Case Study
The Vermont Teddy Bear Co., Inc
Challenges Facing a New CEO

Submitted 26 April 2008, by
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Executive Summary

This case study of Vermont Teddy Bear (VTB) Co., Inc. is an analysis focused on applying Strategic Management principles of business and functional level strategy. The Analysis explores five areas. These areas include VTB’s mission and goals, situation analysis (including external and internal analysis), Sustained Competitive Advantage (SCA), Performance Measures using the Balanced Score Card (BSC) and Strategic Integration.

VTB’s Mission is to “Make the world a better place…one bear at a time.” This mission statement is broad and unspecific. Once might ask, “Does a teddy bear make the world a better place?” However with some creative license the assumption is that VTB can make the world a better place with products that brighten a person’s day through gift giving. The goals of the company are: to be different, create the best bears in the universe get personal, have fun, keep promises and stay rooted in Vermont.

The analysis of VTB’s environment shows the company in a saturated industry with many rivals. There are also many substitutes for its products and few barriers to entry keeping out competitors. These reasons make the industry unattractive. However, VTB has some core competencies, which give the company an SCA. These core competencies include: branding, operational efficiencies, mass customization, and a unique direct marketing delivery system (the Bear-Gram) supported by Bear-Counselors and state-of-the-art technology.

VTB has enjoyed an SCA throughout the 1990’s. This SCA has grown the company’s net sales from $400,000 in 1989 to $20M by the middle of the decade. What core competencies have given VTB a competitive advantage over the years? This analysis has concludes that two competencies have given VTB an SCA: 1) A unique delivery system (the Bear-Gram) that uses direct marketing, and 2) Brand image (Made in America, quality, handmade products, etc.). Even with these impressive sales levels VTB has not been profitable for the past two years.

High SG&A expenses are causing VTB to be unprofitable. These high SG&A expenses come from initiatives to grow using retail stores. Recent initiatives have been taken to restore profitability. The objectives and measures used to monitor the success of these initiatives in the Strategic Performance Areas of finance and customer perspectives are: increased sales, cost containment, working capital levels, developing new markets, customer acquisitions, and customer retention. All areas have seen improvements accept working capital levels.

The strategic integration of functional initiatives supports the company’s Differentiated Value Proposition (DVP), and SCA. The initiatives that did not were quickly stopped. The overall theme of the initiatives was to grow the company’s revenue by increasing sales in new markets, offering new products and services, keeping costs reasonable, setting up new distribution channels, keeping customers, acquiring customers, and satisfying customers.

Introduction
This paper provides details about the Vermont Teddy Bear, Inc.’s history, mission and goals; its business situation, and its efforts to achieve profitability and a sustainable competitive advantage (SCA) during the period from 1993 to 1998. Also included are discussions, conclusions, and recommendations about the strategic overhaul imposed by its current CEO, Elisabeth Robert.

In 1981, John Sortino, who was inspired by his infant son to produce a teddy bear made in the United States, founded the Vermont Teddy Bear Company. Limited production of his creations started in 1982 using five home-sewers; a year later Sortino began selling the bears on the streets of Burlington, VT. In the early years he opened a retail store in Burlington and sold the bears through department stores such as Macy’s. Bear-Grams were created as part of a marketing strategy on a local radio station that enabled customers to send a Vermont Teddy Bear as a gift by calling the company’s 800 number. The Bear-Grams were a huge success and the advertising strategy was rolled out to major radio markets across the country.

By 1993 The Vermont Teddy Bear Company achieved over $17 million in sales, and went public. A new factory and retail store were built the following year, and the company continued to grow. But 1994 marked a turning point for the company as expenses increased, but sales did not. John Sortino resigned in 1995 because of the downward financial situation and was replaced by R. Patrick Burns. Two years later, Burns stepped aside and was replaced by Elisabeth Robert [(pronounced Row-bear, and yes, on the wall of her office she has a painting of a teddy bear rowing a boat (Marcel, 2006)]. She assumed the roles of President and Chief Executive Officer. When she took command the company consisted of 181 employees and 21 home-workers.

The company took great pride in the high quality workmanship and craftsmanship. By using American made materials, they differentiated themselves from their stuffed toy competitors. The personalization of the Bear-Grams made it competitive with 1-800 Flowers and other gift and communication type businesses. Its marketing strategy and radio spots were effective. The company enjoyed a profitable year in 1996, but that would be its last. Elisabeth Robert faced an uphill battle. She needed to develop a strategy that would cut costs and position the company for future growth.

