

DSOF CASE STUDY 12.1

CUTTING EDGE QUALITY: CUTCO "KNIVES FOR LIFE"



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What if you could have a high-quality kitchen knife that would last forever? Look no further than Cutco. Cutco began manufacturing knives in Olean, New York, in 1949 when two companies, Alcoa Corp and W. R. Case & Sons Cutlery Co., formed a joint venture to begin creating high-quality cutlery. Since then, Cutco has grown to become a nationally-recognized brand known for their high-quality American made products. All Cutco knives come with a "Forever Guarantee," which means customers can get their knives serviced for free, no matter how long ago the knives were purchased. Cutco knives purchased in 1949 are being serviced today for children and grandchildren of the original purchaser.

Cutco is proud of their history and heritage as an American knife manufacturer. Quality and fair treatment of employees and the community are first and foremost the priorities of the company. Cutco's knives are made from high-quality materials. Their blades are made from a high-carbon stainless steel, which goes through a three-stage heat treatment process to ensure that blades can take a sharp edge, maximize their resistance to corrosion and won't snap under pressure. Kitchen knives have "full-tang construction," which means that the blade's metal extends all the way through the handle of the knife to create stability. The handles are made from an acetal copolymer thermo-resin, which gives the handles high-strength, toughness, and resistance to abrasion. Rivets that hold the handle together are made of a nickel-silver alloy that doesn't expand

or contract from heat. This process creates a high-quality knife that is built to last. However, wear and tear is inevitable, so customers can get their knives serviced at any time.

Cutco is now one of the few American cutlery companies to keep their manufacturing in the U.S. Since Cutco was created in 1949, they have manufactured their product in Olean, New York. Cutco's American-made commitment has not always been easy to abide by. In order to maintain a kitchen shear that was 100% made-in-America, the company purchased the U.S. forging company that was up for sale or closure. The company has worked with a small flatware company that was formed after the original supplier of flatware went out of business to ensure that all CUTCO is made in America. That is an unparalleled commitment to support American jobs and produce American-made products.

Cutco's American manufacturing is a big part of their branding and company image, and the company takes pride in the town of Olean. James Stitt, Executive Chairman, came to Olean in 1975 to work for Cutco. His son, James Stitt, Jr., joined the company in 1997 and is currently the President and CEO. The family is committed to the town of Olean, where they have around 650 full-time employees. The town relies heavily on Cutco since they employ many of Olean's citizens. Corey Wiktor, The Executive Director of the Cattaraugus County Industrial Development Agency, described Cutco as "...the lifeblood of Cattaraugus County and the Southern Tier."

Cutco believes in social responsibility and making a positive difference, particularly in their hometown community. The Cutco Foundation was founded in 1996 with the mission to contribute to the growth and betterment of the Olean community. The foundation focuses its charitable work in the areas of education, quality of life improvement, and support of key organizations. The foundation supports many organizations, from the local hospital and university to the small non-profits that make a difference for the less fortunate. For more than 20 years, employees at Cutco volunteer hundreds of hours annually during the holiday season to support the Red Kettle Campaign for the Salvation Army. Cutco employees also participate in a variety of charitable activities that support Toys for Tots, Home Care, and Hospice, Alzheimers, St. Judes Hospital, cancer research and many more worthwhile organizations a local and national level.

Since 1949, Cutco has used the direct selling channel of distribution to market and sell its products. Direct selling is a business model that offers entrepreneurial opportunities to individuals as independent contractors to market and/or sell products and services, typically outside of a fixed retail establishment, through one-to-one selling, in-home product demonstrations or online. Compensation is ultimately based on sales and may be earned based on personal

sales and/or the sales of others in their sales organizations. In 1981, Vector began in Philadelphia as a sales division. It has grown to more than 250 year-round district sales offices. The Vector management team started as sales representatives. Cutco's direct sales force is largely college-age students looking to make extra money during the summer. These students learn how to manage their time, how to interface with others, and how to express unique product attributes which set Cutco apart from the competition. Sales representatives and managers gain skills needed for success in Vector or their future careers.

There are two models of direct selling compensation: multi-level and single-level. Multi-level compensation means direct sellers earn commission from their own sales as well as commissions from those they have recruited and trained. In the case of Cutco, they use a single-level method of compensation. This means that the sales representatives only earn a commission on the sales they make themselves and they do not recruit other sales representatives.

Sales representatives for Cutco choose how they want to sell the products. They earn a commission based on the dollar amount of products they sell. Salespeople start at a 10% commission rate, and the rate increases over career sales and they can earn as much as 30% when selling over



\$20,000 of products. Along with this, expenses for salespeople are relatively low. Expenses can include produce or other items used to showcase the quality of the knives and gas money used to transport to demonstrations.

College age students make up the majority of Cutco's sales force with more than 40,000 students selling for Cutco each year. The sales force starts by selling knives to their friends and family and then building a network of clients based on referrals. These referrals are contacted and qualified for a demonstration before an appointment is set. The company does not promote any door to door selling. Demonstration sessions can last anywhere from 45–90 minutes and salespeople explain how the knives are made, demonstrate their effectiveness and explain the knives "forever guarantee."

The commission earned by selling Cutco products can vary and is based on time and effort devoted to selling product to consumers. The selling experience that is gained is invaluable. College students who work for Cutco must learn about the product their selling and learn how to communicate with potential buyers in order to be an effective seller. This kind of selling experience is a perfect resume item and a great step for aspiring entrepreneurs. Additionally, salespeople get the luxury of choosing their own hours. In a typical sales job, employees must work a set number of hours. However, Cutco sellers work on their own time and earn commissions for whatever they are able to sell.

While the driver of the Cutco distribution model is direct selling, they have begun to experiment with different sales methods. Cutco has opened 15 retail locations since 2005 in order to give existing customers a place to service their knives while allowing potential customers a place to view and handle their



products. These stores are focused on giving a “Cutco experience” where customers can try out knives, take classes on cooking, knife techniques, and more. These Cutco stores also offer a broader selection than the Cutco products, including kitchen gadgets, spices, baking and cookware tools.

Cutco’s retail stores were designed to help Cutco maintain long-term relationships with customers. Since the sales force for Cutco is mainly college age students who stop selling after a period of time, it is easy for customers to lose contact with Cutco. Through their retail stores, Cutco maintains better customer relationships and an advertisement that promotes the product for all channels. In addition to opening retail stores, Cutco now sells their products online, directly to customers. Cutco has also entered

into a relationship with Costco Warehouse where the Cutco product is being sold in their road-show program. These alternative distribution initiatives that Cutco has implemented allow consumers to have more exposure to Cutco products and are governed in a way to work synergistically with Cutco’s direct sales model.

Thanks to Cutco’s high-quality products and unique business model, they are a nationally-recognized brand of cutlery that is synonymous with quality. Cutco continues to expand its product offerings and has begun complementing its direct selling distribution channel with retail and Internet sales. Even with their marketing strategy evolving, the high quality of their knives and their commitment to direct sales has remained constant since Cutco began in 1949.



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