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Stihl Incorporated:
Go-to-Market Strategy for Next-Generation Consumers

Peter Burton and his staff had just finished dinner at the 2008 retreat for executives of Stihl Inc. Stihl, the U.S. subsidiary of Andreas Stihl AG & Company, was one of the world's leading manufacturers of handheld power equipment for outdoor landscaping uses. Burton was Stihl Inc.'s senior vice president of sales and marketing.

Burton and his colleagues were savoring not only the meal but their success over the last two years. Thanks in no small measure to their attention-grabbing advertising campaign, "Why is the world's number one brand of chain saw not sold at Lowe's or Home Depot?" Stihl's sales had climbed faster than competitors', and during a relatively flat market at that. Moreover, the team was confident that the advertisements had reinforced Stihl's relationship with its independent retailer dealers, who were central to the company's distribution strategy, and that Stihl Inc.'s retrenchment to a single-channel distribution was gaining traction.

Now Burton and his group turned their eyes to the future. "We can't become complacent," Burton told them. "The market is more likely to change than stay the same. Unanticipated changes could still prove us wrong, could make us vulnerable. After all, by burning our bridges to the 'big box' mass retailers, the ads have reduced our channel options drastically."

Would Stihl's 100 percent reliance on dealers continue to be a winning strategy five or ten years in the future? What should the company do to stay relevant and appeal to tomorrow's consumers?

History of Andreas Stihl AG

By 1926 cars were on the road and planes in the air, but loggers and farmers were still cutting down trees the old-fashioned way—with handsaws and axes.

Andreas Stihl, a thirty-year-old German engineer, had an idea that would revolutionize the logging industry. He adapted the design of a surgical tool for cutting bone, constructed an enlarged version, and hooked it up to an electric motor. The result was the world's first electric chain saw. Soon after, he replaced the motor with a gasoline engine, making the chain saw

Source: Photo archives of Andreas Stihl AG transportable (although at 140 pounds it required two men to operate). Stihl formed his own company to commercialize the product for use in the lumber and farming industries.

Over time Stihl reduced the saw's weight and its vibration, and improved both its cutting ability and its safety. By 1950 his saws were operable and portable by one man. Two decades later the company was manufacturing handheld versions that could be marketed to consumers. Andreas Stihl remained the company's guiding force for nearly half a century, up to his death in 1973. Stihl constantly strove to innovate and perfect. He and his company were first-class examples of what customers and experts around the world envisioned when they heard the phrase "German engineering and craftsmanship."

Befitting this legacy, Stihl stood out as a highly focused pure-play outdoor power equipment company. Over time the company extended its product line from chain saws to include most handheld outdoor tools. While it filled in these lines with lightweight, simplified consumer versions as well as heavier, powerful, more broadly functional models suitable for logging companies, landscapers, and groundskeepers, Stihl never stepped beyond its tightly defined market space in outdoor power equipment.

The focused strategy worked. The company grew slowly, steadily, and durably. As a privately owned concern, Stihl did not release financial figures, but by 2007 it was reported to sell more than three million tools a year, and it was reasonable to estimate revenues for 2008 as being in the neighborhood of $4–5 billion.

This estimate was a rapidly moving target. In public statements company leaders had quietly acknowledged that Stihl sales and profits had risen uninterrupted throughout the eighteen years preceding Burton's executive offsite retreat, and that percentage growth was usually in the double digits.

The reason for its market success, everyone at Stihl insisted, was quality. That had always, and would always, come first. It was Stihl's responsibility to offer customers the best product through innovative designs, solid engineering, highest-grade materials, and precision manufacturing. Stihl progressed from handcrafting individual saws to using intricate machine tools and, by the twenty-first century, to laser-guided measurement, metal cutting, and quality control.

A cooperative and desirable working environment was also important to Stihl management, which aimed to treat employees with the utmost respect. As its distribution network took shape, this attitude was extended to distributors and retail partners.

Just as important, customers were given the best buying experience, the best service, and the best support, including first-class showrooms, highly trained maintenance technicians and sales staff, clear and thorough product documentation, readily available stocks of replacement parts, and committed management up and down the distribution channel.

Being privately held may have made it easier for Stihl management to put quality first. "For the Stihl family, the company is about brand legacy," said one insider. Even though the big boxes had made offers directly to Hans Peter Stihl, the current head of the family and chairman of the business, he had yet to waiver from the premium-product course set by his father. "They cannot entice me even by giving a huge order," he told a reporter with a smile.

Stihl Incorporated

Andreas Stihl AG opened its U.S. marketing and manufacturing subsidiary, Stihl Inc., in 1974. Facilities, staff, product portfolio, and distribution network had grown substantially from that time forward. By 2008 Stihl Inc. had one million square feet of fabrication, warehousing, and administration space at its 100-acre corporate center in Virginia Beach, including a $25 million plant opened in 2007 and dedicated to making chain saw guide bars. The subsidiary employed more than 2,000 people, 90 percent of whom worked in Virginia Beach.

Distribution Network

Stihl Inc. used a two-step channel system to go to market. The first step was its large wholesaler distributors, the second was its independent retail dealers scattered around the country. Stihl owned none of its retail dealers, rejecting franchise arrangements. Consistent with its devotion to quality, it believed that having "skin in the game" made retail owners far more likely than company managers to attend properly to end consumers.

Stihl supported its retailers through an intermediate system of twelve geographically separate wholesale distributors. Ideally, it liked its wholesale distributors to be independently owned to encourage the same healthy profit and growth mindset it sought to promote in retail dealers. In practice, however, it took on central ownership of six of these distributors when the owners encountered succession challenges.

Stihl's retail dealer network was made up of 8,000 independent retailing establishments. These dealers considered the right to display Stihl's big orange signs a huge competitive advantage. In 2008, 55 percent of them represented Stihl exclusively. That percentage had been rising steadily in recent years as multi-brand dealers decided that the added benefits Stihl offered exclusive dealers outweighed the vulnerabilities inherent in single-supplier relationships. Burton explained why: "Dealers said they made more money and lost fewer sales by going exclusive. We made it profitable for them."

Support to Dealers

Just as important as a market-leading brand to Stihl's wholesale distributors and retail dealers was the financial, marketing, and administrative support it lent them. Stihl invested significant dollars and expertise to its channel partners as they built, enlarged, and remodeled their operations and their showrooms.

The support provided was at a level that manufacturers in any industry rarely equaled. Stihl's financial contribution alone, which was an infusion and not a loan, at times had reached as high as 30 percent of showroom construction costs. Beyond this, Stihl provided—and insisted upon—regular training in the proper application, operation, and maintenance of each of its products. Instructors provided hands-on coaching to dealers on how to sell the products, compare them to rival models, and perform simple, effective demonstrations. They emphasized the importance of a dealer's being sure that consumers could safely and correctly operate their purchases.

In addition, Stihl made available to dealers the information systems, reporting processes, and marketing materials they needed to simplify business processes and free up more time to service end customers.

The Stihl Inc. corporate website channeled Internet shoppers toward dealers by providing organized product information, an easy dealer locator, and distributor pricing. “Distribution is extremely important to us,” Burton stressed to his team. “How we service the dealer is critical. We always want to be sure he or she is financially successful.”

It was equally important to Stihl that the dealer be willing to work toward financial success. Standards and expectations were in place. “I don’t want to be callous,” Burton continued, “but if a dealer isn’t willing to invest in his or her own business, we can’t provide support. We’re after the *crème de la crème*.” To help in that department, Stihl sold no product directly to the consumer.

The net effect of all this was not surprising to company leaders. Said Burton, “We have excellent relationships with our dealers.”

Products: The Handheld Outdoor Power Equipment Category

Stihl manufactured a variety of portable tools that were widely referred to as “handheld outdoor power equipment.” Roughly 40 percent of units sold by all manufacturers in this category were gas-powered, 50 percent were corded electric, and 10 percent were battery-powered.

Types of Product

The category included—but was not limited to—chain saws, hedge trimmers, edgers, brush cutters, leaf blowers, vacuums, pruners, and sprayers. New permutations on the old standbys were constantly in the works.

- *Chain saws*—even after eighty years of evolution and line extensions—remained the heart of Stihl’s product portfolio. A properly sized and powered chain saw could easily cut through tree limbs and entire trunks, as well as create intricate wood carvings. The chain itself resembled an ordinary bicycle chain, except that its perimeter was faced with sharp, angled blades. In operation, the chain traveled at extremely high speed around a thin oval guide bar, somewhat in the manner of a tank tread, the blades biting into anything that got in their way. Good chain saws could cut down a mature hardwood tree near its base in a matter of minutes with little expenditure of effort by the operator. Smaller jobs of the kind most often tackled by consumers took seconds.

  Powerful cutting instruments, chain saws were typically loud and required the utmost care to operate safely. Unintentional cuts were a real danger. Technological advances had reduced—but by no means eliminated—the risks posed by chain saws. Proper instruction for new users was essential.

  Inexpensive chain saws started under $150 while big, full-featured models suitable for rugged professional work topped $1,000.

