

Sidebar 5-1

Royal Canin

In Europe, Royal Canin enjoys a leading position in the dog and cat food market, with a significant market share—more than the multinational brands, such as Nestlé (Friskies, Fido), Mars (Pal, Whiskas), and Colgate (Hills). Its promise, from the start, has been based in quality: When Henri Lagarde, a French veterinarian, noticed that many of his canine patients had dull fur and eczema, he decided the cause was poor nutrition. He began making Royal Canin in 1966, cooking the food biscuits in an oven in his garage. When his patients recovered their glossy coats and healthy skin, Lagarde decided he should close his practice and go into the pet food business.

His first customers were dog breeders and other veterinarians. His first salespeople were the owners of dogs he had cured. But Lagarde continued to build his strong business by cultivating breeders, who started their puppies out on the brand and convinced new owners to keep the dogs on the same diet. Over the years, Royal Canin invested more heavily in R&D and built up a sophisticated, complete product line with an enormous product range that offers food for every type and age of dog or cat, engaged in any level of activity. A color-coding system and strict store planogram (outlining how the shelf should be filled) help owners find the right product quickly. Once they do, they remain remarkably loyal, such that owners begin with puppy or kitten food, and then proceed to follow the Royal Canin color-coded line through all the stages of their pet's life.

But the brand's excellent results (including above-average margins) also depend on its time-tested distribution. Initially, the brand sold only to breeders. When Lagarde switched to hypermarkets, he found the brand ineffectively displayed among inexpensive competitors, so in the early 1990s he moved the products into specialty outlets, such as garden stores with pet departments and pet stores. These types of outlets account for the bulk of the brand's sales today. The specialists, as opposed to (people's) food stores, are also more welcoming to Royal Canin's salespeople, taking the time to talk with Royal Canin's "counselors" (generally, student veterinarians), who explain the line and offer advice about animal health. These stores also send their floor salespeople to Royal Canin seminars. And they stock the full line, displayed as suggested by the supplier. In return, they appeal to buyers who are willing to pay a substantial premium, compared with what they would pay for ordinary pet food, because as Lagarde explains: "People feel guilty if they don't give the best to their animals."

The result for Royal Canin is high market share, high margins, fast growth, and a high stock valuation. Limiting distribution has proven to be a key element. The realization that pet owners are willing to visit pet and garden stores specifically to buy Royal Canin (rather than buying another brand, in the same place they buy their own food) offers a strong indication that even for this seeming convenience good, the right presentation and sales assistance make all the difference.³

because such a choice could be very costly. The parts and merchandise inventory you have on hand already may not be returnable for full credit. The knowledge of Johanson your personnel have spent time and effort to gain will be rendered worthless. Your advertising on behalf of Johanson also will be wasted, while also raising embarrassing questions about why you no longer carry the brand. That is, your Johanson-specific investments are not readily redeployable to another brand.

So you continue to sell Johanson products, but your relationship with the manufacturer is now pretty acrimonious. You are an ethical manager, but really, is it all that dishonorable to give as good as you have gotten, and engage in a little bait and switch, as long as you can switch customers to a brand you feel comfortable endorsing? There are many brands of audio speakers available. You might even start working more closely with these brands' sales reps, leaving Johanson out in the cold.