Notes on Case

“Burt’s Bees”

Introduction/Overview of the case

This case is the second part of the Roxanne Quimby case from Chapter 3 “The Entrepreneurial Process.” In the Roxanne Quimby case, we learned the remarkable story of a young woman, living at a subsistence level in the backwoods of Maine, who sees an opportunity and grows it in a few years into a multimillion-dollar venture. In the sequel, “Burt’s Bees,” we continue to follow the Roxanne Quimby story. Roxanne is a remarkable entrepreneur whose creative ideas and entrepreneurial spirit led her to create a new business around beeswax products and derivatives. With her company experiencing profitable growth, Roxanne faces a major issue of relocation to North Carolina and the offer of a significant strategic sale. The case follows Chapter 5 “The Opportunity: Creating, Shaping, Recognizing, Seizing.” The case reveals that the business stayed in North Carolina, and grew rapidly to $ 6-8 million in revenue by 1998. Thus, what started out to be a life style business became a higher potential venture, far exceeding original expectations and forecasts.

The company has streamlined its product line to focus on products that better fit its manufacturing capabilities rather than the original candles and hand-made designs. Roxanne is investigating the possibility of opening retail stores, and obtaining experience through a trial Burt’s Bees retail store in Carrboro, North Carolina. She is interested in controlling the whole chain from manufacturing to retail and sees possibilities in retail, possibly through franchising.

Her company is struggling with the crucial transition to a high growth firm with over $10 million in sales. The venture has gone from a start up to high potential, growth-minded firm. In order to maintain growth, the founders must focus on maintaining the creativity that characterized the startup while gaining managerial skills. Founders often find it difficult to let go of control over key decisions and delegate responsibilities.

The venture has the advantage of a carefully thought-out product line and low cost of goods (23¢ cost to earn $2.25-$2.50 in sales.) However, the products are now sold wholesale in a small market niche not dominated by larger competitors. If Burt’s Bees enters the retail market, it will be competing against The Body Shop and Bath & Body Works. While the market as a whole is expanding, much of this growth has come from cutting prices, something that larger firms are better able to do through economies of scale.

The case is thought provoking as the business becomes highly successful, and raises new conflicts and decisions for Roxanne. It also poses the harvest issue, collisions with personal goals and values, and the like.

Positioning and objectives of the case

The case is positioned to follow Chapter 5 – The Opportunity: Creating, Shaping, Recognizing, Seizing. The case is designed to follow the Roxanne Quimby case in Chapter 3, thus it should be covered first. Students will enjoy the case and most will be familiar with the Burt’s Bees product line or will have heard of it. Other students will be consumers of competing products and thus armed with this product knowledge, the discussion will be easily initiated.

Preparation questions

There are no preparation questions included with the case but professors may want to assign one or more of the three question options below. These questions, if used, should be assigned as homework for students as they prepare the case for the subsequent class discussion. Answers to these preparation questions are as follows:

1. *Discuss the opening quote by Roxanne Quimby "The biggest businesses have revolutionized civilization, changed the way we live. That's my aspiration; to change the world for the better through my company." Does Burt's Bees have the potential to be this company? Why?*

Yes, Burt's Bees has the potential to be a company to offer a new type of natural products in the health and beauty market. While they may not be the only company following this trend toward better products, they are seen as a leader in the area and the market has growth potential. As for revolutionizing civilization, students may be skeptical about the ability of a lotion or body scrub to accomplish that. However a company with a sustainable environmental "green" mission and corresponding values does improve lives and the larger community.

2. *Describe the pros and cons of manufacturing the products in Maine. Compare this to the production in North Carolina.*

<u>Manufacturing in Maine</u>

Pros:

Low labor costs

Familiarity with the area

History in the area and reluctance to move and change focus

Cons:

Labor intensive production

Low skill levels of employees

Higher distribution costs – transportation, shipping, etc.