1.0 Mission and goals:

According to the Vermont Teddy Bear Company (VTB) Website, the company mission is simple. “Our Mission: To make the world a better place … one bear at a time.” (Vermont Teddy Bear Company, 2008)

1.1 The Vermont Teddy Bear Company and its new CEO, Elisabeth Robert, have declared that VTB is in the gift delivery service. The company takes pride in serving public, corporate, and wholesale markets. Its products are handcrafted Teddy Bears that serve as a unique alternative to flowers for those who do not have much time to shop. VTB sees itself as serving those who want to send a distinctive personalized gift but don’t always have the time they would like to spend shopping for the perfect gift. VTB allows the customer to work with a Bear Counselor to customize the bear all the way down to the embroidered clothing it wears.

In an interview with Robert she said, “I zeroed in on one question, ‘What business are we in?’ With each bear priced about $70 plus shipping, people
tended not to buy the bears for themselves. Teddy lovers could buy bears born overseas for, say, $30. ‘We became instead the creative alternative to flowers, ’she says. ‘It was amazing what a difference it made to reposition the marketing message.”’ (Solomon, 2000) This repositioning has allowed VTB to refocus the organization, moving away from retail and growing as a high-end teddy bear delivery service.

1.2 The VTB organization lists its goals as:
“Our Bear Soul:
• Be Different
• Create the Best Bears in the Universe
• Get Personal
• Have Fun
• Keep Promises
• Stay Rooted in Vermont” (Vermont Teddy Bear Company, 2008)

These goals can be considered to support the organizational mission although it is a broad mission. The organization seeks differentiation by providing the highest possible quality while continuing to be ‘Made-in-America’. VTB’s Vermont roots are a big part of the organization and it plans to continue to support the local communities. Providing personalized products is another goal of the organization. VTB believes it is important for each bear that leaves the factory to be custom-tailored to its recipient, be created of the best quality materials and be delivered on time. Each successfully completed order builds the brand and contributes to achieving the organization’s mission.

By achieving these goals VTB believes it is making the world a better place both one bear at a time and one recipient at a time. It is intended for each delivery to be a highlight of their new owner’s day. It also raises the bar for other companies to seek to achieve the high quality and customer service provided by VTB to its customers.

1.3 Management has decided to move VTB away from its retail stores and focus only on providing top quality gift delivery service after realizing that its retail stores were still shipping 70% of the product sold in the stores. The company has cleaned up its product catalogs to include only the best quality products and removed the ancillary products. These changes were intended to further strengthen the brand and allow VTB to better achieve its goals. Now VTB manages bear deliveries through catalogs, Internet, or phone sales. The retail stores required different strategic requirements, unrelated to the gift delivery businesses VTB is competing against. In attempting to keep products in the retail stores, VTB was creating various products that didn’t necessarily fulfill the organizational goals. Therefore, retail was taking VTB in a different direction than was desired according to its mission and goals.

1.4 Although the target market identified by VTB is children from the ages of 1-100, it understands that it true demographic is males from ages 18-54. Sixty-five percent of its sales are to men looking for a unique gift for the women in their lives. VTB seeks to differentiate its organization from other gift delivery services by offering a top quality product that can be specifically customized to the needs of its customers on their schedule. Even on Valentine’s Day, VTB makes special
exception to provide overnight delivery on orders received as late as 11pm EST on February 13th.

1.5 Additionally, the high-end products provided by VTB allowed the company to differentiate itself from other teddy bear companies or delivery services. VTB bears are made almost exclusively in the United States except for the customizable clothing choices. It was necessary to provide a product that was above and beyond what can be found in retail stores to justify a higher price tag. Robert said in an interview; “The only way to position the business was with the value-added stuff, the Bear Counselor, our ability to provide overnight gift delivery, free candy, the personalized card, a box with an air hole, a game board. This package, wrapped around the teddy bear, could be positioned in the marketplace at around $95 or $100.” (Marcel, 2006) The Bear Counselors offer personalized customer service to help customers choose the perfect bear for the recipient. Customizable choices provide various options to customers, and the final product is guaranteed for life to ensure to customers that they are being provided with the highest quality product.

2.0 Situation Analysis:

2.1 Current Business Situation: The VTB Company needs to contain costs, maintain working capital, and return to the successful sales levels of the early 1990’s. Returning back to the basics and what it means for an organization to make a profit revolves around creating value for the customer. To create value a company must understand the customer, understand suppliers and preserve relationships with them, and understand the competition (Grant, 2008). Using Porter’s five forces of competition to evaluate the external framework and the variables influencing competition and more importantly, profitability, will help in identifying what VTB needs to do to return to the top. An internal analysis of the tangible, intangible and human resources, culture, and value chain analysis will also reveal resources and capabilities that should be strengthened to improve the competitive position.

