

# LONGABERGER BASKETS™

## Changing Marketing in Changing Times

“At Longaberger Baskets we have a great deal to make us proud,” indicated Tami Longaberger-Kaido, President of Marketing and Sales, reflecting in her office at corporate headquarters in Zanesville, Ohio, on company progress over the past ten years and the objectives for 1990. “We have an enthusiastic sales force, talented craft people working in our manufacturing operation, and a hand-crafted product of excellent quality. But right now, however, we’re having to say to our sales consultants, ‘come into direct sales and be all you want to be, recruit and grow, make the money that you want to make, you own your own business, but don’t sell too much, because we can’t fill the orders.’” The home office had just instituted another “recruiting freeze” which eliminated altogether the recruitment and acceptance of new sales consultants for an indefinite period of time.

The Longaberger Company is a privately held manufacturer and distributor of fine quality wicker baskets. Founded in 1972 in Dresden, Ohio, by David W. Longaberger, a struggling and creative entrepreneur, the firm drew on skills in basket making that had been mastered by the Longaberger family and passed on for almost 100 years. At the beginning of 1990, the firm had two main divisions: Longaberger Manufacturing, Inc., which manufactured the product, and Longaberger Marketing, Inc., which sold the product. The Longaberger Family of Companies consisted also of several retail stores, a construction firm, and various service oriented firms. In 1990 the firm had sales of over \$100,000,000. Projected sales for 1991 were \$144, 000,000.

Senior management had concluded that much of its problem of excess demand had occurred because it had such a “wonderful product.” The product was thought to have made the company successful, because “if you want a Longaberger basket and you want a good quality handmade basket, you have to buy it from us. You can’t buy it anywhere else in the world,” noted a management representative. Management felt that demand for the product was twice what could be supplied by the manufacturing division with seasonal fluctuation. Supply was limited because Longaberger baskets were woven by hand by highly skilled artisans in existing company plants.

To meet this challenge, management tried to get control of the situation by examining a number of alternatives and implementing a number of strategies. It considered measures which would limit basket sales growth in periods of peak demand. It introduced efforts to maintain satisfactory net profit margins. In an attempt to minimize company dependence on basket production it continued to explore opportunities for new product development in a product diversification effort. At the same time it attempted to maintain high production, quality control, and customer service standards.” The plan was to prepare the company for solid growth in the future.

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This case was prepared by James W. Camerius of Northern Michigan University and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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## **THE LONGABERGER HERITAGE**

The Longaberger Company was founded in 1972 as the Longaberger Basket Company in Dresden, Ohio, by David W. Longaberger. The company started with a family heritage of basket making that could be traced back almost 100 years, five weavers, and one salesman. The first baskets were sold on consignment to retail stores in Roscoe Village, a restored mid-Ohio canal town. Later, they were sold under the name of “Wendell’s Handwoven Baskets” in a building the firm acquired in Dresden, and to retail stores throughout Ohio and neighboring states.

The first baskets were made, until his death, by John Wendell Longaberger, David’s father, and afterward by other basket weavers in the Dresden location. Longaberger Plant Number 1, a former woolen mill, opened in 1975. The Asplin Basket Company, which supplied high-quality hardwood materials needed to make the baskets, was acquired as Plant Number 2. Plant Number 3, a former paper mill, housed departments making handles and bottoms for baskets. In 1990, the firm opened a new manufacturing facility in Dresden, Ohio, which in company literature was identified as the “largest basket factory of its kind in the world.”

Much of the initial and continuing success of the firm was attributed to the entrepreneurial spirit of David W. Longaberger, President and Chief Executive Officer. He traced his business philosophies to “the constant, positive reinforcement” his family gave him while growing up in Dresden, Ohio (1980 population, 1,516). “If I had to sum up what I’ve learned from my mother and father that I use in business today,” suggested David Longaberger, “it’s be strong, be firm, but be fair.” A strong sense of “family spirit” guided the company through the challenges and setbacks of its early years and continued as indicated in company literature as a “family spirit for thousands” when the firm grew larger.

President David Longaberger, locally known as “Popeye” because of a facial characteristic, had gained business experience in a number of areas, including managing a restaurant, operating a food store, running a movie theater, selling door to door, and delivering in-route. In the early 1970’s, feeling that his career had reached a plateau, he explored other career opportunities. In his travels he noticed that department stores were selling large quantities of baskets which appeared to be of inferior quality to those his father had produced. He also noticed that Americans were taking a more active interest in their past, and that antiques and handcrafted collectibles were becoming more popular. He concluded that the timing was right to reintroduce Longaberger baskets.

Longaberger baskets were well received in the market. Despite some early difficulties with local financial institutions and the Internal Revenue Service, the firm survived and grew. In 1979 there were forty full time employees and thirty sales representatives. In 1980 there were seventy employees and fifty sales representatives. A series of early local promotional events such as “the world’s largest basket” exhibit at the Ohio State Fair and special price promotions, resulted in sales growth.

## **THE BIRTH OF A LONGABERGER BASKET**

The company was proud of its heritage and reputation as “America’s master basket makers.” Management wanted the firm to be positioned as an “elite basket maker company whose products were all hand-made with quality materials.” “Baskets to us,” indicated David Longaberger, “represent the American ideals of family tradition, integrity, hard work, and dedication to quality.” It was the intent of management to create a quality product.