- *Edgers and string trimmers* used a metal blade whirling at nearly 10,000 revolutions per minute to slice through patches of grass lawn mowers could not easily reach. The working end was mounted on a lightweight shaft, often curved to allow the operator to remain upright. Prices ranged from $200 to $500 for edgers and $75 to $700 for string trimmers.
- *Brush cutters* resembled trimmers superficially but were more heavy duty, normally outfitted with harnesses and using rigid or conventional blades instead of thread as their cutting surface.
- *Blowers, vacuums, and mulchers* were powered nozzles for pushing leaves and ground litter into desired positions or for sucking this material into a bag. If the mulcher blade was engaged during vacuuming, the litter was shredded for better compacting and disposal or for composting. The high-decibel whine produced by many makes had been a subject of controversy in communities across the country, an issue which, as objections mounted, manufacturers had been at pains to address. The prices ranged from $80 for a handheld basic blower to more than $600 for a powerful, full-featured backpack blower/vacuum.
- *Sprayers* employed nozzle wands to disperse herbicides, insecticides, or other chemicals. Alternate uses included exterior washes for buildings, vehicles, and equipment.

Manufacturers had put these and other products together to create hybrid or combo products. It was possible to find, for instance, blowers that became vacuums at the flip of a switch, vac/mulchers, and so on. There were also numerous extension arms, adapters, and other attachments that improved or changed product functionality and performance.

Manufacturers were forever devising new features to draw attention. Sometimes these were little more than bells and whistles. Other times they represented worthwhile advances in convenience, comfort, efficiency, safety, or environmental preservation. Easy-start for gas-powered equipment, anti-kickback designs and automatic oilers on chain saws, anti-vibration and torque acceleration on brush cutters, and noise reduction and emissions control on gas-powered equipment were among the more recent and beneficial enhancements.

Product Purchasing

Consumer lawn and garden purchases were highly seasonal, and high sales periods varied by product. Leaf blowers peaked in spring and fall, hedge trimmers in April, chain saws in both spring and fall. As a result, dealer revenues and levels of effort were not as lumpy as might be expected.

Weather was also a factor, sometimes positive and other times negative. Regular precipitation that promoted the growth of vegetation tended to accelerate sales, but too much rain could produce flooding that brought normal activities to a halt. Extreme weather that caused widespread damage and the need for clearance and repairs led to short-term distortions in normal sales patterns, creating a temporary market of new customers. In the aftermath of Hurricane Katrina, for example, sales of chain saws boomed.

Category Definition

These varied products, accessories, and replacement parts collectively formed a compact, well-defined category. "Handheld," "outdoor," and "power" were all significant qualifiers that eliminated much equipment that would otherwise have seemed logical, and important, to include. Lawn mowers were the outstanding example of products outside the set.

- *Handheld* tools were portable and operable by a single person. "Handheld" could mean anything from a four-ounce screwdriver to a fourteen-pound chain saw. Handheld products were distinguished from self-propelled, walk-behind products such as lawn mowers, riding products such as tractors, and stationary products such as generators.
- *Outdoor* tools were relevant only for outdoor uses. Thus, a pruning saw was outdoor, a hacksaw was not. Tools like screwdrivers, drills, or sanders that could be used indoors as well as outdoors were usually not classed with or shelved next to outdoor tools.
- *Power* tools augmented the operator's application of muscle strength by means of a gasoline engine or an electric motor that might be corded (plug-in) or cordless (batteries). Gas engines packed the most power for their weight and, if not too heavy, could be taken and used anywhere—deep in a jungle, far from the house, or up a tree. Corded electrics were much lighter than gas but were tethered to available electrical sources, limiting their applicability. On the positive side, electrics were perceived as nonpolluting and tended to be quieter than gas-powered models. Battery-powered tools overcame the mobility constraint of corded electrics but that advantage was offset by time limits on use before recharging or battery substitution became necessary. Battery life for many products could be short, often under an hour of use, owing to the heavy energy demands. A power tool of the right functionality and quality could make an enormous difference in ease, speed, and quality of work.

Product Development and Pricing

Over the past ten years, environmentally friendly goods had emerged as the strongest trend in the handheld outdoor power equipment category. Manufacturers were investing heavily to produce lower levels of noise, noxious gases, and particulates. Tightening regulatory requirements were behind this drive, most notably those imposed by the federal government's Environmental Protection Agency and the California Air Resources Board (CARB), but also at the municipal level. Gas-powered engines had the furthest to go toward meeting requirements while electrics generally performed within standards. As statutes and societal attitudes became less forgiving, it was thought that noncomplying products would gradually disappear, like leaded gas and cars without catalytic converters.

This product category was characterized by widely varied pricing between makes, models, and brands. A *Consumer Reports* hedge trimmer evaluation in 2008 named a Stihl at $290 as fastest, a Little Wonder at $400 as best able to reach high places, a Black & Decker at $30 as "best for most people," and a Craftsman at $60 as a best buy. Many consumers with no experience shopping for a hedge trimmer would quickly become confused by the choices available and default to the simplest mode of comparison—price.

Competing Manufacturers

Stihl competed against a variety of distinct brands of handheld outdoor power equipment. These included Black & Decker, Briggs & Stratton, Cub Cadet, Echo, Homelite, Honda, Husqvarna, Makita, McCulloch, Poulan, Remington, Ryobi, Toro, Troy-Bilt, Weed Eater, and Weed Whacker. Several of these brands were made by the same manufacturer. Echo and Husqvarna were arguably Stihl Inc.'s two head-on rival brands. Few manufacturers had an offering for every product type. Some specialized in the chain saw product set, others in edgers, others still in hedge trimmers, and so on.

Many of these manufacturers concentrated on a single type of power source. Stihl, for example, emphasized gas-powered equipment. Black & Decker, at the other end of the spectrum, produced only electrics. Remington specialized in the small but growing segment of lightweight battery-powered equipment whose unintimidating weight, strength, and price tag fit well with one of Home Depot's target customer segments.

Product-based competition revolved around cutting performance, power-to-weight ratio, ease and range of operation, noise reduction, controlled emissions, and safety. Refinements were constantly being added to create sharper distinctions between products and price points, both with competing brands and within a manufacturer's own line.

Leading Category Suppliers

Manufacturers approached handheld outdoor power equipment from many directions.

- *Black & Decker's* specialty was power tools such as electric drills and sanders. Outdoor tools were only a subset of B&D's broad offering, but an important one. Even though (or perhaps because) B&D was a household name brand in America, the company took a blanket-the-market distribution approach that put its product in home centers, mass merchants, hardware stores, and authorized B&D dealerships.
- *Briggs & Stratton* had long made small engines for lawn mowers and other equipment. After 2000, B&S began buying up some original equipment manufacturers, such as Simplicity in 2004, and integrating vertically downstream. In some cases B&S appeared to have overturned an acquisition's preexisting marketing and distribution strategies to accommodate B&S's greater openness to a multi-channel approach and in particular to selling into home centers.
- *Echo USA* was the subsidiary of Kioritz Corporation, a 60-year-old Japanese manufacturer of outdoor power equipment and agricultural and forestry machinery. Much of this equipment was professional grade and included items specially geared for the Japanese commercial market, such as sprayers and rice-planting and hoeing machines. Kioritz (originally Kyoritsu Noki) merged with Shindaiwa, another agricultural equipment maker, in spring 2008. The merged entity became known as Yamabiko, but kept two separate brands.

  The company's brand name, Echo, appeared on products sold on six continents. Kioritz established its American beachhead in 1972 by opening an importing office in Northbrook, Illinois. Over time, this unit began making equipment itself, beginning with a grass trimmer and expanding until it made full use of a substantial fabrication and distribution facility that directly marketed a wide variety of outdoor handhelds.

Echo was one of the most progressive innovators in the outdoor equipment business. Among other achievements, it brought out the first power blower, made significant technical advances in two-stroke engine technology that reduced noise and pollutants, and built a sophisticated emissions-testing facility to help it develop environmental product innovations.

Echo had developed a solid dealer network in the United States and Canada. It also had an entrenched supplier relationship with Home Depot dating back to 1994.

- *Honda* was a minor contributor to the handheld outdoor power equipment competitive market, most likely because of its low level of interest in this competitive space. But as one of the world's major industrials and a technology star in the design and manufacture of cars, motorcycles, lawn mowers, and engines of all sizes, Honda could never be taken for granted.
- *Husqvarna* was the world's largest-selling manufacturer of outdoor handhelds overall. It was a unit of Electrolux, the large Swedish industrial, until it was spun off in 2006, allowing the outdoor tools unit freer rein in serving its two primary markets. Commercial construction and forestry accounted for roughly 60 percent of Husqvarna sales, the consumer business about 40 percent. This dual orientation had led Husqvarna to produce products adapted to all manner of use. Its Poulan and Weed Eater brands, once independent and pioneering U.S. brands, served a mid-level quality market. The Husqvarna brand itself was regarded as somewhat downmarket, at least in consumer products.

  In the United States, Husqvarna sold its full line through a network of several thousand authorized dealers. It also supplied a limited number of products to Lowe's and Amazon, and provided some product for Sears's Craftsman private label.
- *MTD,* headquartered in Cleveland, was an old-line mower and outdoor equipment maker. Its many brands were sold in all physical store channels and their Internet hybrid channels, when available. MTD brands included Cub Cadet, Cub Cadet Commercial, Cub Cadet Yanmar, Troy-Bilt, White Outdoor, Yard-Man, Yard Machines, Bolens, Arnold, GardenWay, MTD Pro, and MTD Gold.
- *Techtronic* was another case altogether. The company was a Hong Kong-based manufacturing conglomerate begun in 1983 and concentrating in handheld power tools. Its strategy was to buy up established Western brands, shift their production to China, and sell low-cost, high-recognition product into mature markets. As the company itself announced, "We believe powerful brands are performance-trusted. [Ours] are destination brands possessing the equity and the power to draw end users into retailers in multiple markets."