2.2 Situation Analysis - capabilities that should be strengthened to improve the competitive position.

2.2.1 External Framework:

2.2.1.1 Competition from substitutes. Substitutes for VTB consist of two distinct markets: stuffed toys and personalized gift giving services. Consumers seeking stuffed toys have many choices. Personalized gift giving services are also plentiful, from 1-800 Flowers to singing telegrams, etc. However, VTB differentiates itself from competitors by offering bears made in the US with American materials, and personalizing the bear through Bear-Grams, including the availability of specialty clothing such as policeman, nurse, football player, etc.

2.2.1.2 Threat of entry. Any entrepreneur or established company could enter the market with ease. The stuffed bear business is loaded with competitors, including other handmade producers. One website in particular advertises and sells
homemade bears in excess of $100 per bear from a variety of individual stuffed bear makers (Homemade Bears, 2008). There are also numerous communication and gift giving services available around the world.

2.2.1.3 Competition from rivals is similar to the threat of entry. Rivals exist and are plentiful. What distinguishes VTB from its rivals are the made in the USA label and the use of American materials, and the ability to personalize the bear and deliver it overnight. VTB owns roughly 2.2% of the market share.

2.2.1.4 Power of suppliers. Before 1997 the materials were exclusively American made except for mohair fur used in the premium bears. Recycled Ben and Jerry ice cream containers were used for joints; eyes, noses and paw pads were 100% American, which included using the only eye manufacturer in America (Case, p. 28-8). Made in the USA was a feature that VTB advertised and in which it took great pride.

2.2.1.5 Power of buyers. The draw for the product was in the uniqueness, personalization and customer service. Consumers were buying what the product represented in addition to the product. The ability to personalize a bear, speak to a Bear Counselor, dress the bear in accordance with the customer’s desires, and deliver overnight were all features that appealed to buyers.

2.2.2 Internal Framework:

2.2.2.1 Tangible resources. VTB leases a 62,000 square foot building on 57 acres in Shelburne, Vermont which houses offices, a retail store, manufacturing, sales and distribution facilities (Case, p.28-13). Property and equipment is valued at $8.8 million. There is also $2.4 million in inventory and cash and marketable securities valued at $1.5 million (Case p. 28-19).

2.2.2.2 Intangible resources. VTB’s most valued intangible resource is the reputation and value of the product to the buyer. Consumers are willing to pay to have a product personalized specifically for them. The “lifetime” warranty adds to the high quality image of the product (Grant, 2008).

2.2.2.3 Human resources. The human capital consists of 181 employees plus 21 home-worker independent contractors. The 181 workers are spread over product-related functions (94), sales and marketing (67), and administrations (20). There are no union employees. The home-workers hand-sew the bears and are able to accept or reject work offered by VTB; this arrangement facilitates the surges normally seen over the holidays (Case, pp. 28-14 &15).

2.2.2.4 Culture. VTB has created a culture of premium customer service, high quality products, and an employee friendly environment. It is able to meet customer demands using
independent contractors who are free to accept or reject work. The Bear Counselors create an atmosphere of care and concern for the customers and the lifetime warranty reflects the high quality workmanship and skill that is embodied in the organization.

2.2.2.5 Value Chain Analysis. The company’s value chain aligns nicely with the customer’s value chain of an easy to order, customized, personalized, high quality product that is delivered overnight. Bear Counselors provide personalized assistance and facilitate the ordering process. Orders placed by 4:00 PM can be sent the same day and arrive the next. Sales and marketing provide brand management along with patents, trademarks and copyrights that provide brand uniqueness. Bears range in size from 11 to 72 inches, come in many different colors, and can be dressed in more than 100 outfits. Sending the gift as a Bear-Gram adds the extra personal touch that is valued by the customer and the receiver of the gift. The lifetime warranty emphasizes the after sale service that highlights the commitment to the customer and company backing of the product.

2.3 Analytical conclusions

2.3.1 External Analysis. Transferring the marketing approach to other major metropolitan areas and repeating the process that was so successful in New York would be a good starting point for returning to profitability. Expanding in the overseas market with a focus on personalization and customization, emphasizing the unique culture in each geographic region would also be valuable toward achieving strategic objectives.

2.3.1.1 Recommendation for outsourcing or divestiture. Divest excess retail stores and maintain only the store associated with the factory. By having only a single retail store, consumers who want to choose a bear in person will be drawn into the mystique of the experience. Sell excess property associated with the company that is not in direct support of product manufacturing or support. Aggressively pursue occupants to lease excess space surrounding the manufacturing facility. Lastly, VTB should find occupants to take over leased buildings and free up $5.7 million in lease obligations (Case, p. 28-20).