All baskets were made in a traditional way, by hand, from the “finest of maple wood with a deep rich grain” by the manufacturing division. The selection of logs, the cooking and veneering of the wood, the sorting of splints, the weaving process, and the final finishing of the product were completely controlled by Longaberger. To emphasize the point that no two Longaberger baskets were ever alike, they were signed and dated by the individual weaver. Originally intended for everyday day use in a functional capacity, the baskets were also featured as appropriate for gift giving, multiple usage, and collecting. They varied by color, weaving style, shape, and purpose. There were eighty different baskets in the Longaberger product line. Cake and pie baskets were designed to “take...delicious baked goods to town gatherings.” The spoon, chore, laundry, bread, berry, umbrella and key baskets were intended to perform in similar functional capacities. Fruit, vegetable and waste baskets were available in various sizes. Peg, doll cradles, and “kiddie” purses had novelty uses and were also suggested as gifts. The Longaberger measuring baskets had square bottoms and round tops, so they would be “perfect for measuring feed and grain for livestock.” Picnic and berry baskets were featured to “encourage family traditions.” Cloth and plastic basket liners were carried as supplements to the product line.

## **THE MARKETING DIVISION**

Tami Longaberger-Kaido was appointed Vice President of Marketing in 1984. A daughter of David Longaberger, she had joined the firm upon receiving her Bachelor of Science Degree in Marketing from The Ohio State University. Company promotional literature referred to this appointment as “...making a total of four generations of Longabergers devoting themselves to sharing their family’s handicrafts with others.” Longaberger family involvement in the organization and affiliate companies in 1990 is found in Appendix A.

In addition to Tami Kaido, the management team in the marketing division consisted of a number of individuals who introduced marketing into the firm. Bonnie Callahan, an Ohio State University graduate in Marketing, became Director of Sales Development with responsibilities for marketing literature, incentives, and the creation of new products in the basket line. John Dinan, who had an MBA in Marketing from Xavier University, became Director of Product Marketing in charge of diversification of the product line and other special projects. Greg Stemen, a graduate of Ohio University in Management; became Marketing Research Manager in 1987, responsible for all statistical information about the product, sales consultants and the market. “When I came here, Tami Kaido noted, “we were very much a sales orientated company with a vice president of sales. Over the past six years, we’ve evolved to really identifying ourselves as a marketing oriented company.” In this context she suggested, “the strategy

changed from producing a product that was very good, and then telling the salespeople to sell it, to identifying products that fit the market and what its needs might be.”

So its been tremendous growth,” Tami Kaido stressed in a later interview, “but it certainly has not come without its challenges. You just don’t experience growth like that.. a big challenge was to decide at what point in time we were going to move from being a small family business to be a large multi-million dollar corporation.”

## **THE NATURE OF THE COMPETITIVE ENVIRONMENT**

Longaberger management had identified three basic types of competition in the external environment: (1) other basket manufacturers who sold a similar product, (2) other direct selling companies who competed for hostess and customer time and sales recruits, and (3) retail department and specialty stores which sold similar products primarily on impulse.

### **MANUFACTURERS**

Only a limited number of firms were identified as traditional competitors in basket manufacturing domestically. Royce Baskets, owned by a former Longaberger employee, were sold out of a retail shop in Dresden, Ohio. The Country Home Collection of Lordstown, Ohio, was started by a former Longaberger Sales Director. It had a marketing program in direct sales similar to Longaberger with approximately 200 sales representatives. Longaberger management felt that on a nationwide level neither type of firm had a major impact on Longaberger sales volume or profitability.

### **DIRECT SELLERS**

The direct selling industry consisted of a few well-established companies and many smaller firms which sold a wide range of products and services including toys, animal food, plant care products, computer software, financial services, and clothing. Among the dominant companies which competed for customer time, sales recruits, and hostesses were Mary Kay Cosmetics, Avon (cosmetics), Amway Corporation (home cleaning products), Shaklee Corporation (vitamins and health foods), Encyclopedia Britannica, Tupperware (plastic dishes and food containers), Electrolux (vacuum cleaners), the Fuller Brush Co. (brushes and household products), and Home Interiors (decorating aids). “I feel like we compete against other direct sales companies for hostess time. And for customer time,” noted Tami Kaido. “People aren’t going to go to a different direct sales show every single night of the week. We compete for recruits in that same area as well,” she suggested.

### **RETAILERS**

Retail stores were identified as the major form of direct competition. Traditional department stores like Lazarus, Rich’s, J.C. Penney, and Dillard’s; discount department stores like Kmart, Wal-Mart, and Target; and specialty stores like Pier 1 Imports and Crate and Barrel were noted as the most “hostile” form of competition.

Foreign made baskets from the Philippines and Taiwan were readily available in retail stores and were subject to purchase by impulse. Management felt the greatest challenge was “trying to convince the consumer why they should come to a home show and buy a basket versus going down to Kmart or Wal-Mart when they think of it or feel like purchasing.”

## **THE DIRECT SELLING PROGRAM**

In the original direct selling program, baskets were sold through independent distributors, who bought and resold the product. In the new marketing program audiences were identified; a sales manual was introduced; company procedures, policies and publications were developed; and the Longaberger family image was established. Management felt that the new market program was responsible for the tremendous growth that the company had experienced and its challenges.

## **THE ORIGINAL SALES PROGRAM**

From 1973 to 1977, management sought alternative ways to market the product. Although demand for the baskets continued to increase, sales through retail stores proved to be increasingly difficult. Through the initiative of a sales representative of Copper Craft, a firm involved in direct selling in the Youngstown, Ohio area, Longaberger baskets were sold at shows in customer homes. “Once I got to the shows, people keep asking me where did you get those baskets that you use to carry the product,” indicated a Copper Craft representative.” A basket party program, modeled after the highly successful Tupperware parties, was developed. “As soon as I heard about having a basket party in someone’s home, I knew this was it,” maintained David Longaberger. “The idea hit me like an explosion.” The firm became a direct selling organization in 1977. Selling through retail stores was discontinued.