  Techtronic's portfolio of U.S. brands included AEG, Dirt Devil, Homelite, Hoover, Milwaukee, Ryobi, Stiletto, and Vax. This broad portfolio also helped Techtronic maintain position when negotiating with its major distribution partners.

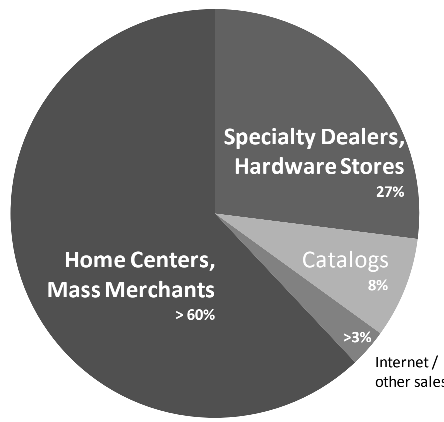
  Homelite was a small yet venerable (100-year-old) U.S. brand, purchased in 2002 by Techtronic as an entrée to the U.S. outdoor tool market. Homelite had been a branded supplier to Home Depot since the mid-1990s, a position the takeover by Techtronic had cemented. Thanks to Techtronic's large Chinese manufacturing plant and superior competence in making fast line changeovers, Homelite had become part of a larger, flexible supply strategy for Home Depot. Techtronic had expanded quickly as a result. In the electric tools market, it had grown its share from 5 percent in the early 2000s to 20 percent and climbing in 2008. By way of comparison, Black & Decker led that category with 30 percent. Techtronic management had enthusiastically announced its intent to replicate this pattern with Homelite.

Retail Distribution Channels

There were five main channels through which handheld outdoor power equipment was sold: hardware stores, home improvement centers, mass merchants, independent specialty dealers, and online retailers. There were also hybrid channels combining physical stores with online or call center capabilities.

Between 60 and 65 percent of handheld outdoor power equipment was sold through big box home centers and mass merchants. Another 27 percent was sold through specialty dealers and hardware stores, 8 percent was sold through catalogues, and the remainder was sold through other channels such as manufacturer websites and Internet-based retailers such as Amazon.

All these channels sold handheld outdoor power tools only in the form of branded products with one prominent exception: Sears's private-label Craftsman equipment sourced from Husqvarna.



Source: Stihl USA

Hardware Stores

These locally owned and operated retailers sold a wide variety of merchandise needed by consumers and small contractors such as carpenters, plumbers, electricians, painters, and landscapers. Depending on the owner, surrounding competition, and community needs, a hardware store might stock not only hardware (nuts and bolts, tools and implements, electrical outlets, and so on) but also paints and painting supplies, cleaning supplies, furnace filters, PVC pipe and fittings, some lumber, small appliances, household devices of various kinds, lawn and garden products, and much else that was hard to predict and categorize.

Hardware stores had been among the two or three classic "Main Street" establishments, along with banks, funeral parlors, and taverns. If not located downtown, they were most likely to be in a residential suburban shopping center, as opposed to a business strip or retail mall on the municipal outskirts. At one time hardware stores would have been among the largest retailers in town by square footage, but with the spread of mass merchants and home centers even to fairly remote communities in the United States, their stature and inflation-adjusted receipts had diminished.

Although independent, almost all hardware stores (and lumber yards) had banded together into huge procurement and administrative cooperatives. The three largest were True Value (6,200 member stores), Ace Hardware (4,600 stores), and Do-It-Best (4,200 stores). Procurement aside, however, this was still a fragmented channel, made up of more than 20,000 stores, most of which were single-owner "mom and pop" businesses.

Hardware-store retail space averaged less than 10,000 square feet. Even with the occasional superstore reaching three or four times that size, hardware stores were gnats in comparison to home centers, few of which were less than 100,000 square feet.

Hardware stores stocked a large number of products of all shapes, sizes, and functions, which made the business an inventory challenge. Orchard Hardware Services, a large California chain, was stocking 45,000 SKUs (stock-keeping units or separate items) per store as far back as 1994. The average hardware store was estimated to carry between 25,000 and 30,000 SKUs. Handheld outdoor power equipment consisted of generally larger-footprint, higher-ticket items. It was thinly stocked in smaller stores, with customers usually given only one or two options, and probably represented a sliver of total store SKUs. But for the same reason, outdoor handhelds often represented a disproportionate share of store sales, and since they were always branded, these sales made a healthy contribution to store income. Accessories, such as replacement chains or trimmer string, took up less room and were usually sold at higher margins, enhancing the value of the outdoor handheld category.

Intensely local businesses, hardware stores competed on locational convenience, broad range of product for a mid-size store, and, above all, customer service: staff who could explain weed killers one moment and pipe fittings the next, ideally in a friendly way.

Maintenance and repair service was one value-added area where most hardware stores were only at parity with home centers, and were definitely at a disadvantage relative to specialty dealers. Maintenance or repair work tended to be sent back to the manufacturer or outsourced to local repair shops (including nearby specialty dealers). It probably could never be otherwise. Hardware store SKU range was too broad and the demand for assistance too thin to justify dedicated product servicing.

In the 1980s local hardware stores were still the dominant channel for many of the goods that households needed to function every day. Twenty years later, however, the situation had changed dramatically. As one of the larger hardware stores put it in an ad, "We serve as an alternative to the big boxes."

Home Improvement Centers

Big box stores stocked a range of products that closely overlapped with hardware stores' merchandise, the critical difference being that home centers filled in that range in far greater detail. As a result, hardware stores and most of their suppliers feared them. They were the "big gorillas" that handheld outdoor power equipment manufacturers had to by turns partner with and wrestle against. As they grew—and Home Depot, Lowe's, and Menards emerged as some of the biggest companies in the American economy—they used their market power to dictate a new contract between retailers and manufacturers.

Home centers were, in essence, outsized hardware stores that were centrally owned. Indeed, Lowe's, the second largest home center chain with annual sales of $50 billion in 2008, began as a single North Carolina hardware store in 1921. Most products carried by hardware stores could be found in home centers, but no hardware store could carry more than a fraction of the offerings available at a home center.

Home centers had undoubtedly produced great benefits for consumers. They offered convenient one-stop shopping, a wide and remarkably deep range of product, supply chain efficiencies, centralized information, and rationalized category management, all at hard-to-beat prices. But the gains had been accompanied by some losses. The sheer vastness of the typical home center, as big as three football fields, made shopping a trek. Finding what they were looking for could be exhausting, at times frustrating, for shoppers. Floor staff were often overwhelmed by customers' requests for information, guidance, or just some personal attention.

Worst of all from a quality-oriented manufacturer's point of view, after-sales technical support at most home centers was nonexistent. "If you take back a tool with a problem to Home Depot," said one supplier, "they are not going to want to know you."

Suppliers of home centers' major product categories, including lawn and garden and power equipment, had become "disenchanted," in the words of one top executive:

> *We're disenchanted that you could ever get high-touch in a warehouse. They're a big channel, of course; we want to be there. But the problem isn't just our department, it's the whole store. We just can't fix that without their help. It's too big.*

From the suppliers' perspective, home centers had exaggerated the importance of store formats. "The major home centers are more concerned with continuity of look between their stores than they are with brand or customer experience differentiation," said one supplier.

Suppliers also believed that home centers placed too much emphasis on price, striving to achieve lowest-price status to the exclusion of virtually all other differentiation. As one manufacturing supplier to the major big-box retailers commented: "Price is easier to deal with than all the intangibles of improving and differentiating the customer experience. And that's a slippery slope." Asked to explain where the slippery slope led, he added, "Dysfunctional retailers are draining manufacturer resources," meaning that manufacturers were compelled to over-focus on cost cutting while neglecting improvements that would add positive product and distribution value for consumers.

At a private conference attended by selected home center suppliers, executives concurred and elaborated:

> *There's a fall-off in the strategic conversation with the big boxes once you leave the executive suite. Home centers' greatest asset is also their greatest liability: a vast number of stores. Their merchandising leaders told us, "We can't tell operations what to do." And that's a real problem for us. We wish we could say that moves we've tried with home centers have helped us gain share, but they're really just "hold your own." For all their talk of change, we find we are still having the same conversation with home centers we had years earlier.*

HOME DEPOT

Home Depot was just thirty years old in 2008 but already a behemoth (more than 2,000 stores bringing in on average almost $20 million a year). Although known as a retailer, it started like Costco, as a wholesaler, and to a greater extent than Costco continued to regard commercial customers as an important segment.

Home Depot had a widespread reputation for exhaustive home-improvement inventory ranging from extensive lumber at the building trades end of the store to an extensive nursery at the other end. It was also known for low prices, which for many consumers offset the time it took to navigate stores or find floor staff to assist in decisions.

