prime targets of this fledgling tourism business developed by Omarama Mountain Lodge. The lodge offers this exclusive niche the opportunity of a secluded holiday in a little-known paradise. Guests, commonly under public scrutiny in their everyday lives, can escape such pressures at a hunting retreat designed specifically with their needs in mind.

A chance meeting between a New Zealand Department of Conservation investigator and the son of the former Indonesian president marked the beginning of this specialty tourist operation. Recognizing that "filthy rich" public figures are constantly surrounded by security and seldom have the luxury of going anywhere incognito, the New Zealander, Peter Slater, suggested that he and his new friend purchase a high-country station and hunting-guide company that was for sale. Slater believed that the facilities, and their secluded and peaceful environment, would make an ideal holiday haven for this elite group. His Indonesian partner concurred.

Slater, who was by now the company's managing director, developed a carefully tailored package of goods and services for the property. Architecturally designed accommodations, including a game trophy room and eight guest rooms, were constructed using high-quality South Island furniture and fittings, to create the ambience necessary to attract and satisfy the demands of their special clientele.

Although New Zealand had an international reputation for being sparsely populated and green, Slater knew that rich travelers frequently complained that local accommodations were below overseas standards. Since the price (NZ\$700 a night) was not a significant variable for this target market, sumptuous guest facilities were built. These were designed to be twice the normal size of most hotel rooms, with double-glazed windows that revealed breathtaking views. Ten full-time staff and two seasonal guides were recruited to ensure that visitors received superior customized service, in fitting with the restrained opulence of the lodge.

The 28,000 hectares of original farmland that made up the retreat and backed onto the South Island's Mount Cook National Park were converted into a big-game reserve. All merino sheep on the land were sold, and deer, elk, chamois, and wapiti were brought in and released. This was a carefully considered plan. Slater, the former conservationist, believed that financially and environmentally this was the correct decision. Not only do tourists, each staying for one week and taking part in safari shooting, inject as much cash into the business as the station's annual wool clip used to fetch, but the game does less harm to the environment than sheep. Cattle, however, once part of the original station, were left to graze on lower river-flat areas.

For those high-flying customers seeking less bloodthirsty leisure activities, Omarama Mountain developed photographic "safaris" and other product-line extensions. Horse-trekking, golfing on a nearby rural course (with no need for hordes of security forces), helicopter trips around nearby Lake Tekapo, nature walks, and other such activities formed part of the exclusive package.

While still in the early stages of operation, this retreat has already attracted a steady stream of visitors. To date, the manager has relied solely on positive word of mouth, publicity, and public relations to draw in new customers. Given the social and business circles in which his potential target market moves, Slater considers these to be the most appropriate forms of marketing communication. The only real concern for Omarama Mountain Lodge has been the criticism of at least one New Zealand lobby group that the company is yet another example of local land passing into "foreign" hands, and that New Zealanders are prevented from using the retreat and excluded from its financial returns. However, this unwelcome attention has been fairly short-lived.

*Identify the likely characteristics of the market segment being targeted by the company. Why are most target customers likely to be foreigners rather than New Zealanders? Suggest what expectations target customers are likely to have regarding the quality, reliability, and range of services. What are the implications for Omarama Mountain Lodge? How difficult is it for Omarama Mountain Lodge to undertake market research? Elaborate.*

## 8. Besitti's Restaurant

Rosa Besitti, the owner and manager of Besitti's Restaurant, is reviewing the slow growth of her restaurant. She's also thinking about the future and wondering if she should change her strategy. In particular, she is wondering if she should join a fast-food or family restaurant franchise chain. Several are located near her, but

there are many franchisors without local restaurants. After doing some research on the Internet, she has learned that with help from the franchisors, some of these places gross \$500,000 to \$1 million a year. Of course, she would have to follow someone else's strategy and thereby lose her independence, which she doesn't