## **THE NEW MARKETING PROGRAM**

In the new marketing program, which was introduced in 1981, emphasis was placed on uniformity and control in hostess programs, customer specials, incentives, and commissions. Three specific audiences were identified: the customer, the consultant, and the hostess. The sponsor of a basket party or “hostess” became the link between the sales representative of the firm or “consultant” and the potential customer. The hostess, guided by the consultant, invited potential customers like family, friends and neighbors to her home, served refreshments, and generally was instructed to “make everyone feel welcome.”

During the formal sales presentation, the consultant told about the Longaberger family, discussed how the baskets were handcrafted, and demonstrated the many uses of the baskets. At the close of the show, the guests and Hostess were expected to make their product selections and make final payment on their orders. The baskets and other products were shipped via United Parcel Service to the show’s hostess. Guests were also encouraged to have their own shows and to become hostesses. Hostesses were encouraged to become recruits who might ultimately become Longaberger consultants.

The consultant, in the role of a Longaberger associate, was essentially an independent agent who had entered into an agreement with the firm to demonstrate and sell Longaberger products. Management considered the recruiting of friends and acquaintances to represent the firm as consultants to be the key to the company's long-term growth and success. The title of "associate" generally referred to "consultants," "advisors," and "sales directors," in the sales organization. The new consultant was expected to purchase a "starter kit" from the company and to adhere to a number of primary duties or responsibilities. In the Longaberger sales tradition, these responsibilities included sharing the Longaberger story and opportunity with others, establishing a personal sales goal of at least \$500 a month, and using home shows as the primary source of sales, bookings and recruiting efforts. Consultants were expected to be knowledgeable about current products and company issues by reading company material and by attending meeting and training sessions sponsored by the firm.

The management structure afforded commissions at three levels in the sales structure above the consultant: (1) Branch Advisor, (2) Regional Advisor, and (3) Sales Director as shown in Exhibit 1. The Consultant received an immediate commission by retaining 25% of the money collected on party guest sales. The remaining 75% of the selling price was sent to the home office. The home office returned 5% to a Branch Advisor, 3% to a Regional Advisor and 3% to a Sales Director who was in charge of three regions. For example, in Exhibit 1, the Branch Advisor received a 25 % commission on personal sales, and a 5% "override" commission on total branch sales from the home office. Additional percentages were obtained on sales of individuals who were later "promoted out" to assume similar or higher level positions of responsibility in the organization. At each management level the individual had the opportunity to apply motivational skills, sales promotion, and recruiting talent to increase sales and earnings.

About 36% of every sales dollar that came in was paid out in sales commissions to Associates in the complex structure. There were no geographic sales territories. Management placed emphasis on selling the firm's products, as well as the recruiting of other participants in the program. The firm was a member of the Direct Selling Association and adhered to its code of conduct concerning multi-level organizations and the abuses that often came with over emphasis of the management hierarchy, recruiting, and the commission plan of compensation.

The direct selling marketing program was based on nostalgia, heritage, and tradition as reviewed in the Longaberger Company Philosophy in Exhibit 1. Dresden, where many of the buildings and businesses were owned by the firm, was described in company literature as a "little town nestled in the mountains where all the houses were painted white and all the porches had flowers." The plant in Dresden was presented, as a place where "several happy weavers were making baskets in a small and rustic setting." The Longaberger family was strongly associated with the baskets and their uses. Each basket had a history and was signed by the weaver when it was completed.

The basket parties were "setting a mood for the customers to associate the baskets with the aesthetics of days gone by, quality of workmanship and decorative and useful applications."

“Basket parties were like a time machine,” indicated an early sales executive. “They took a step back in time to a more calm and peaceful era, when your neighbors had time to talk to you and families ate together and everyone sat on the front porch and talked. We told them about the old time uses and many would just nod their heads because they could remember.” “We’re not just selling a basket made of wood,’ suggested Bonnie Callahan, Director of Sales Development. “We’re selling the history, the story, the feelings, and the emotions behind it,” she noted.