2.3.1.2 Industry Success Factors

2.3.1.2.1 Made in the USA. The homegrown label differentiated VTB from its competitors. VTB took great pride in using American made materials to produce the bears.

2.3.1.2.2 Bear-Grams. The personalization and customization of the bears appealed to the consumer and contributed to the reputation and brand recognition.
2.3.1.2.3 Quality product. The bears manufactured by VTB were known for their craftsmanship and high quality. In late 1996 when VTB changed its name to The Great American Teddy Bear Company, consumers became confused. The confusion showed by a decrease in Bear Gram sales. Management recognized the problem and immediately changed the name back to VTB to regain their customer base and brand recognition (Case, p. 28-3).

2.3.2 Internal Analysis. VTB has a strong value chain that aligns with customer’s values and significant intangible and human resources that support the value chain. VTB needs to rely on the marketing and customer service that contributed to its success in the past.

2.3.2.1 Improvements to competitive position. Customize the bears for the overseas markets through specialized clothing for the particular country. Bear-Grams will work just as well in Japan as they did in New York if properly marketed. Expand the market to other large cities in the United States targeting the uniqueness of the geographical area. Establish packaged deals for corporations to use as employee reward and recognition articles.

2.3.2.2 Core Competencies. VTB owns core competencies that highlight a distinct advantage over competitors.

2.3.2.2.1 Craftsmanship. Hand-sewn bears represent a personal touch and craftsmanship that is unmatched by most companies. The talent pools of independent contractors that supplement the workforce are invaluable to upholding the image and reputation of VTB.

2.3.2.2.2 Customer Service. The uniqueness of Bear Counselors providing personal assistance to fill orders and answer questions around the clock is an outstanding example of the type of service that will bring customers back and improve the image of VTB.

2.3.2.2.3 High Quality. A lifetime warranty sends a message to the consumer that the company has faith in the quality of the product and will stand behind it no matter what happens. The hand-sewn manufacturing process also demonstrates the commitment to quality as each bear is individually made.

3.0 Identification of SCA:

3.1 The Vermont Teddy Bear Company is a highly successful company, which has gotten off track financially. It is off track because the company overreached in its expansion effort. In an effort to redefine itself, Vermont Teddy Bear behaved as
if its sustained competitive advantage (SCA) was its branded product line instead of its line of teddy bears and their unique delivery method. Vermont Teddy’s SCA lies in the sale of its American crafted bears in the form of a Bear-Gram delivered as a gift.

3.2 Vermont Teddy grew up as a uniquely American manufacturer of high quality Teddy Bears. John Sortino, the company founder, determined that customers wanted well-constructed bears that were machine washable and dryable, had joints, were cuddly and safe for children, and had personality. The bear clothing line contributed to the unique personality of each bear (Case p. 28-2). In marketing the bears, the company also determined that bears sold in the form of a Bear-Gram dramatically increased early sales of the bears and contributed significantly to the exponential company growth rate.

3.3 Vermont Teddy Bear’s capabilities and resources:

3.3.1 The company’s value chain supports the manufacture and delivery of Teddy Bears and associated merchandise.

3.3.2 Its supply chain is mostly American made, including bear fur, Dacron 91 stuffing, joints made from recycled Ben and Jerry’s ice cream containers, and suede for paws and noses. The remainder of the supply chain consisted of various capabilities either integrated into the company or outsourced to other firms.

3.3.3 Vermont Teddy leases a large bear production facility in Shelburne, VT, three retail locations, and 10,000 square feet of storage space (Case, p. 28-13). The company utilizes Sealed Air Corp’s Rapid Fill air-filled packaging system to package its bears for delivery (Case, p. 28-14).

3.3.4 The company has a flexible manufacturing workforce that possesses the capability to surge during high demand cycles such as Valentine’s Day and Mother’s Day (Case, p.28-15).

3.3.5 Bear-Grams are delivered mostly through UPS next day delivery to be responsive to the rapid delivery customer requirement (Case, p. 28-9).

3.3.6 Vermont Teddy Bear possesses the capabilities necessary to produce and rapidly deliver a high quality, American-made teddy bear. Additionally, the company is able to market its bears through various advertising strategies.

3.3.7 The most effective marketing strategy so far has been radio advertising in the large urban market. Radio advertising refers customers to purchase entry points by delivering web addresses and telephone numbers.

3.4 VTB has enjoyed a sustainable competitive advantage with its Teddy-Gram throughout the 1990’s. Its advantage allowed it to grow from net sales of $400,000 in 1989 to over $20M by the middle of the decade. Its most profitable year was 1993, when the company realized $838,000 profit. Since the shift to the retail focused strategy and its concomitant capital expenditures, the company bottom line has suffered significantly. The Teddy-Gram SCA is still viable provided the company can get its SG&A costs under control. As part of its restructuring strategy, the company could refocus on the Teddy-Gram and expand its radio advertising to other large US cities. A successful turnaround could lead
to increased opportunities to diversify product lines and expand into overseas markets to capture a larger share of the gift delivery business.