Throughout the 1990s and early 2000s, Home Depot grew at an astonishing rate, not only in the United States but in Latin America as well. By 2008 that growth had slowed and financials had weakened considerably. "They've run things lean and mean for too long, and the customer service culture has suffered badly," a retailing expert said in 2006. Criticisms by analysts, suppliers, employees, and customers often mentioned that Home Depot's drive for low prices had gone too far. Experienced staff were culled in favor of lower-wage recruits. Management adopted an almost military tone in dealing with its rivals, suppliers, and—some would say—its staff and shareholders. "There's a very strong attitude at Home Depot that anybody who is a competitor is an enemy, and the enemy must be killed," a Home Depot executive said as far back as 1997. In 2006 Home Depot's chief executive was reported to have used a time clock in an annual shareholders' meeting to control questioning. By 2008 new management was trying to soften the store's image both outside and inside the company, including adding, on average, three floor employees per store.

In many departments, Home Depot relied heavily on its private labels, sitting cheek by jowl with name brands. Its aisle for handheld outdoor power equipment, in contrast, relied on branded products—Black & Decker, Cub Cadet, Echo, Homelite, and Ryobi—with two or three being offered for any given product.

In the summer of 2008, as Peter Burton was thinking about Stihl's future channel structure, the news from Home Depot remained bleak. In an announcement dated May 20, Home Depot had reported that quarterly net income had dropped from $1.05 billion in 2007 to $356 million, quarterly sales had fallen 3.4 percent to $18 billion, same-store sales were down 9.2 percent, it was closing fifteen stores, and it had shelved plans to open fifty others.

LOWE'S

Lowe's was far older than Home Depot and at one time was the market share leader in home improvement. However, by the mid-1990s Home Depot had surged past Lowe's in terms of both growth and prestige. Then Lowe's changed course and the relative momentum of the two giants reversed.

If a Home Depot store looked like a spiffed up business-to-business warehouse, which was how it started, Lowe's reflected its ancestry as a consumer-oriented hardware store. Lighting was brighter and warmer, concrete floors polished and clean, the feel spacious, and staff training greater than at rival home centers. Retailing experts believed that Lowe's enjoyed greater success than Home Depot since 2000 in large part because of customer experience advantages such as these, which were more important to consumers than to contractors, and especially more important to women, who were seen as an increasingly important segment of the hardware and home improvement customer market.

Behind the scenes, however, Lowe's operated in much the same way as Home Depot. At one time suppliers had viewed Lowe's as the kinder, gentler, more benevolent counterpart to Home Depot, but no more. With Lowe's fortunes in the ascendancy relative to its larger competitor, suppliers saw a shift in its negotiating stance, to the point where Lowe's began making firmer demands on its upstream partners, and often was tougher than Home Depot.

Like Home Depot, however, by mid-2008 Lowe's had been hit hard by the U.S. economic slump, tighter credit, depressed consumer confidence, and the home construction fall-off. Its first-quarter earnings report showed a decline in sales versus the previous year of almost 18 percent, with a drop in same-store sales of nearly 7 percent.

In handheld outdoor power equipment, Lowe's carried Bolens, Husqvarna, Poulan, Remington, Troy-Bilt, and the ubiquitous Black & Decker.

MENARDS

Menards was the only major privately owned home center. It was also considerably smaller (at $7 billion in sales for 2007) and more regional than the other two giants. Menards operated 240 stores, mainly in Midwestern states, spreading from its point of origin in Eau Claire, a large town deep in rural Wisconsin. The first Menards was a lumberyard and the store merchandise reflected that background, with special emphasis on millwork, construction, and do-it-yourself. Menards had experimented with a variety of store sizes and formats comparable to those used by Home Depot and Lowe's. Stores at Menards and its two large rivals ranged in size from 100,000 to more than 300,000 square feet, or minimally ten times as big as a local hardware store.

Mass Merchants

Wal-Mart and Sears were general merchandise purveyors that resembled home improvement centers in important respects (thousands of stores, 100,000+ square-foot retail spaces, broad SKU variety, and everyday low prices). While there were other mass merchants, only these two sold handheld outdoor power equipment on more than a nominal basis.

WAL-MART

Wal-Mart was by a huge margin the world's largest retailer. It was also the world's largest business, with sales approaching $400 billion (that is, until 2008 when the price of crude oil vaulted Saudi Aramco to the top of the list). Most of Wal-Mart's equipment was low-powered, consumer-friendly, and electric, and sold in a low and narrow price band of $20 to $80. Even its handful of more powerful gas-powered models hovered around $100. In this price range, products were considered essentially disposable: "Use it till it drops, throw it away, and buy another." Consequently, Wal-Mart offered no service support and no sales staff expertise to help shoppers in their decisions.

In the handheld outdoor power equipment category, Wal-Mart sold Black & Decker, McCulloch, Weed Eater, and Poulan (Husqvarna) brands. It also sold four brands of lawn mowers and tractors, an adjacent outdoor power equipment category.

However, Wal-Mart no longer sold the Snapper brand lawn mower, perhaps the most prestigious brand in that category. In a move both striking and risky, Jim Wier, Snapper's CEO, had stopped supplying mowers to Wal-Mart in 2005. Wier later remarked: "As I looked at the three years Snapper had been with Wal-Mart, the price had come down and the content of the product had gone up." Eventually, Wier predicted, Snapper would be losing money on the 20 percent of its equipment retailed through Wal-Mart. Worse, he expected, the Snapper brand would be degraded in the process, undercutting sales and margin potential for the remaining 80 percent of business in Snapper's other channel, independent dealers. Despite seductive arguments from Wal-Mart category executives, Wier stuck with his decision.

There is a postscript to the Snapper/Wal-Mart story, however. Snapper had since been bought by Briggs & Stratton, the leading manufacturer of small-equipment engines. Briggs apparently took a more relaxed approach toward channels than its acquisition did. Beginning in 2008, one line of Snapper products began appearing at Sears.

SEARS

Sears was a special case among the retail giants, a holdover from another era. Sears had been big for so long—a century—that it spanned conventional channel boundaries. It was both a mass merchant and a home improvement center. Another vestige of the old days was Sears's decades-old maintenance and replacement parts capability. No other big retailer even attempted this. And Sears was unique in one other respect as well. Sears alone in the handheld outdoor power equipment category merchandised its own store brand, Craftsman, which was private labeled from Husqvarna.

Independent Specialty Dealers

An independent dealer was typically a small, tightly focused retailer. Customers came to a dealer because they needed specific types of products and required someone who understood this area to help them find what they needed and ready it for use. Dealers came in all shapes and sizes. A kitchen and bath dealer might represent only a handful of brands and carry almost no inventory of the cabinets, sinks, floors, and fixtures it sold. An auto parts dealer, at the other extreme, valued inventory, figuring out the right part and having it on hand as soon as possible.

A dealer was set apart from—and above—more generic or less focused competition, and from rival dealers, by brands and service. A dealer was defined very much in terms of the quality and brand reputation of the products it offered. In parallel, a dealership was defined by the reputation of staff, the activities performed, and the quality of service. A good dealership, it was believed, helped customers in many ways. It backed its products with highly specific knowledge of how items operated, when to use them and when to choose an alternative, which sizes and features were better suited for which applications, how a product might fit with other products the customer already owned—in short, which model would be right for a customer.

The typical dealer in outdoor handhelds was usually a specialist in lawn and garden equipment. Lawn and garden was at most 5 to 10 percent of the product spectrum of a home center or mass merchant, and even less than that for mass merchants. Mowers were the keystone product of the lawn and garden dealer, and the main agenda for most customer visits. Surrounding mowers were other heavy outdoor equipment such as cultivators at the serious, professional end or, at the family consumer end, leisure equipment such as swing sets and jungle gyms. The dealer was limited only by real estate and dreams for defining the business.

Handhelds tools were supporting players in this world, although they could lend it considerable prestige. They could also provide the dealer with excellent annual sales per square foot, high margins, and a residual stream of after-sale repairs. **Exhibit 1** contains a description of a representative dealer.

How many businesses could be considered dealers of handheld outdoor power equipment? Stihl alone reported 8,000 exclusive and non-exclusive dealers. Remembering there were more than 20,000 hardware stores in the United States, and figuring that many of Stihl's dealers also carried Echo, Homelite, Husqvarna, or Black & Decker, it seems conservative to estimate that there were 15,000 relevant dealers in this channel in 2008. The exact number is unimportant. The critical facts remain that the channel was fragmented, channel players were independent, and there was plenty of room for a hard-working supplier to make bold, strategic moves to improve its position through the dealer channel.

Dealers—customers themselves of both manufacturers and their wholesalers—were the objects of a variety of marketing programs. Customer satisfaction data was collected by having dealers rate manufacturers' programs, both in terms of design and execution. Coincidentally, the North American Equipment Dealers Association (NAEDA) surveyed its membership around the same time that Peter Burton's group had its offsite retreat.

Burton and his advisors used cluster analysis to draw strategically meaningful conclusions and found that dealers perceived manufacturers in three distinct groups: a high-performance group of manufacturers, a middle-of-the-road group, and an underperforming group. These manufacturer classes showed up not only in aggregrate but also on most of the eleven specific dimensions of service that the NAEDA surveyed, including technical support, parts availability, returns policies, warranty policy, and responsiveness to dealers (see **Exhibit 2**).