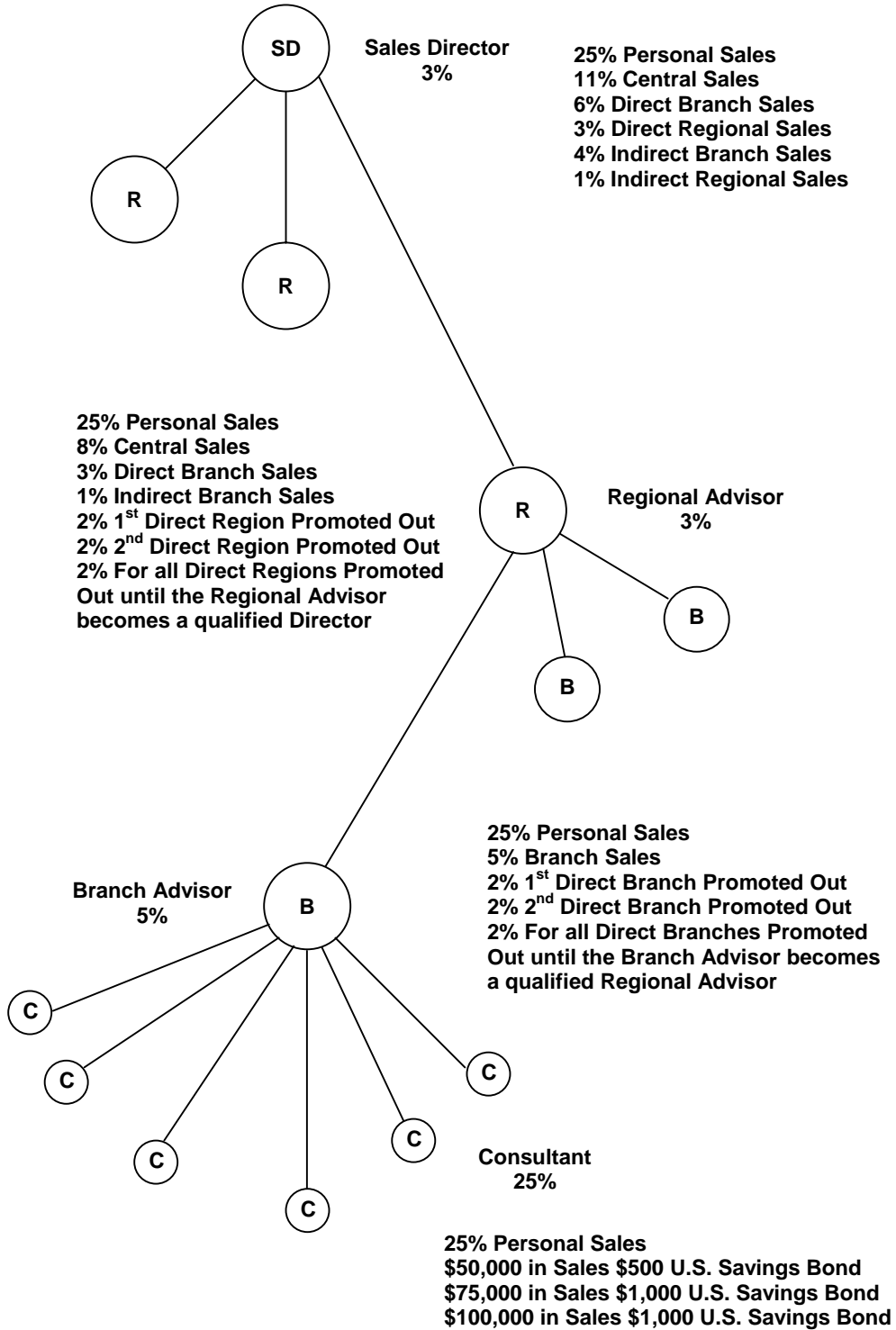
The selling year was divided into the seasons of winter, spring, summer, and fall. Special promotions were offered on a monthly basis within each selling season to each of three basic customer groups: the customer, the consultant and the hostess who held the basket party. Every month a special program was designed to appeal to one of the three groups. Sometimes products were available to customers for a limited time only. Other products belonged to an exclusive hostess line, and could only be obtained by holding a Longaberger basket party. Incentives were offered to consultants by discounting the price of certain items in the product line. “We’re hitting all three target audiences, with a reason to buy or a purpose to sell,” Tami Kaido noted. “It’s always a challenge to try to figure out who should be the audience and what would best motivate them to accomplish our monthly objectives.” No advertising was undertaken on a national level.

To give direction and support, the firm suggested ways to achieve goals through a monthly newsletter, *Your Success* and other materials such as informative video tapes. A corporate magazine called *Opportunity: The Magazine of Longaberger Baskets* was published on a bi-monthly basis. The publication, intended for employees and sales associates, contained news about Longaberger Baskets, articles of general interest concerning baskets, industry announcements, and personal items of note. It also provided an opportunity for readers to respond to company developments in a question and answer format.

To share the Longaberger heritage the experiences of David Longaberger and The Longaberger Company were chronicled and made available to Consultants in a book entitled, *The Longaberger Story: And How We Did It* commissioned by the firm in 1988. The book, written by Tennessee author, Steve Williford and published by the Wendell Publishing Company, was dedicated to “my Mother and Dad and all my brothers and sisters” by David Longaberger. The book explained the history of Longaberger Baskets in a past, present and future format. It was sold by sales representatives to guests and hostesses, through home shows, and was also available for purchase by tourists visiting retail stores owned by the firm in Dresden, Ohio. A color brochure, “*The Longaberger Story*,” which reviewed the history of Longaberger Baskets in an abbreviated format, was available to associates as a promotional handout and invited the recipient to participate in the sales program.

In August of each year the company held a sales convention called the “Basket Bee.” It was held in a Columbus, Ohio, hotel and convention center complex. In the three days of motivational and educational meetings, new products were introduced; instructions were given on issues like how to book shows, how to sell, how to recruit, and how to close the sale. Many emotional awards night, top salespeople were recognized in a number of different ways.

**EXHIBIT 1 The Longaberger Sales Structure**





An opportunity was also provided to meet members of the Longaberger family and to visit the manufacturing plants at Dresden, Ohio. As Tami Kaido indicated:

It's a wonderful three days. We spend a lot of time signing baskets. I think it makes the story they're telling out there about the Longaberger family, and about Dresden, Ohio, become real to them. Last year, in a wonderful sales awards night for everyone, we recognized our top sales person for selling \$154,000 worth of baskets.

The event attracted some 3,000 associates and their families who paid their own expenses. Expenses to the company for this event were estimated to be \$500,000.

## **GUIDELINES IN A MARKETING ORIENTATED FIRM**

No formal statement of corporate objectives in the Longaberger Companies guided executive decision making. However, a Longaberger philosophy, a company promise, and business guidelines for associates formed the basis of the firm's "Golden Rule" approach to business. The Longaberger Company philosophy appears in Exhibit 2.

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### **EXHIBIT 2**

#### **The Longaberger Company Philosophy**

The Longaberger Family of Companies represents the American ideals of family, tradition, integrity, hard work and dedication to Quality.