3.5 In its zeal to continue its exponential growth, Vermont Teddy expanded away from its SCA by trying to enter the New York City retail market. The company misinterpreted a spike in retail sales in 1994 as a sustainable competitive advantage and invested heavily in retail. It actually diversified away from the Teddy-Gram, which further impacted sales. While total sales increased from $17M to $20M from 1993 to 1995, SG&A spiked from $9M to over $13.4M, resulting in a loss of $2.4M in 1995.

3.6 Throughout the decade, the company’s gross margin has remained steady at between 42 and 45%, calling into question the decision to outsource manufacturing to overseas locations.

3.6.1 A key element of its SCA and the Vermont Teddy brand is its identification with American manufacturing. The decision to outsource would allow Vermont Teddy to enter other markets such as the $20 bear market. The decision to outsource will hurt the brand, dilute its product line, and does not address the fundamental financial problems of the firm.

3.6.2 The company was able to turn a profit in a market where it had an SCA with a consistent gross margin. Lowering production costs does not address the fundamental mistake the company made by diversifying away from its core competency or the resulting increase in SG&A costs.

4.0 Teddy’s Position on Key Strategic Performance Measures:

Table 1, below, provides comparative data for fiscal years 1993 and 1998 (ending June 1994 and 1999, respectively), regarding key financial data and customer profitability (as a percentage of total revenues).

As cited by Vincelette, J, Fogarty, E, Patrick, T. and Wheelen, T. (1998, p. 22), some analysts claimed the survival of VTB was going to depend on “…maintaining a source of working capital, cost containment, and a rebound in sales back to their 1995 level." With regard to the primary customer objectives, the company’s 10-k filings for the years from 1993-1998 list increased Bear-Gram sales, expansion of the corporate affinity program, and increased sales of premium teddy bears through wholesale channels to unaffiliated retail outlets as being key.
Table 1 Vermont Teddy Bear BSC

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<thead>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>FO1: Improve Sales</td>
<td>Revenues</td>
<td>$17.026M</td>
<td>$17.208M</td>
<td>+$182k</td>
</tr>
<tr>
<td></td>
<td>FO2: Contain Costs</td>
<td>FM2</td>
<td>$9.047M</td>
<td>$10.899M</td>
<td>+$1.852M</td>
</tr>
<tr>
<td></td>
<td>FO4: Expand sales through the corporate affinity program through the corporate division</td>
<td>FM4</td>
<td>&lt; 1% of VTB's net revenues</td>
<td>4.8% Net REV (Fastest Growing Segment)</td>
<td>3.8%</td>
</tr>
<tr>
<td></td>
<td>FO5: Increase sales of premium teddy bears through wholesale channels to unaffiliated retail stores</td>
<td>FM5</td>
<td>13% of net Revenues</td>
<td>18% (see note 1)</td>
<td>5%</td>
</tr>
</tbody>
</table>

Note 1: The contribution of all retail operations (including those to unaffiliated stores) was 18% of net revenues for the fiscal year ended June 30, 1998.

Key to Table

Financial Objectives (FO) and Financial Measures (FM):
- FO1: Improve Sales
- FM1: Revenues
- FO2: Contain Costs
- FM2: SG&A expenses, including a cost measurement system for manufacturing, therefore VTB can measure how much it costs to make a bear.
- FO3: Maintain a source of working capital
- FM3: Current Assets – Current Liabilities
- FO4: Expand sales through the corporate affinity program through the corporate division
- FM4: Revenues via corporate channels, and percent of total revenues.
- FO5: Increase sales of premium teddy bears through wholesale channels to unaffiliated retail stores
- FM5: Revenues via unaffiliated retail channels and percent of total revenues

Customer Objectives (CO) and Customer Measures (CM):
- CO1: Customer Retention and Acquisition - increase sales to retail customers of Bear-Grams through expansion of radio advertisements into new markets, including MPLS, Dallas and Milwaukee.
- CM1: Revenues via Bear-Gram channels, and percent of total revenues. “The goal continues to be efficiently and cost-effectively maximize the number of radio listeners reached with a message that positions the Bear-Gram gift delivery service as a creative alternative to flowers and other gifts, which are typically sent.
- CO2 Customer Retention: Retain customers through direct advertising (i.e. catalogs and flyers).
- CM2 As of 1998 33% of sales was a repeat customer, however, no statistics are given for 1993 therefore a comparison between 1993 and 1998 cannot be done.
4.1 Conclusions from this data:

4.1.1 The Bear-Gram has been, and continues to be, the most significant factor in the historical growth of the Company

4.1.1.1 According to the company's FY 1998 10-K filing (SEC, 1999), the company uses primarily the direct response radio distribution channel supported visually by the Internet to market its Bear-Gram gift delivery service. An increasing number of Bear-Gram orders are being placed by customers online, twenty-five percent of total orders in the Bear-Gram gift delivery service segment placed on line during the month of June 1999, versus ten percent in June 1998. Every radio advertisement is now tagged with the Company's website address as well as its toll-free telephone number. The combination of direct response radio and the Internet represent 87.6 percent of net revenues in the Bear-Gram segment for the fiscal year ended June 30, 1999.

4.1.1.2 Other avenues of distribution for marketing the Bear-Gram delivery service are direct mail catalogs and print advertisements primarily in magazines, which together represent 12.4 percent of net revenues for the same twelve-month period.

4.1.2 During 1997 and 1998, the company had placed a greater emphasis on retail operations. Although the retail operations business segment was second only to the Bear-Gram delivery service segment in its contribution to the company's total sales in the fiscal year ended June 30, 1999, it was not successful in selling teddy bears in their own retail stores. VTB enjoyed greater success in their sales of premium teddy bears through wholesale channels to unaffiliated retail stores, and in their corporate affinity program, which grew approximately 3.8% and 5%, respectively, during the period.

4.2 Implications of these conclusions:

4.2.1 The Internet will provide an expanding revenue-generating opportunity for the sale of Bear-Grams in coming years.

4.2.1.1 The Company began taking orders on its website in March of 1997, recognizing the website provided visual support to the Company's radio advertising campaign across the country and a convenient way for customers to place orders. In December 1997, online orders presented seven percent of total Bear-Gram orders. The percentage has trended upward reaching twenty-five percent of total Bear-Gram orders in June 1999.

4.2.1.2 1,206,000 unique visitors were recorded on the Web site during the twelve months ended June 30, 1999, more than triple the 396,000 unique visitors received during the twelve months ended June 30, 1998.
4.2.1.3 In the years ahead, the Company should expand its Bear-Gram radio advertising into new radio markets with the goal of continuing to be cost-effective and maximizing the number of radio listeners reached with a message that positions the Bear-Gram gift delivery service as a creative alternative to flowers and other gifts typically delivered by a third party.

4.2.2 The data suggest that because of continued unprofitability in the company’s satellite retail stores, it would need to reverse its retail expansion strategy and close those outlets during the coming fiscal year. The company's very successful factory retail store is the only retail location that should remain in operation. The company should actively promote family tours of its teddy bear factory and store at the factory location in Shelburne, Burlington, Vermont. The factory drew over 103,000 visitors in the twelve-month period ended June 30, 1999, and has drawn more than 493,000 visitors since moving to its new location in July 1995.

4.2.3 A gradual turnaround in the company’s revenues will require refocusing its strategy around Robert’s revelation in 1997 that they were in the gift-giving business, rather than simply the teddy bear business. She based that insight on the premise that teddy bears alone cannot be sold for $85 when there were great premium branded teddy bears selling for $29. The only way to position the business, therefore, was with the value-added items: the Bear Counselor, overnight gift delivery, free candy, the personalized card, the box with an air hole, a game board, etc. Robert’s contention that this package, wrapped around the teddy bear, could be positioned in the marketplace around $95 or $100. “VTB’s future definitely lies in gifts,” claimed Roberts (Marcel, 2006.)

5.0 Vermont Teddy Bear Strategy Integration:

Porter (as quoted by Grant, 2008) states: “Strategy is not about doing things better – this is the concern of operational effectiveness – strategy is about doing things differently; hence the essence of strategy is about making choices.” Grant (2008) goes on to say that strategic choices can be distilled to two basic questions: where and how to compete? Once these questions are answered, programs, policies and initiatives are put into place to make these changes.

The questions then become: Are these changes consistent with the firm’s SCA and value proposition? The only way to know is to measure the effects of these changes (initiatives) by establishing and monitoring key performance objectives and measures.

This section will identify VTB’s strategic functional initiatives (meaning initiatives within functional areas such as finance, marketing, operations, and human resources) that were started between 1993 and 1998 and that were associated with the strategic performance areas of financial and customer perspectives. Once these initiatives are defined, they will be analyzed for alignment with VTB’s SCA and value proposition.
5.1 Strategic Functional Initiatives Affecting the Financial Perspective:

5.1.1 VTB is in the growth stage of the company. According to Kaplan and Norton (1996) the objectives of a company focused on growth should be to:

- Increase sales in new markets and to new customers.
- Increase sales from new products and services.
- Maintain adequate spending levels for product and process development, systems, and employee capabilities.
- Establish new marketing, sales, and distribution channels.