Recutting the data to distinguish the three groups in terms of their performance of basic business tasks and measuring the value added by their less-tangible relationships with dealers, Burton's group noticed that the largest gap between high performers and low performers appeared in the quality of their relationships. The ratings given high performers held constant regardless of whether they were executing fundamentals or going the extra mile on relationships. Low performers trailed off on the "soft" side of service, relationships (see **Exhibit 3**).

Burton was gratified to learn that, when all was said and done, survey respondents rated Stihl highest of all manufacturers in its service to dealers (see **Exhibit 4**).

Online Retailers

Online retailers enabled their customers to do everything involved with buying a product—information gathering, selection, payment, and so on—via the Internet, with no need to visit a physical store. Amazon was the largest and best-known online retailer.

As an "electronic storefront," Amazon.com began listing books on its website in the late 1990s. Once a customer had made a purchase online, Amazon messaged the publisher with a request to drop ship a copy to the buyer from its own stockpile. This was still Amazon's basic method; it never took possession of inventory for most of the items it listed. Amazon gradually began selling music, films, electronics, and a wide variety of other products, including handheld outdoor power tools. And Amazon also began to carry its own inventory of items it had chosen for its core list. Customers who bought from Amazon's own stocks were eligible for free shipping and other advantages.

Comments on products that had been posted by earlier purchasers helped the online Amazon shopper decide whether or not to buy. Peers replaced trained staff as a source of information.

A glance through Amazon's listings of handheld outdoor power equipment showed less than a quarter of items were marketed by Amazon itself. The other 75 percent or more were supplied by businesses or private individuals all over the United States, and occasionally other parts of the world.

A closer look revealed that Amazon, trading on its own account, merchandised goods much as physical store-based retailers did. In chain saws, Amazon restricted its warehouse inventory to three brands (Makita, Poulan, and Remington). This was generally more than a neighborhood hardware store would carry and about the same as a home center. Amazon did not appear to be a high-volume retail platform in the outdoor power equipment category. Of fifty "chain saw" items listed on Amazon, 20 percent turned out to be unrelated toys, videotapes, and books.

Hybrid Channels Using the Internet

Conventional retailers and product manufacturers were also active online. Home centers, mass merchants, and many independent hardware stores maintained their own websites, complete with product photos, descriptions, shopping cart links, and transactional capability. In theory, a consumer could order a chain saw without leaving home and have the saw delivered the next day. In practice, it was not clear how much of that kind of online buying took place.

Experts believed most shoppers visited these retailer and manufacturer websites to research key purchase questions such as: What product choices are available? What are they good for? What stores carry them? How do they compare with alternatives? How much do they cost? Once consumers had done their online or 800-telephone number homework, they usually went to conventional stores to purchase.

Manufacturers, especially those like Stihl that relied heavily or exclusively on dealers, used their websites differently. Their sites were essentially highway billboards pointing shoppers to the nearest dealers. In this hybrid channel process, the manufacturer opened a direct channel to end customers on the Internet but limited its functionality for strategic rather than technical reasons. Rather than getting closer to the customer and offering to sell direct to the end user, Stihl had constructed an elaborate automated data-entry system that enabled and encouraged dealers to list individual product prices on dealer webpages that Stihl Inc.'s corporate marketing department had designed for the dealers' use.

Little, if any, direct-from-manufacturer channel sales appeared to be generated in the handheld outdoor power equipment category. Manufacturers showed little interest in competing with their retail distribution partners.

End Customers

Stihl marketed its products to two major categories of buyers: commercial and consumer. Commercial enterprises included landscapers, institutional groundskeepers, loggers, farmers, and construction companies that cut, pruned, or otherwise maintained plants and materials made from plants. Consumer end users bought the same kind of equipment as commercial buyers, but chose models that were simpler, more easily handled, and less expensive, which they used primarily on their own property.

On the sales floor, the distinction between commercial and consumer customers was not clear cut, nor was the distinction between the products they bought. Peter Burton's primary target at the time of the executive offsite retreat was, however, consumers—whom he regarded as homeowners (importantly, wives as well as husbands) who might choose to perform yard maintenance themselves.

Homeowners

With few exceptions, target consumers were still owners of single-family houses. Depending on where the U.S. economy stood in the home-buying cycle, between 33 and 40 percent of home sales were to first-time buyers. Buyers' average ages also fluctuated with the cycle, falling as younger, less financially established families entered the market when times were good and affordable credit was easier to obtain, then rising when the economy declined. As a general indicator, though, the main householder among first-time home buyers was 33 years old. Two-thirds of first-time home buyers were younger than 35, about 30 percent were between 35 and 55, and 5 percent were older than 55.

Buying your first hedge trimmer or leaf blower correlated to buying your first house. Few people needed lawn and garden products before then, so the great majority built their tool and equipment inventory from scratch. These first-time equipment buyers tended to select less capable, less durable models for the simple reason that they were more affordable. As this equipment wore out, broke, or began to require expensive maintenance, these homeowners often traded up. The ownership experience they developed had educated them about tangible and intangible cost factors beyond product price: the extra maintenance, shorter useful product life, missing features, greater danger to operate, time lost due to inadequate power or poor design, higher noise and emissions levels, and significant other sources of dissatisfaction with a low-end product.

Male versus Female

Purchasers of this equipment had historically been overwhelmingly male. However, because the separate costs of outdoor equipment (mower, hedge trimmer, edger, sprayer) could add up quickly, couples would typically discuss purchase options and price points before purchase. And following a broad, long-term retailing trend, women's influence over and share of final decisions and purchases was rapidly increasing, and their use of the product was on the rise due to lighter weight and easy-start features.

DIY versus DIFM

Homeowners had two main options for maintaining their grounds. They could choose the do-it-yourself (DIY) route or pay others to "do it for me" (DIFM). DIY was the lower-cost and, for many people, higher-satisfaction route. Ending the weekend with dirt under your fingernails was pleasing to a large number of people, young and old. But there had been a clear trend since at least the early 1990s toward increased DIFM, especially in better-off communities.

There were several factors at work behind this trend: growing wealth in the top 10 to 20 percent of American households; faster-paced, more time-constrained lives in which DIY became an added pressure and unfavorable opportunity cost rather than a source of relaxation and financial savings; influx of guest workers willing to perform landscaping work at a modest wage; and geographic concentration of landscaping jobs such that many assignments could be accomplished quickly and economically.

A Major Distribution Issue

Several years earlier Stihl had concluded that in high-volume distribution channels such as mass merchants and home center retailers, consumers were not receiving top service and support. It had been unable to get these big boxes to change. Like many suppliers, however, Stihl executives were somewhat overwhelmed by the mega-merchants' awesome buying power. Peter Burton said: "Category killers are intimidating. They tell you, 'We want you to lower your price next year'—or they just come out and say, 'Here's what your price will be next year, here's what guarantees you'll offer.' Bankruptcy is a genuine risk." But in the next breath, Burton admitted: "Category killers are also tempting. The numbers they quote are mind-blowing."

Even the biggest, best-known, most successful manufacturers with superb dealer networks as alternatives were tempted. Several years earlier, John Deere had agreed to put its name-brand mowers on Home Depot's shelves. Deere's solution was to structure an arrangement where a local Deere dealer performed the service business on Home Depot sales of Deere equipment. Home Depot referred consumers to the dealer, who got the service and parts business and a chance to prime the customer to think of the dealer first when shopping for a replacement.

And Burton could understand Deere's perspective. "You do get an adrenaline rush when the man from Bentonville comes to town," Burton admitted. "I'm not putting Home Depot or Lowe's down. I have the highest respect for them. These are huge, successful companies. But it's dicey sleeping beside the 800-pound gorilla. You don't want to be underneath when it rolls over in the middle of the night."

Stihl Inc. and Stihl AG headquarters in Waiblingen, Germany, both viewed the end-customer experience in big boxes as potentially a significant negative for their business. Floor staff were felt to be inexperienced, barely trained, and ill positioned to offer consumers much guidance. Finding products was difficult, evaluating them even harder. After-sales service and product maintenance operations were non-existent on premises. They felt that the best a customer with a product needing a tune-up or repair could hope for was that someone at the customer information desk would know of a third-party repair specialist. Prices were good, but only if price was associated with the product alone, not tied to the larger offering of product plus buying assistance plus after-sales support.

Stihl was concerned. "No service, no sale" was Peter Stihl's clear decision. Stihl would not supply Home Depot and Lowe's.

A Hit Advertising Campaign and Marketing Strategy

At first Stihl was content to poke friendly fun at the home center channel. Its playful television ad opened with a fresh-faced home-center employee looking blankly at a customer who had just asked him how to start a chain saw. The clerk asks the customer to wait, then runs over packing crates and out of the store, scales a chain-link fence, and races down the alley to a nearby Stihl dealer. There he asks for, and is given, quick instructions on how to operate the saw. The clerk then scampers back to the home center. As he races breathlessly up to the customer, the man in clear disgust stabs the soft end of a toilet plunger into the boy's chest, turns on his heel, and heads over to the Stihl dealer—where he finishes his shopping with a purchase and a smile.