The seeds of our Company began with people who had a dream and the dedication and perseverance to make it happen.

Our Company is dedicated to helping others share the American Dream of achieving financial freedom and the opportunity for personal growth.

Today this same commitment to the American Dream and way of life is leading the Longaberger Family of Companies into a strong future committed to excellence and profitable growth.

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The Company Promise suggested the firm was "committed to serving, motivating and encouraging all associates in a fair and genuine manner, without showing partiality or favoritism to any individual or group." It maintained that the company "shall be fair in establishing policies and guidelines, balancing both the needs of the company and associates."

In a concluding statement it promised, “in their dealing with associates, all employees of Longaberger shall be honest, forthright, accurate and supportive.” The Business Guidelines defined more specifically the company’s position on key areas of business practice.

In addition to the formal statements found in “The Longaberger Company Philosophy” and “The Longaberger Company Promise,” David Longaberger also provided a number of inspirational thoughts on strategy to guide management in the decades ahead. He suggested:

Business is like war in one respect. If its grand strategy is correct, any number of tactical errors can be made and yet the enterprise proves successful. A company may overcome inefficient practices, if its basic strategy is brilliant. It is not likely to overcome the wrong strategies even with excellent production and distribution performance. The ideal strategy, of course, is for an organization to develop brilliant strategy and to implement it efficiently and effectively.

What is our business and what should it be? This leads to the setting objectives. Development of strategy and plans and making decisions based on those guideline determine tomorrow’s results.

We will make trends, not follow them. With a well-staffed management team, an aggressive, risk taking spirit and cool headed planning, there will be no problems too tough to be solved.

The Longaberger Company did not have a formal planning department or engage in strategic marketing planning as a management exercise.

The demand for Longaberger baskets in the Christmas selling season far exceeded what would be supplied by Longaberger Manufacturing, Inc. On occasion, management would confront this issue by instituting what it called a “recruiting freeze.” The marketing division would announce that associates could not recruit any more people to sell the product because the firm could not meet the demand generated by current representatives and as a result guarantee orders for Christmas delivery or other seasonal periods. Management felt that this decision was somewhat counter productive because, as Tami Kaido suggested:

We tell people as part of direct sales, be all you want to be, recruit and grow, make the money that you want to make, you own your own business, but don’t sell too much, because we can’t fill the orders.

Our biggest challenge right now is identifying other products that will mix with the high quality reputation of the Longaberger brand. We need to come up with some product diversification which will fill the needs of the direct selling field in their interest of growing, and be a much greater profit margin than we are realizing on our baskets right now.

In 1990 there were 6,200 independent Longaberger sales associates. These associates, primarily women, represented all 50 states, and the District of Columbia.

## **MARKETING STRATEGIES**

Several marketing strategies were developed by the marketing division to strengthen the identity of the organization in the marketplace as well as to confront the issue of excess demand for the product line.

A business referral program was introduced to continue serving customers in the event a consultant quit the Longaberger sales organization. In a problem common to direct selling, management was unaware of the identity of either the Hostess or the ultimate customer. In an effort to solve the problem the company required Consultants to send in every single guest order form that came in with a show. As a result, corporate files contained the names and addresses of all customers and hostesses ever associated with that consultant. The firm, in the aggregate, had two million names on file which could be used as a mailing list or forwarded to other Longaberger associates in the program, if customers moved or consultants quit. A demographic profile of the customer base did not exist.

The retail selling price of the product was established by the company to give the consultant a generous commission, and also to position Longaberger baskets as affordable, yet privileged items to own or give. It was based upon cost. "We base our price right now on cost," suggested Bonnie Callahan, Director of Product Marketing, "We're working on getting more into what the market will bear, a form of pricing based on the demand for the product rather than the cost." In the Longaberger Heartland Collection, a medium market basket retailed at \$40.95. In return for having a qualifying show, the Hostess could receive "dollars" which could be applied to the full retail price of baskets. She also was given opportunities to purchase from a "hostess only" collection of baskets, and special price reductions on items purchased.

As part the program to control demand, several new basket lines were introduced. The Longaberger Heartland Collection of baskets was a special line dedicated to "the hard workers of long ago in the heart of America." The J.W. Collection basket, an elite basket developed from one of the original designs of J.W. Longaberger, was offered yearly. It had a brass plate to identify it as a collector basket and to give it brand recognition in the marketplace. Feature baskets, such as those in the Heartland Collection and the J.W. Collection, were high priced, high-margin, limited edition items. They formed part of the new marketing program to control demand by featuring higher margin items.

The All American Series, which was dedicated to something in the heritage of the United States like women, quilt makers or sewers, featured red and blue weaving. A pink Mother's Day basket, Easter baskets in three color combinations, and a collector's tag basket in red and green were featured during holiday and special occasion promotions. Such introductions, as part of the new marketing program, were considered attempts to shift demand from a seasonal Christmas peak.

Pottery was added to the product line as part of the product diversification effort in 1990. Steve Cole of Friendship Pottery, a local manufacturer in Roseville, Ohio, agreed to supply a pottery line which would be called “Woven Traditions.” The line would be sold under the Longaberger name as a quality product “destined to become a favorite of pottery lovers and basket enthusiasts alike.” As John Dinan, Director of Product Marketing, noted:

Pottery was a real easy mix for us for several reasons: one, we wanted to come up with products that were complementary to baskets that were decorative as well as functional. They were used a hundred years ago, and they are made the same way they are today.

They’re beautiful, but they are also very strong and durable and very useful in the home. As we look through country living magazines and Better Homes and Gardens, you see pottery bowls. Just 10 inch and 8 inch bowls made of stoneware or pottery. You can cook in them, you can bake in them, and you can serve in them. They’re functional as well as decorative. The story is the same as baskets.