Kaplan and Norton’s financial objectives align with the Key Strategic Performance Measures cited as being critical to VTB’s future survival, as contained in paragraph 4, table 1, above.

5.1.1.1 Initiatives focused on increasing sales in new markets and to new customers:

1. (1990 to present) Ran radio ads using personalities like Don Imus and Howard Stern to promote the Bear-Gram.
2. (1993) Published a toll-free number and placed ads in the Yellow Pages, magazines, and newspapers.
3. (1996) Purchased mailing lists from prominent catalog companies and mailed catalogs and flyers.
5. Produced two Children’s books promoting Teddy Bears.
6. (1997) Published a website to enhance radio advertising.
7. (1998) Placed radio ads on 44 radio stations in 12 of the 20 largest market areas in the US.
8. Circulated 15 million “pages” to prospective customers.

5.1.1.2 Initiatives focused on increasing sales from new products and services:

1. (1996) Hired Mr. Delsandro as the company’s creative Director to develop a new look for the company’s products – he was responsible for the company’s “edgier” look.
2. (1996) Increased product line to include jewelry, plush animals, toys, books, and designed apparel.
4. (1997) Introduced, nationally, a line of officially licensed NFL Teddy Bears and used Mark Chmura and Wayne Chrebet to promote the bears.

5.1.1.3 Maintain Adequate Spending Levels:

5. (1998) Began using offshore suppliers
6. Uses 21 home-workers as independent contractors to allow flexibility in meeting demand during peak seasons.

5.1.4 Establish New Marketing, Sales, and Distribution Channels:
1. (1994) Installed a new telephone system, which improved telemarketing operations.
2. (1996) Introduced three new retail stores and catalog distribution channels
3. (1997) Shifted away from Bear-Grams to focus on Retail

5.2 Strategic Functional Initiatives Affecting the Customer Perspective:

5.2.1 Kaplan and Norton (1996) explain that Customer-Focused objectives are generic to different industries and should include: customer retention, customer acquisition, customer satisfaction and customer profitability. Kaplan and Norton’s customer profitability objectives align well with the Key Strategic Performance Measures cited as being critical to VTB’s future survival, as contained in paragraph 4, table 1, above.

5.2.1.1 Strategic initiatives focused on Customer Retention:

5.2.1.2 Strategic Initiatives Focused on Customer Acquisitions: All the previously listed marketing and sales initiatives, including dropping sales costs to allow for wholesale and corporate sales.

5.2.1.3 Strategic Initiatives Focused on Customer Satisfaction: VTB’s pursuit of excellent customer service through speedy order and delivery processes, product variety, quality, and personalized customization are all indicators the company is focused on customer satisfaction. Initiatives focused on customer satisfaction are:
1. Improved packaging methods
2. Modernized Information Technology (IT) to improve Customer Relationship Management and the ordering processes.

5.2.1.4 Customer Profitability was not an objective cited in the case study Vincelette, J, Fogarty, E, Patrick, T. and Wheelen, T. (1998). However, when VTB enters the wholesale market this will become an important objective.
The Balanced Score Card contained in Table 2, below, depicts the relationship between the functional initiatives, objectives and measures listed in Table 1, Section 4 (Key same as Table 1).

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Improve Sales (FO1)</td>
<td>Revenues (FM1)</td>
<td>+$182k</td>
<td>Initiatives Listed in Section 5.1.1.1</td>
</tr>
<tr>
<td></td>
<td>FO2</td>
<td>FM2</td>
<td>+$1.852M</td>
<td>Initiatives Listed in Section 5.1.1.3</td>
</tr>
<tr>
<td></td>
<td>FO4</td>
<td>FM4</td>
<td>3.8%</td>
<td>As of 1998 VTB had no significant functional initiatives focusing on corporate programs</td>
</tr>
<tr>
<td></td>
<td>FO5</td>
<td>FM5</td>
<td>5%</td>
<td>As of 1998 VTB had no significant functional initiatives focusing on corporate programs</td>
</tr>
<tr>
<td>Customers</td>
<td>CO1</td>
<td>CM1</td>
<td>+2.8%</td>
<td>Initiatives Listed in Section 5.1.1.1</td>
</tr>
<tr>
<td>Source: SEC 10-k (FY1994-1999)</td>
<td>CO2</td>
<td>CM2</td>
<td>33% 1998</td>
<td>Initiatives Listed in Sections: 5.2.1.1, &amp; 5.2.1.3</td>
</tr>
</tbody>
</table>

Did the Functional Initiatives Support VTB’s SCA and Value Proposition?