If that was not enough of a tweak, Stihl then announced its decision to avoid the big boxes in unmistakable terms. It placed a series of full-page ads in the *Wall Street Journal* and other wide-circulation papers, as well as in key trade publications serving dealers, with headlines that read: "Why is the world's number one selling brand of chain saw not sold at Lowe's or Home Depot?" and "What makes this handheld blower too powerful to be sold at Lowe's or Home Depot?" Stihl's answer to its own questions was "our legion of 8,000 independent dealers" (see **Exhibit 5**).

But why run the risk of offending the great and powerful? "We wanted everyone to know we were putting all our eggs in one basket," Peter Burton explained. "That meant customers—surveys indicated that 60 percent of consumers thought Stihl was sold in Home Depot. And everyone meant our dealers themselves. We want dealers to be exclusive with us, so we decided to demonstrate in the strongest possible way that we were going to be exclusive with them."

Many experts—and many of Stihl's dealers—were convinced Stihl would never live up to this promise. They were sure Stihl would start thirsting for volume and enter the big-box trough. "It's only a matter of time," more than a few of them told Burton, "before you turn to the mass merchants."

But Burton insisted such a move would blow the strategy. "A strategy is about being different in an important way. Our messaging highlighted that difference. That's why I think growth through our high-value specialty dealers was potentially unlimited."

At first glance, Stihl's strategy seemed to be working. Sales took off, even while growth at the giant home centers faltered.

Demography: Lead Indicator to Stihl Inc.'s Next Go-to-Market Strategy

Peter Burton was proud of Stihl's dealer network. He was confident Stihl's management was right to put its chips on dealers by running the "Why Isn't?" advertising campaign. At the same time, he realized that no empire was forever. Dealers certainly had their weaknesses. For example, the fear of, or inability to, computerize was a big evolutionary hurdle dealers would have to surmount. And who could say dealers would always be the answer for consumers? The world would change, and lately something important seemed to have changed every time Burton checked his watch.

Unpredictables

As Burton met with his team in 2008, dark clouds had gathered over the U.S. commercial environment. After extended sunshine, housing starts, home sales, and real estate prices had all contracted. Bankruptcies were up, record numbers of mortgages were in default, and credit had tightened. The inflation rate threatened to climb in response to demand pressures on constrained supplies of oil, natural gas, and food. The employment market continued to shift away from skilled, higher-paying jobs toward less skilled, commodity forms of employment, and huge swatches of jobs were often eliminated altogether as more companies moved operations to offshore locations. Important details of this economic background were hotly debated by experts, but one thing seemed clear: Burton's team needed to prepare for possible drastic transitions in their market environment. It was a time of major uncertainty.

Predictables

Some things, like the timing of a housing boom or bust, would always be hard to predict, but others should be easier to see coming, Burton reasoned. What were the big predictables, and how should Stihl roll with them?

"Demography is destiny" was a phrase Burton had heard experts fall back on when pressed for their thoughts about the future. It seemed like a safe starting point. After all, today's population waves were set in motion years ago when tomorrow's consumers were born. Burton and his team decided to concentrate on three long-term consumer demographic changes they had read about: changing population makeup, changing levels of income, and changing behavior and attitudes.

POPULATION CHANGES

Burton's team knew there were at least two important dimensions here, changing ethnic mix and age cohorts moving into new stages of life.

- *Ethnically,* the United States of the predominantly white Baby Boom generation was fading into the background. A study highlighting changing ethnic composition in the public schools between 1994 and 2005 reported the proportion of white students fell from 66 to 57 percent, for black students the proportion rose slightly from 16 to 17 percent, Hispanic students rose from 12 to 20 percent, and Asians held constant at 6 percent of total. "Ethnic" Americans (meaning nonwhite) were fast becoming a significant and diverse portion of America's future home owners and buyers of handheld outdoor power equipment. Burton had also read that people were now twice as likely to categorize their racial/ethnic background as "mixed" as they had been a few years before. Did any of this matter strategically to the network of Stihl dealers and the company's marketing?

- *Generationally,* what was new was partly a matter of numbers. The Baby Boomers, born between 1946 and 1964, had been a huge bubble in the population pipeline (78 million) that had blessed all manner of consumer products companies with its spending but which was about to spend less and differently than it once had. Physically, they would also be slowing down. What would their quasi-retirement mean for equipment revenue streams that had been built for Boomers using their hedge trimmers and leaf blowers on Saturday mornings?

  Already replacing Boomers was the so-called Generation X, or slackers, born roughly between 1965 and 1984. This generation was also called the Baby Busters, being a 30 percent smaller group (55 million) than the Boomers. Gen Xers had already moved into their peak tool-buying years and would by rights be Stihl's prime marketing targets. Age 45 was when first-time home buyers were most likely to "trade up" to their next place. Were there enough Gen Xers to make a renewed investment by Stihl pay off as well as earlier campaigns had? And would the same marketing approaches work?

  In coming years, Generation Y would bring the youth population numbers back up again (to 79 million). The oldest of these so-called Echo Boomers, born between 1985 and 2003, would start buying their starter homes in about five years, and then purchasing could take off. The spending habit was lodged deep within them. Echo Boomers were reported to be spending five times as much, inflation adjusted, as Baby Boomers had at comparable ages (and Boomers had been considered the reigning kings and queens of consumption).

INCOME CHANGES

For Burton, one statistic meant more than all the others combined, and it scared him. Young adults were being seen as the first American age cohort, certainly since World War II, in which the average child made less money than his or her parents did at a comparable age. Compounding the problem, those in their twenties carried more debt than their parents did, owing in part to the loans they had needed to pay the elevated costs of higher education. How, Burton wondered, do you grow sales by marketing to people in that condition?

BEHAVIOR AND ATTITUDE CHANGES

- *Behavior.* As Burton and his group talked on, they recalled more trends that might have a bearing on their marketing efforts. Generation X was marrying later, Generation Y later still, so they were buying their first homes later. However, more single people—including single women—were buying homes, too. Young adults were leaving their jobs sooner to try something else. They were joining new Internet-based social networks.
- *Attitudes.* Everyone at the table had their own impressions of the attitudes of Generation X, Generation Y, and Boomers. They jotted these down in columns to start brainstorming about how Stihl might address them (see **Exhibit 6**).

Then they added a fourth column of line-by-line ideas for how Stihl might respond with go-to-market strategy changes. As they did so, several people made suggestions based on analogous situations they knew of in which companies retooled distribution channel systems centered on motorcycle dealerships, home appliance warehouse centers, and independent financial services agencies.

One junior marketing manager, a Gen Y'er herself, had seen an article that seemed related in that morning's *New York Times Online*. It described how luxury goods maker Cartier was experimenting with social networking sites such as MySpace to drive growth (see **Exhibit 7**). She was intrigued by the idea, she said, and wondered how others in her age group would respond in Stihl's category.

It was an interesting question, but more thought would be needed. They pulled out the new market research results they had been handed earlier (see **Exhibit 8**), and began to address four intensely important strategy questions:

1. Was our decision to avoid the home-center channel a good one? What are the benefits of sticking with it? What are our concerns?

2. What should we change, if anything, in how we go to market as Generation X and (later) Generation Y mature into home-owning, tool-purchasing consumers?

3. Looking forward three to five years, does our total reliance on our dealers continue to make sense?

4. If a multi-channel system appears more suitable to market needs and Stihl corporate objectives, how can we get there from here?

Burton and his team doubted that they would have the answers to those questions and others that evening.