The original Longaberger baskets were “ware” baskets designed for the pottery industry in Roseville, Ohio, at the turn of the century for carrying purposes. The pottery industry had a historical decline similar to baskets in the Ohio area after World War II because of foreign competition. The promotional program for pottery would be directed at consultants through a series of history pieces, flyers, postcards, and catalogs similar to the way the basket line was presented. Management in the marketing division anticipated that this diversification effort would help to minimize company dependency on basket production.

## **A NEW OPPORTUNITY**

Tami Kaido called a meeting of the marketing division in late 1989. As a result of that meeting several marketing objectives for the year 1990 were established. They included (1) control basket sales growth to a maximum of 50%; (2) prepare company for solid growth in 1991; (3) new profit margin, before tax, of 12%; and (4) minimize company dependency on basket production, by product diversification effort. Although management felt that many of these objectives had already been accomplished Tami Kaido chose to accept them as what the division would like to accomplish in 1990. “I can identify the marketing area statement of objectives,” she noted, “but because of the constant state of change we’re in, because of the growth we’re experiencing, those are already changing. We have to learn to adapt.”

One era ended and another began when Longaberger Baskets appointed Tami Kaido as Vice President of Marketing and established a marketing division. The early era represented a case study in entrepreneurship. The latter era comprised a study of an organization struggling to make the transition from a closely held family firm to a marketing orientated organization prepared to survive in a rapidly changing external environment.

Effective January 1, 1991, senior management announced that the company name would be changed from Longaberger, Inc., to The Longaberger Company. Corporate offices would be relocated to a modern yet appropriate building just north of Zanesville in Dresden, Ohio. Tami Kaido's title would be changed to President of Marketing and Sales.

In late winter of 1991, Tami Kaido sat in her Zanesville office thinking about the challenges that were ahead. On her credenza sat a collection of marketing texts from her college years at Ohio State University. On the office walls were mounted awards that recognized the firm for its accomplishments. On her desk was a stack of newspaper clippings which told of recent successful promotional events. The words of her father came to mind as she reflected on new marketing strategies for the firm. He had maintained: "...don't be afraid to try. You have to consider the risks involved, contemplate your strategy, and then begin." A young, professional, college-educated marketing team was in place; the new sales manual had just been completed; several high margin had just been introduced; the product line had been recently diversified by adding pottery; and a new manufacturing plant had just opened. She was surrounded by her family and friends. The future of the firm looked promising and exciting.

## **DISCUSSION QUESTIONS**

1. Review the strategies that Longaberger introduced as part of its marketing program. What factors should a firm consider before choosing direct selling as a promotion variable in the marketing mix?
2. How much importance is placed on the planning function at Longaberger? Why do you think planning should be important to an organization like The Longaberger Company?
3. Discuss the importance of changes in the external environment. How much impact do they have on the strategic planning process?
4. What new directions are needed to “position” Longaberger to meet the challenges in the marketplace in the next five years?

## Appendix A

### The Longaberger Family Involvement

<b>Name</b>	<b>Relationship</b>	<b>Position in Firm</b>
David W. Longaberger		President and CEO
Bonnie Longaberger	Mother	Family Advisor & Events
Richard Longaberger	Brother	Goodwill Ambassador
Judy L. Swope	Sister	Plant 3 Production Control Manager
Carmen L. Fortney	Sister	Custodian, Corporate Office
Virginia L. Wilcox	Sister	Store Manager, Village Etc., Shop - Longaberger Services, Inc.
Wendy L. Little	Sister	Sales Clerk, Village Etc., Shop – Longaberger Services, Inc.
Dale Longaberger	Brother	Technical Consultant in basket manufacturing
Tami Longaberger Kaido	Daughter	President of Marketing and Sales
Michael Kaido	Son-In-Law	Director of Purchasing and Vendor Relations
Rachel Longaberger Schmidt	Daughter	Vice President of Human Resources
Douglas Schmidt	Son-In-Law	Landscape Supervisor, Longaberger Construction Co.
Laura Wilbur	First Wife	Health and Safety Liaison - Human Resources Department
Holly Longaberger Noland	Niece	Writer and Reporter for The Dresden Village News – Longaberger Services, Inc.
Aimee Longaberger	Niece	Sales Clerk, Village Etc., Shop and Server at Popeye ‘s Restaurant - Longaberger Services, Inc.

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1. Based on relationship to David W. Longaberger, President and CEO, 1990.

2. Longaberger Services, Inc. is a holding company of diversified businesses the profits of which are used solely for the revitalization of Dresden, Ohio.

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# **LONGABERGER BASKETS: Changing Marketing In Changing Times**

## **TEACHING NOTE**

### **CASE OVERVIEW**

The Longaberger Company is a privately held manufacturer and distributor of fine quality wicker baskets with corporate offices in Zanesville, Ohio. Founded in 1974 in Dresden, Ohio, by David W. Longaberger, a struggling and creative entrepreneur, the firm drew on skills in basket making that had been mastered by the Longaberger family and passed on for almost 100 years. At the beginning of 1990, the firm had two main divisions: Longaberger Manufacturing, Inc., which manufactured the product, and Longaberger Marketing, Inc., which sold the product. It had approximately 2,200 employees, 8,000 sales associates representing every state in the nation, and annual sales of over \$100,000,000. The firm used direct selling as its primary promotional and distribution strategy. The product was sold through parties held in customer homes by individuals who functioned as independent sales agents.

