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| Case #4 |
| CUTCO Corporation |
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**Strategic Issue**

CUTCO must select a strategic focus for the decade ahead and must also make a decision as to whether to continue the retail sales pilot program, halt it, or expand it.

**Analysis and Evaluation**

Direct Sales Industry

While direct selling has proven to be quite effective for CUTCO, the industry has positives as well as negatives. Because there are no brick and mortar stores and very little advertising, the industry and subsequently the companies that operate within that industry are not well known at time and can be “invisible.” However, this type of selling does provide a more personal approach for the customer.

Direct sales companies do sometimes offer websites but they are generally limited to providing customer service and contact information versus many other websites that allow customers to shop and purchase products.

CUTCO/Vector Corporation Marketing Strategy

From the first product produced, CUTCO cutlery was designed to be the finest cutlery in the world. Cutco cutlery has always been historically marketed through direct selling primarily via Vector Marketing Corporation. He people actually selling CUTCO cutlery are independent contractors who effectively operate their own business. The sales representatives are paid a commission on the products they sell but do not receive a salary from the company.

These sales are made through in-home presentations in which sales representatives validate and prove the superiority of CUTCO cutlery through demonstrations. A former president of the company stated, “ I firmly believe that people buy from individuals they like, and there is no better way to make a solid first impression than face to face. There is no substitute for the personal touch that comes from sitting across from someone in his or her home and allowing them to actually try your product. Personal, professional demonstrations sell CUTCO cutlery, period.” Interestingly, while CUTCO is always gaining new customers, 1 in 6 sales are made each year to previous purchasers.

Acquisitions

In 1985, CUTCO (then named ALCAS) saw the need to have greater control over its sales efforts and took steps to create a nationwide in-house CUTCO sales and marketing infrastructure. They decided to acquire Vector Marketing Corporation, CWE Industries, and BrekMar Corporation which were all merged into Vector Marketing Corporation. Acquiring these companies gave CUTCO complete control over their major market and the greater control they desired.

Sales Representatives

CUTCOs most recent initiative was to target college students as their sales representatives (Vector College Recruiting Program). This was because college students who by virtue of their intelligence, trainability, and ability to present themselves well, made outstanding sales representatives. The approaches used to recruit college students has also generated more recruits that any prior recruiting approach. Moreover, the recruits also resulted in the largest number of candidates for management opportunities after graduation.

This initiative has been quite successful in recent years and has led to the company offering promotional activities, events, and competitions to drive sales numbers among the sales force. The company also makes their representatives eligible to receive trophies, bonuses, trips and even scholarships for achieving certain sales numbers. The only downfall to this method is that many of these college students join as a CUTCO representative to make money for on summers and the customers they create often lose contact with CUTCO products and the company afterwards.

Catalog Sales

For this reason, CUTCO created a small catalog mailing in 1985 that is now sent to 4 million customers around four times throughout the year. In 2008, this catalog generated 105,000 orders and approximately $16 million in sales. This is important to continue because, as stated before, 1 in 6 sales are repeat customers and keeping that 17% of sales is vital.

Internet Activities

CUTCO created a website focused on customer service but did not allow sales to take place via the website. They receive numerous requests from customers who were not currently CUTCO product owners but who wanted to order CUTCO products online. This posed a huge opportunity to gain new customers but also a threat to current sales representatives and their commissions. Another concern was that executives believed that selling CUTCO products require a personal demonstration and the hands-on opportunity to “test drive” that only its field organization can provide.

Therefore, CUTCO consequently decided to allow repeat customers to make catalog purchases via the website to please customer but also protect their representatives simultaneously. Surprisingly, in 2008, $7.8 million in sales was generated from this effort.

Current Growth Driver Options

By the end of 2008, executives had narrowed down strategic options to six:

* *Acquisitions* – CUTCO has a very strong balance sheet with about $20 million in cash reserves. It was noted that with the current economic status, now might be the time to make an acquisition. To do so, it would take a minimum of $10-15 million in funding for a meaningful acquisition, which is quite pricey. It was also noted that the real price of an acquisition might be that of devoting too much time and energy into an acquisition would dilute the focus on the company’s core business accompanied by the possibility of little or no net revenue growth.
* *Recruiting* *Approaches* – Since the number of recruits of college students in the recent past has generated revenue growth, it was considered that additional recruiting efforts and approaches taken might in fact be a growth driver again in the future. Vector is already very proactive in Internet recruiting, but it is conceivable that there could be substantial expansion of that activity and/or the application of new Internet technologies. This investment would require at least $5 – 10 million to produce results. While this avenue has great potential, it is something the company has previously pursued and therefore it may be close to a plateau in increased revenue for this initiative and may not be the best option.
* *CUTCO Brand Recognition* – In the last 15 years, the CUTCO product line has grown substantially, not only in its brand recognition, but also in brand preference, with virtually no formal mass marketing advertising. However, it might be possible to dramatically increase current “word-of-mouth” brand recognition with relatively little additional expenditures (only around $1 – 2 million) and subsequently create significant revenue increases (possibly by as much as $10 – 20 million). This is important because the more customers you gain, the more sales you receive instantly, but you are also building your customer base which generates large numbers of repeat customers.
* *International Expansion –* While many attempts have been made in the past to break into international markets, only Canada and Korea have been considered mildly successful with other initiatives such as Germany, Australia, the UK, and Costa Rica were complete failures. Because North America revenue growth has been strong recently, company executives have pulled back somewhat from international activities but still recognize that there is a huge market potential in international markets. This avenue has a strong potential, however it is a gamble.
* *Supplemental Sales Channels* – The prospects that catalog and online revenues could be increased significantly was clearly evident given recent history, but not without risk of some negative consequences for the conventional college student program. Executives are very aware of the potential of catalogs and the Web to generate higher profit margins than direct-selling channels. However, they are also very aware that if this type of plan were not implemented properly, it could be detrimental and in the fact that the impact on the sales force could result in lost sales far greater than any gains from the new channel. This avenue can be quite risky. However, one option could be for customers to be able to make a purchase of so much money online without a sales representative but as soon as the amount crosses a certain set threshold, they will be referred to a direct sales representative.

**Recommendation**

While a few of the option above (Recruiting Approaches and Brand Recognition) might prove to be beneficial in generating more revenue for CUTCO the last option might prove to the be the most profitable as it is the least risky and has already been tested and the avenue has not been exasperated because it is an entirely new initiative with great potential.

Retail Chain Channel

This option stands out because it represents a radical departure from past marketing practices. The risk was assumed to be devastation to the sales force and the reward is assumed to be a potential increase in revenue by threefold. In 2006, the company decided to initiate a pilot program in Erie, Pennsylvania where the cost was a measly $100,000 to get the store presentable compared to the $250,000 - $300,000 annual sales expected.

After close to three years, it was found that the store actually had a neutral effect on direct selling sales in the area versus the negative effect originally anticipated. The only down side observed was the obvious difference in skill sets needed to operate the store as compared to direct sales. However, the location did also serve as a training location which could be utilized for both skill sets to train for.

CUTCO needs to decide whether to continue this pilot program, halt it, or expand it. This is a very good option and should be expanded due to the success of this store. The company should cautiously move forward with this option by region. The success is due to the fact that the sales force is not affected, customers are given more options to purchase the items, versus just direct sale, and the operating margin (6%) is fairly similar to the successful 8% of direct sales. Another advantage of having these stores is because the importance of personal sales and demonstrations noted above does not have to be lost considering that fact that retail locations can provide demonstrations to customers.