Kellogg School of Management

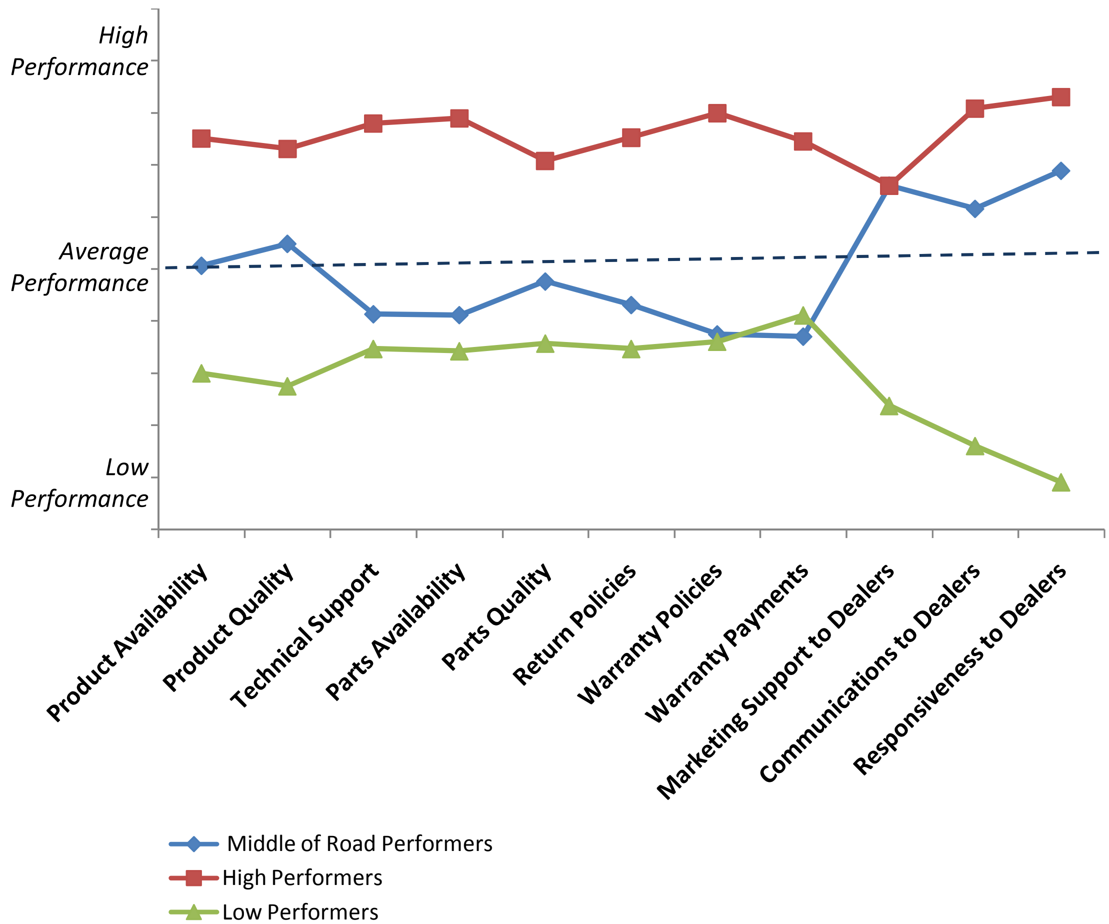
NORTHWESTERN UNIVERSITY

Exhibit 1: A Specialty Lawn and Garden Dealer

Dehne Lawn and Leisure sat between a corner gas station and a municipal vehicles yard in a suburb of Chicago. The apportionment of square footage in the main building spoke volumes. Dehne's showroom was about 30 by 40 feet; the repair service workshop behind it was not much smaller, and the service window and parts department added another 20 by 40 feet. In other words, sales, service, and parts got roughly equal real estate. Management had a couple of desks in the parts department. Outside, half the grounds were given over to parking and overflow space for peak season. The other half of the grounds, located in front to attract attention and surfaced with grass and wood chips, was an outdoor showroom for children's playground sets, gazebos, and a few work sheds. Back inside, mowers had pride of place, lined up in two rows at the center of the showroom.

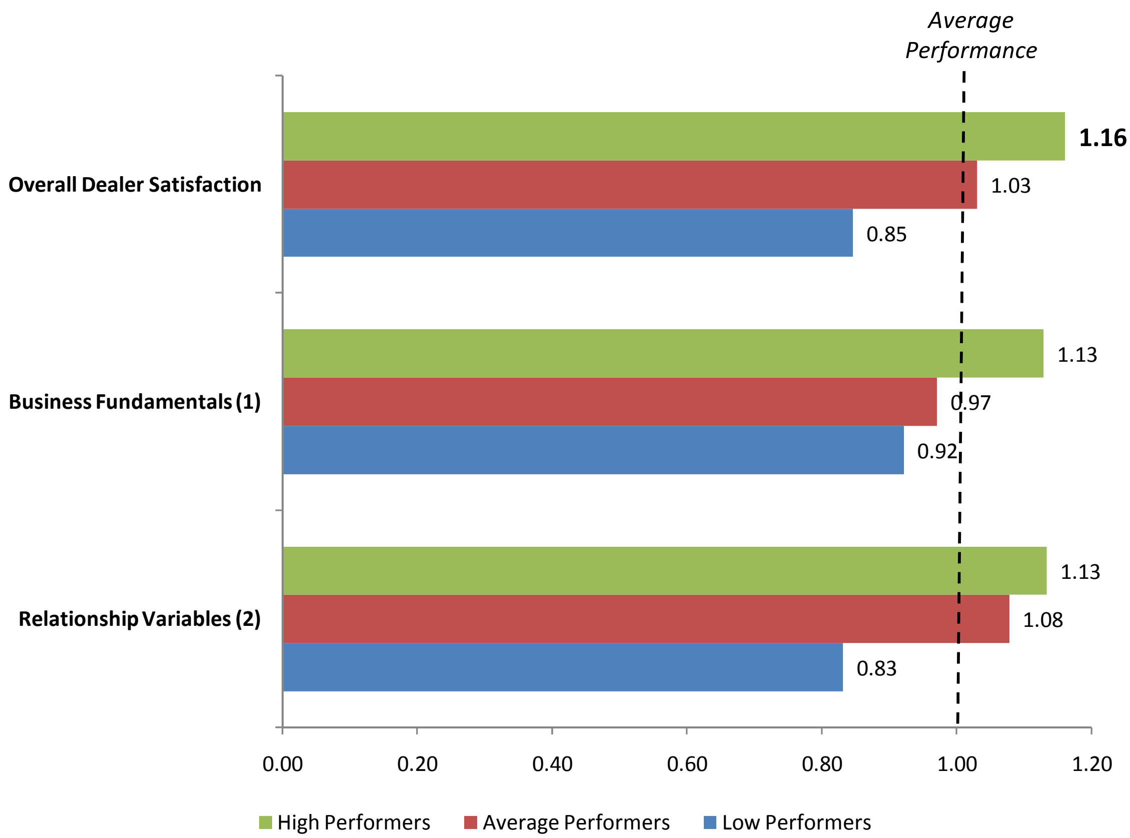
Dehne's carried three mower lines, good/better/best, Lawn Boy, Toro, and Simplicity. Two handheld brands, Stihl and Echo, lined opposing walls and each brand's signage was displayed prominently. Both Stihl and Echo were high-end brands, so the customer was being given a better/best choice in handhelds, the implication being that top-performing, long-lasting equipment was essential to the customer's purchase of handhelds. The real issue was for the customer and the dealer, working together, to determine which specific items of quality equipment, attachments, and auxiliary equipment such as gas tanks or safety helmets were most suited to the customer's operating needs, level of skill, and storage constraints.

Exhibit 2: Manufacturers Differ in Dealer Channel Performance



Source: 2008 Dealer-Manufacturer Relations Survey; provided courtesy of North American Equipment Dealers Association (NAEDA)

Exhibit 3: Fundamentals Critical to Overall Dealer Satisfaction



(1) Includes product availability, product quality, technical support, parts availability, parts quality, return policies, warranty policies, warranty payments

(2) Includes marketing support, marketing communications, and overall responsiveness

Source: 2008 Dealer-Manufacturer Relations Survey; provided courtesy of North American Equipment Dealers Association (NAEDA)

Exhibit 4: Stihl Rated Highest in Overall Dealer Satisfaction

High Performers	Average Performers	Low Performers
Stihl #1 Honda Echo Toro	Bush Hog Kubota Bobcat Polaris	Husqvarna Cub Cadet Case IH John Deere Snapper

Companies listed in each column in order of overall Dealer Satisfaction score

Source: 2008 Dealer-Manufacturer Relations Survey; provided courtesy of North American Equipment Dealers Association (NAEDA)

Exhibit 5: Stihl Advertising Campaign, 2007–2008

Why is the world's number one selling brand of chain saw not sold at Lowe's® or The Home Depot?®

We can give you 8,000 reasons, our legion of independent STIHL dealers nationwide. We count on them every day and so can you. To give you a product demonstration, straight talk and genuine advice about STIHL products. To offer fast and expert on-site service. And to stand behind every product they carry, always fully assembled. You see, we won't sell you a chain saw in a box, not even in a big one.

When you're looking for the one chain saw that meets your needs, you'll find it in the STIHL line.

Consider the situation.

You're shopping for a chain saw. You know what you need to accomplish, but you're not sure what saw - or what brand - to buy. It really boils down to which chain saw manufacturer can give you what you need, along with the assurance that it'll be around as long as you need it.

You can't go wrong when you choose a STIHL.
The name "STIHL" has been around for about as long as chain saws have. Andreas Stihl developed the first electric chain saw in 1926 and one of the first portable, gasoline-powered chain saws in 1929.

Now, over 80 years later, STIHL is a world leader in the manufacturing of versatile consumer and professional chain saws and other power tools. There are many models in the STIHL line to allow homeowners, weekend woodcutters, farmers, professional loggers, landscapers, construction crews and fire departments to find the one saw that fits their needs.

The Rental Center of Monticello
Is proud to be a STIHL dealer and has been for over 7 years. We have quickly gained invaluable knowledge and experience in much of the STIHL line. It is our choice for Rental Items and carry a good selection of chainsaws, gas trimmers, bars, chains, sharpening tools, string, and more STIHL accessories and safety products.

Please go to STIHL USA to view the complete STIHL product line. The Rental Center carries stock in much of the popular items and can order any product and have in in out store within a couple of days.