5.2.2 Differentiated Value Proposition: The Differentiated Value Proposition (DVP) focuses on how the customer’s condition improves and how the customer benefits after dealing with a particular company. VTB’s DVP simply stated is: The customer is provided an affordable, high quality, handmade, intimate, personalized, customized, gift that is quickly and easily ordered and delivered the next day. Not all the functional initiatives supported the DVP, however a good majority of the initiatives did support the DVP. For example:

1. Affordability was improved through better and more efficient packaging techniques, relocating the company’s facilities, and finding cheaper sources of supply.
2. Intimate, personalized and customized were supported by developing and offering new products, continued emphasis on Bear-Grams, Internet capabilities, and Bear Counselors.

3. Fast order and delivery capabilities were supported by new telephony and IT capabilities.

5.2.3 Sustained Competitive Advantage:

5.2.3.1 What core competencies have given VTB a competitive advantage over the years? This analysis has concluded that two competencies have given VTB an SCA: 1) A unique deliver system (the Bear-Gram) that uses direct marketing, and 2) Brand image (Made in America, quality, handmade products, etc.)

5.2.3.2 Not all initiatives imposed over the years have supported the SCA. The most glaring mistakes made by VTB were favoring retail distribution channels over the Bear-Gram, and changing the name of the company. These two initiatives went against the company’s competencies that provided an SCA.

5.2.3.3 Most all the other initiatives either supported the SCA or at least were not in contradiction. If an initiative was not directly supporting the SCA it was more than likely to obtain working capital or reduce cost structure. Other than the two blunders previously mentioned, overall VTB’s initiatives supported the SCA.

5.3 What Key Performance Objectives were the Functional Initiatives Intended to Achieve? The functional initiatives discussed cover almost 10 years and so the objectives for the initiatives changed over time. However, the overall theme for the initiatives was to grow the company’s revenue by increasing sales in new markets, offering new products and services, keeping costs reasonable, establishing new distribution channels, retaining customers, acquiring customers, and satisfying customers.

6.0 Conclusions and recommendations:

6.1 What functional initiatives should be changed or implemented that would increase the effectiveness for VTB’s customer or financial objectives?

6.1.1 Financial Initiatives: As described in sections four and five corporate and wholesale sales are potentially high growth markets and are targeted by VTB. However, VTB currently has no significant functional initiatives to exploit these objectives. Recommend that VTB focus marketing and sales resources and develop initiatives to increase sales in these two markets.

6.1.2 Customer Initiatives: The analysis in section five pointed out that VTB currently has no functional initiatives that focus on improving profitability of its customers. As VTB begins to exploit the new wholesale and corporate markets it will need initiatives that will help make these customers become profitable. VTB might explore how
they can become an indispensable member of these markets’ value chains.

6.2 Is Teddy’s value proposition meeting the needs of their target customers?
During the period covered by the case study, VTB’s target customer segment consisted largely of the “Lazy Jake.” A guy typically 18 to 54 who listened to Howard Stern and waited until the last minute to buy the absolutely essential gift, whether it's Valentine’s Day, Mother’s Day, birthdays or other special occasions. Then he raced to VTB, using either on-line or over the phone to bail him out of a really big problem. He was willing to fork out $100 on his credit card to have VTB deliver that gift overnight and solve his problem (Marcel, 2006). As such, VTB’s value proposition was precisely meeting its customer needs.

6.3 What are the implications for the generic business level strategy Teddy should use to compete going forward?

6.3.1 A gradual turnaround in the company’s revenues will require refocusing their strategy around Robert’s revelation in 1997 that they were in the gift-giving business, rather than simply the teddy bear business. She based that insight on the premise that teddy bears alone cannot be sold for $85 when there were great premium branded teddy bears selling for $29. The only way to position the business, therefore, was with the value-added items: the Bear Counselor, overnight gift delivery, free candy, the personalized card, the box with an air hole, and a game board. Robert’s position is that this package, wrapped around the teddy bear, could be positioned in the marketplace around $95 or $100. “VTB's future definitely lies in gifts,” claimed Roberts (Marcel, 2006.)

6.3.2 Beyond 1998, VTB needs to expand its customer segments, along with its product lines to meet both its financial and customer strategic objectives. By offering products that appeal to women gift buyers within a broader range of price points - new ventures will allow VTB to target more female customers, who tend to be the primary gift buyers in households.

6.3.3 With Internet expansion, will come opportunities to expand marketing of both existing and new product lines and brands, as well as explore overseas distribution channels.
Bibliography