The marketing division faced two different demand state situations. In a problem common to many direct selling organizations, the current timing pattern of demand for the product was marked by seasonal variations that departed from the timing pattern of supply in weaving baskets by hand. This state of “irregular demand” lead management to find ways to change the time pattern of demand through flexible pricing programs, special sales promotion programs, and other incentives for sales associates.

The division also faced a situation of “overfull demand.” In this case, demand was higher than the firm could handle with the prevailing production constraint. It estimated that it demand for the product which was twice what could be supplied by manufacturing. This resulted in unfilled orders and restrictions on the recruiting of new associates. Senior management concluded that much of its problem had occurred because it made such a “wonderful product.” The product was thought to have made the company successful, because “if you want a Longaberger basket and you want a good quality handmade basket, you have to buy it from us. You can’t buy it anywhere else in the world,” noted a management representative. To meet this challenge, management felt it would be necessary to control basket sales growth, maintain satisfactory new profit margin, and minimize company dependence on basket production through a product diversification effort.

New leadership, that had a marketing oriented appreciation of the environment, the market, and marketing strategy, was in place in the firm. A new product line had been recently introduced. Management, in an assessment of its immediate situation, felt it had made the transition from a small, family held organization that was sales oriented to a large multi-million dollar firm that was now marketing oriented. Although a new product had just been introduced in an attempt to meet the product diversification objective there was no plan in place to prepare the company for solid growth in the future.

This case is suitable for use in a foundation course of principles of marketing and also in advanced course in channels of distribution, personal selling, sales management, retail management, marketing management, and marketing strategy. It could also be used in a business policy course to evaluate the importance of marketing leadership and entrepreneurship in the organization. Students could be asked to develop statements of mission, purpose, goals, and objectives for The Longaberger Company which would give more direction to the organization.

## **TEACHING OBJECTIVES**

This case can be used to achieve several learning objectives:

1. It can be used to show how marketing management confronts the issues of analysis, planning, implementation,, organization and control in linking supply with demand;
2. It can be used to discuss the strengths and weaknesses of direct selling as a promotion/distribution strategy;
3. It can show how the marketing concept is interpreted and applied in industry and .how and why organizations become marketing orientated;
4. It can dramatize the need for management to constantly monitor and evaluate the internal and external environment;
5. It can show how much attention or inattention management actually gives to the planning function and thereby emphasize the primacy of the, planning function;
6. It can be used to discuss the static versus dynamic nature of organizations;
7. It can show what role leadership plays in establishing direction in ‘a given corporate culture.

## **TEACHING SUGGESTIONS**

This case can be used to demonstrate the importance of marketing strategy in a firm that was established, was faced with a dynamic environment, had record sales and profit growth, benefited from entrepreneurial family leadership, had a relatively narrow product line, and was faced with a situation in which demand did not equal supply. Class discussion could begin by discussing the strategic market planning process. The topic can be introduced by inviting students to contribute their understanding and appreciation of the need for corporate and marketing goals and objectives. Supplementary discussion could focus on the need to define a target market and to develop a marketing mix to gain long-run competitive advantages in a firm like The Longaberger Company.

Since the situation primarily deals with the problem of regulating the level, timing, and character of demand, the discussion should focus on these issues.

## **FINANCIAL PERFORMANCE**

Due to the privately held nature of the firm, little data were available to dramatize the issues of (1) turnover, (2) margin, (3) liquidity, and (4) return on net worth. Net Sales were not available on an annual or seasonal basis. As a suggestion, students may be asked to review the financial performance of firms that have been active in direct selling and that are publicly held like Avon Products, Inc., Premark International (Tupperware and Westbend), and The Kirby Company. Students could be asked to speculate on normative figures that might be considered typical and high yield performance in the Longaberger corporate culture. The strategic profit model (Lusch and Dunne, 1990), as shown in Exhibit Tn 1, is a useful vehicle for analyzing the financial performance of firms of this type. Figures are considered normative for in-store retailing.

### **EXHIBIT Tn 1: Strategic Profit Model with Normative Ratios**

$$\frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}} = \frac{\text{Net Profit}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Net Worth}} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

3-5%	3-4 X	8-10%	1.5-2.5 X	15-20%
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## **ANALYSIS OF THE COMPETITIVE ENVIRONMENT**

In a review of the competitive environment in direct selling, students could be asked how strategies of The Longaberger Company compare with Mary Kay (cosmetics), Amway Corporation (home cleaning products), Shaklee Corporation (vitamins and health foods), Encyclopedia Britannica, Inc., Tupperware (plastic dishes and food containers), Electrolux (vacuum cleaners), Fuller Brush Co. (brushes and household products), or other direct selling firms they may have heard or read about. Students may be invited to share their own perceptions of direct selling and also comment on how it compares with shopping in retail stores like Crate and Barrel, Wal-Mart, and Dillards; and shopping from catalogues like L.L. Bean and Spiegel.

## **DISCUSSION QUESTIONS**

1. Review the strategies that Longaberger introduced as part of its marketing program. What factors should a firm consider before choosing direct selling as a promotion variable in the marketing mix?

Basket sales were originally through retail stores. Although demand for the product continued to increase, early experiences with retail stores in the immediate area was disappointing because of the limited entrepreneurial values of the proprietors. The basket party program, modeled after the highly successful Tupperware parties, brought buyer and seller together in the home in a social setting which informative as well as fun.

The new sales program placed emphasis on uniformity and control in hostess programs, customer specials, incentives, and commissions to give the company more control in the selling process. The firm had previously sold to independent distributors who bought and resold the product without corporate supervision.

The sales structure is an example of “multi-level” marketing. The consultant, advisors, and sales directors who exist at various levels in the sales organization have entered into an agreement with the firm to demonstrate and sell Longaberger products. They have agreed to recruit friends and acquaintances to become part of the Longaberger sales organization.