Exhibit 6: After-Dinner Flipcharts: Group Brainstorming

Baby Boomers (1946–1964)	**Generation X** (Busters: 1965–1984)	**Generation Y** (Echo Boomers: 1985–2003)	*Stihl Responds . . . ?*
Self-centered, acquisitive, "all about me"	Cynical, disenchanted	Demanding, loud, immediate gratification, entitlement	
Children of Organization Man	Isolationist	Like to work in teams, create interactions	
Want retirement	Want freedom	Want challenges—active, optimistic	
Live in a house	Live in a loft	Live in cyberspace	
Work ethic	Reject Boomer values	'Tis better to give *and* receive	
Sound bites	Deadpan	"Can the spin." "Be real" with us	
IBM	Microsoft	Apple	
Linear planners, organizing plodders		Game Boys—overstimulated, short-term thinkers	
Jogging	Gym workouts	Extreme sports	
Rebelled → heads down	Shrug, smirk	Question everything	
	Distrust corporate	Dislike rules, policies, restricted access	
Analytical	Subversive	Non-traditional solutions	
Work/life separation		Work/life balance	
	Interested in personal finance	Expect to control own time	
Work as adventure	Entrepreneurial	Work to live, not live to work	
Professional advice, specialists	Messaging: word of mouth, email	Messaging: blogs, chat rooms—no mass marketing	
Tell me what to do	I'll find it myself	Give me info, but I call shots	
SUVs	Honda Civic	Bikes in the city	
Designer brands	Grunge	Fast fashion	
Democrat/Republican	Political apathy	Independent	
Divorce	More divorce	Cohabitation	

Sources: "From Workplace to Marketplace: Millennial Work Values Translate to Brand Opportunity," *Iconoculture*, July 2007; "Closing The Gaps Between the Ages," *Chicago Tribune*, July 21, 2008; "Attracting the Twentysomething Worker," *Fortune*, May 15, 2007; "Generation X Was Getting a Financial Life," *Wall Street Journal*, October 27, 1996; Ken Gronbach, generational marketing consultant, http://www.kgcdirect.com; Wikipedia, "Generation X."

Exhibit 7: Cartier Turns to MySpace for Growth

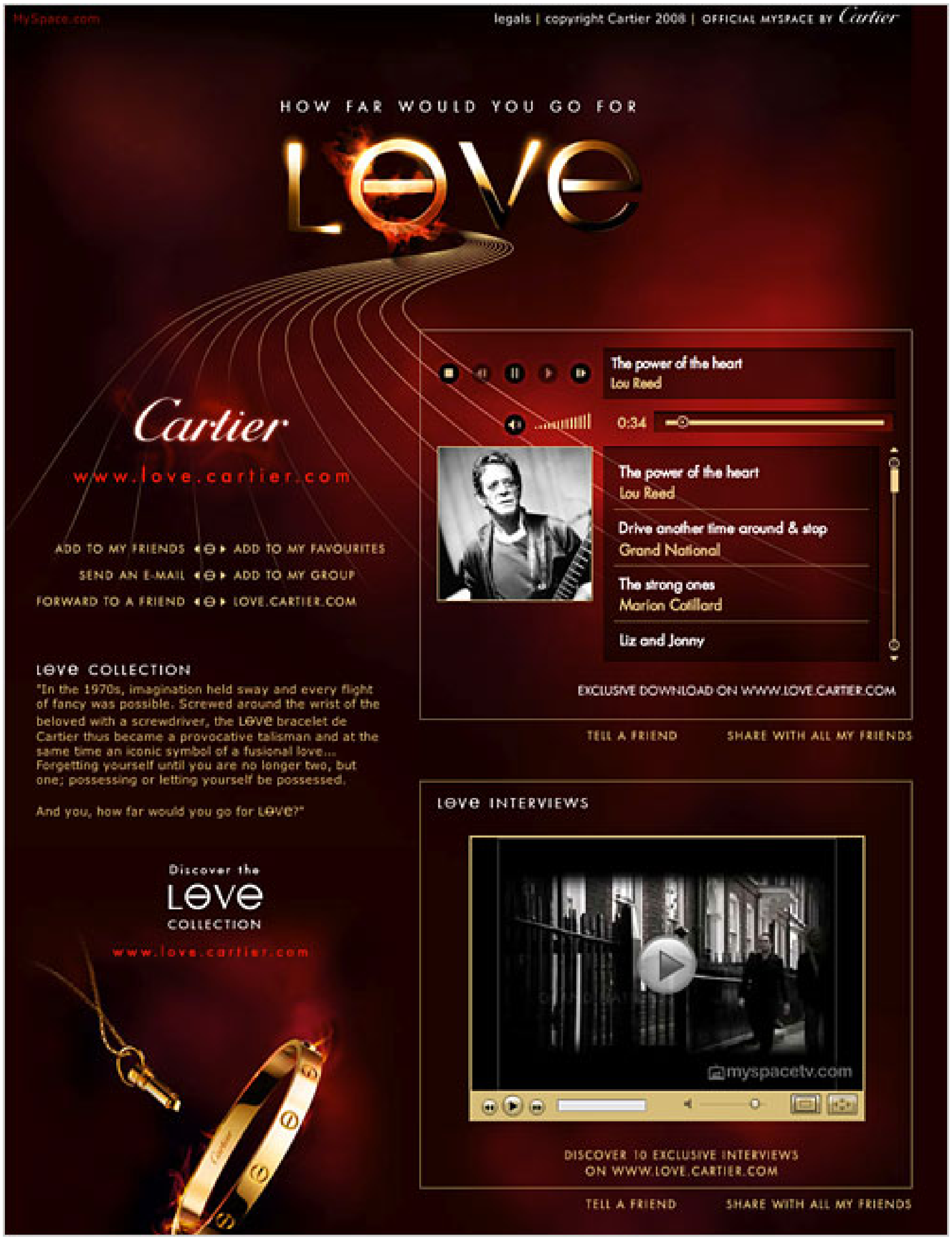


Exhibit 8: Market Research Data on Do-it-Yourself (DIY) Consumers

Undertook home improvement in the past twelve months, May 2006–June 2007 (%)

	All ages	18–24	25–34	35–44	45–54	55–64	65+
Did home improvement in the past 12 months	44	39	41	48	50	47	36
Self or other HH member did home improvement	34	31	36	39	39	34	21

Source: Mintel/Greenfield Online

Base: 2,000 adults aged 18+ with access to the Internet

Number of DIY projects undertaken, January 2008 (%)

	All ages	18–24	25–34	35–44	45–54	55–64	65+
None	49	36	43	46	53	54	60
1	15	18	15	15	15	14	14
2	16	20	17	18	15	15	14
3–5	14	21	16	16	9	14	9
6–11	3	3	6	3	3	2	1
12 or more	2	2	3	3	4	0	1

Source: Mintel/Greenfield Online

Base: 2,000 adults aged 18+ with access to the Internet

Enjoyment of all projects and preference for professional help, January 2008 (%)

	All ages	18–24	25–34	35–44	45–54	55–64	65+
Enjoy all	40	44	44	40	42	30	32
Enjoy smaller projects only	56	52	52	55	53	64	61
Always prefer professional	5	4	4	5	5	5	7

Source: Mintel/Greenfield Online

Base: 1,016 adults aged 18+ with access to the Internet who undertook DIY projects in the past twelve months

Exhibit 8 *(continued)*

Source of information for DIY projects, January 2008 (%)

	All ages	18–24	25–34	35–44	45–54	55–64	65+
Friends	53	63	60	56	48	39	48
TV shows	47	40	46	49	54	50	41
Retail stores	43	35	40	49	41	48	49
Staff	24	20	20	28	22	27	30
Website	19	18	21	23	19	16	18
Printed material	16	7	14	21	16	20	20
Classes	6	2	9	8	5	2	4
Websites	41	40	44	44	45	41	26
Magazines	29	26	27	28	28	34	36
Newspapers	16	14	13	14	15	22	24
Radio shows	5	3	8	5	5	4	4
Other	7	6	2	6	8	6	13

Source: Mintel/Greenfield Online

Base: 1,016 adults aged 18+ with access to the Internet who undertook DIY projects in the past twelve months

Source of advice when "stuck" with DIY project, January 2008 (%)

	All ages	18–24	25–34	35–44	45–54	55–64	65+
Professional friend/family	46	50	53	48	43	41	37
DIY website	40	47	51	43	41	31	22
Nonprofessional friend/family	37	45	36	41	33	30	33
Store employee	32	31	27	28	29	38	41
Books/magazines	25	18	28	29	28	21	21
DIY store website	24	23	28	25	25	18	18
Professional	15	19	17	17	14	12	11
Other	3	1	2	2	3	5	7

Source: Mintel/Greenfield Online

Base: 1,016 adults aged 18+ with access to the Internet who undertook DIY projects in the past twelve months

Exhibit 8 *(continued)*

Preferred retail locations for purchases of lawn and garden power tools, May 2007 (%)

	All ages	18–24	25–34	35–44	45–54	55–64	65+
Large home improvement stores (e.g., Lowe's or Home Depot)	69	71	69	74	71	66	63
Mass merchandisers (such as Wal-Mart or Kmart)	37	40	38	41	35	38	28
Department stores (such as Sears)	21	19	17	21	20	26	24
Smaller hardware stores (e.g., Ace or True Value)	17	16	19	15	18	18	13
Other	9	4	5	8	10	10	17

Source: Greenfield Online/Mintel

Base: 1,449 adults aged 18+ years with access to the Internet who own any lawn and garden equipment

How work was shared/completed, January 2008 (%)

	All ages	18–24	25–34	35–44	45–54	55–64	65+
Paid friends to help	13	17	15	12	12	14	10
Attended a "work party"	13	18	17	15	12	9	5
Was paid to help finish a project	12	28	15	12	8	3	3
Hosted a work party	9	11	16	10	7	2	4
Had professional finish a project	5	7	6	6	5	6	2
None of the above	64	48	59	65	67	70	80

Source: Mintel/Greenfield Online

Base: 1,016 adults aged 18+ with access to the Internet who undertook DIY projects in the past twelve months