The monthly newsletter, corporate magazine, and other material supplied to the Longaberger associate aided and assisted in communication in the firm. Books and brochures on the company were available as attempts to perpetuate the corporate culture. Personal selling, sales promotion, and publicity were the primary elements of the promotion mix. The marketing division did not use advertising to manage demand on a national level.

The product line in baskets was narrow and deep. Baskets made by the firm were quality products. The eighty different baskets in the product line differed by function, style, size, color, weaving style, shape and purpose. Value to the ultimate consumer was added by suggesting alternative uses, linking the product to life style and to emphasize heritage and tradition. Pottery was added as part of a product diversification effort in 1990 to compliment the basket tradition.

The pricing strategy was established by the company. The selling price was based on cost. It was “high” in comparison to baskets sold in retail stores. Corporate pricing strategy attempted to position Longaberger baskets as “affordable yet privileged item to own or give.” In the tradition of direct selling, a generous commission and other incentives were offered to the consultant as well as those at the three levels in the sales structure above the consultant.

2. How much importance is placed on the planning function at Longaberger? Why do you think planning should be important to an organization like the Longaberger Company?

As indicated in the case, The Longaberger Company did not have a formal planning department or participate in strategic marketing planning. It appears that much of the direction provided to management came from the entrepreneurial spirit of David W. Longaberger. The book, *The Longaberger Story: And How We Did It* provides a “vanity press” view of his life, philosophy, plans, and views on the future. As discussed in the case, the statements of company philosophy, company promise, and business guidelines formed the basis of the firm’s approach to maintaining the business. A new marketing team, headed by Tami Kaido as President of Marketing and Sales was in place. They had developed a statement of marketing objectives for 1990. There were no formal statements of the mission, purpose, goals and objectives to guide the firm. The general statements revealed on corporate strategy may have been inspirational, but do not qualify as representative steps in the planning process.

In this answer the student should focus on three major types of planning: (a) strategic planning, which will provide basic direction for the firm; (b) administrative planning, which is concerned with the planning for management of functional areas such as marketing and the implementation of plans; and (c) operational planning, which involves management of the more routine features of the organization.

Since the marketing division has objectives there is some evidence of planning at the administrative level. Events such as the holding of an annual sales convention and programs like the business referral indicate that management has the capacity to undertake projects of considerable magnitude and follow them through to completion. The promotional program which is in place to develop company and product image is also illustrative of the existence of administrative planning. A relatively high level of administrative competence and planning activity would have to be present to accomplish such tasks.

It is assumed that more routine activities such as maintaining service standard levels are performed at a satisfactory level, since the business seems to function well on a day to day basis.

3. Discuss the importance of changes in the external environment. How much impact should they have on the use of strategic marketing?

Longaberger management had identified three basic types of competition: (1) other basket manufacturer who sold a similar product, (2) other direct selling companies who competed for hostess and customer time and sales recruits, and (3) retail department and specialty stores which sold similar products primarily on impulse. Such organizations were considered as threatening by management.

An environment in which “department stores were selling large quantities of baskets which appeared to be of inferior quality to those. . . father had produced, that Americans were taking a more active interest in their past and that antiques and handcrafted collectibles were becoming more popular, was considered an continuing opportunity for management.”

The fact that the firm was positioned as “an elite basket maker whose products were all hand made with quality materials” could be considered a strength as well as weakness considering the narrow nature of the product line and vulnerability of it to the fluctuations of supply and demand. The firm responded by adding the pottery line.

The degree of family involvement can be considered the corporate culture and a part of the internal environment. In The Longaberger Company it could be considered as a strength and a weakness. Management developed it as a strength by featuring family members in promotional literature and events. The presence of a strong entrepreneur and father figure often breeds an autocratic corporate culture. The Longaberger family involvement could be labeled typical nepotism.

Management considered the external dynamic rather than static. Tami Kaido noted that monitoring of the environment of the Longaberger Company was crucial to firm's survival and to the long-term achievement of marketing divisions objectives. Management felt that it changed so fast that many objectives were accomplished or out of date before they were formulated. David Longaberger's thoughts on corporate strategy provides some direction for the marketing division.

4. What evidence is there to suggest that the marketing concept is understood and applied at The Longaberger Company?

According to the marketing concept, an organization should try to satisfy the needs and wants of customers through a coordinated set of activities that also allow the organization to satisfy its goals.

A. Yes. The Marketing Concept is clearly understood because:

1. Longaberger baskets were well received in the market.
2. A marketing division was created to introduce marketing into the firm.
3. A family heritage theme was used in the company's promotional material to appeal to those people in the market who were, as the case suggests, "taking a more active interest in their past."
4. The firm was sensitive to changes in the external environment. Three different forms of competition were identified.
5. The suggestion from Tami Kaido that "strategy had changed from producing a product that was very good and then telling the salespeople to sell it, to identifying products that fit the market and what its needs might be," can be interpreted as having a product which satisfies consumers needs and wants.
6. Every month a target audience was identified, "with a reason to buy or a purpose to sell."

B. No. The marketing concept is not understood or applied.

1. Management had concluded that much of its problem had occurred because it had such a "wonderful product." The product was thought to have made the company successful, because "if you want a Longaberger basket and you want a good quality handmade basket, you have to buy it from us." Had the management and the company fallen in love with the product?



2. Longaberger had a multi—level sales organization/force which tended to put heavy emphasis on sales of the product. Compensation was on commission. The organization structure in Exhibit 1 illustrates the complexity of the issue.
3. Marketing management had failed to identify the ultimate consumer. The business referral program was a step in this direction.