<u>Manufacturing in North Carolina</u>

Pros:

Highly skilled labor force

Automated equipment minimizes costs

Straightforward manufacturing process

Closer to transportation, distribution routes

Cons:

High labor costs

Large capital investment in cosmetics manufacturing equipment

Huge investment if the product changes do not result in increased sales and profit for the company

3. *Why did Quimby have to cut the product line and change it so extensively? Could that be difficult for an entrepreneur? Why?*

Roxanne changed the product line from the labor intensive beeswax candles they originally made in 1994 in Maine. Now, in North Carolina with highly skilled labor and specialized manufacturing equipment, her company made the transition into skin care products including lip balms, moisturizers, and similar products manufactured solely through blending and filling operations.

Yes, an entrepreneur is often wedded to their original business idea. Only the flexible individuals who realize they are acquiring the entrepreneurial mind, which is more important than the product or the service, experience success. In Chapter 2 we learned about the concept of apprenticeship or acquiring the 50,000 chunks (see p. 57 of the text). Roxanne has a goal of a high potential venture and perhaps a long-term harvest of her business. This master goal guides her decisions and direction. It enables her to make the tough business choices that must be made. (Even the company joke of Attorney Hiday that they'll be making diesel engines in the future serves to highlight the mission of the company and its founder).

4. Should they enter the retail market?

No. Burt's Bees has just invested in labor and manufacturing equipment to lower the costs and provide products for customers. This is their new area of expertise. Entering the retail market will likely alienate their customers already selling the products (including Eckerds, the Drug Emporium, and Fred Meyer). Roxanne has expertise in product design. Taking on the retailing to compete with her customers and others in a crowded market would take her away from this expertise. Their manufacturing success may not translate into retail success. Even the trial retail experiment at the store in Carrboro, NC wasn't a big success compared to their time on QVC selling via the popular television program. Quimby also admitted she didn't like being that distant from the end user/customer. She has also considered franchising but again that brings on new challenges and takes her away from her key success areas and expertise and interests.

Class Discussion Guidelines

Begin by reviewing the preparation questions assigned for homework and study, if assigned.

Voting- To stimulate the class discussion, review the data from student e-mail responses to preparation question 4. (Or alternatively, have students log-on to a discussion board before class to share their ideas of the best market segment choice).

If the vote is spilt have student move to facing sides of the room and stage a quick (15 minute) debate on the pros and cons of entering the retail market. If students aren't split, this exercise can still work but students will have to argue an opposing view to their original choice (which is excellent practice for them).

Next, review and discuss the additional discussion questions. Since there is an epilogue to the case (the company was acquired by the Clorox Corporation in 2008), allow time to update the case or consider spreading the discussion over two days. Cover the case assignment and discussion questions during the first class period then cover the additional teaching tips/suggestions and epilogue on the second day.

Additional Discussion Questions

1. *How important are the merchandising displays, pre-made floor stands and other displays to give meaning to the products for the consumer.*

Selling a new skin care line in an already crowded market is difficult. Burt's Bees spin on traditional products in their environmental ethic and mission of chemical-free and preservative-free products for customers. Since the all-natural products are a new segment, it is important to carefully educate the customer about the product differences and differentiate the company from the competitors who use chemicals and preservatives in their products (including petroleum-synthesized fillers and artificial preservatives). The displays and stands help to reinforce their "all-natural" niche market and sell the tag line of "earth Friendly, Natural Personal Care Products."

2. *What are the trends in this product area and the industry? Discuss the competition.*

At the time of the case, sales in the skin care and bath products industry was in an upward trend. Bath gels, washes, and scrubs increased 114% from 1994 to 1995 and the entire health and beauty industry increased 64 percent over the same year. Prices were decreasing and competition was fierce in the industry yet the size of the market continued to grow as evidenced by new entrants including The Body Shop, Bath & Body Works, Garden Botanika, and Origins. New products were also capitalizing on the "all natural" trend. Other competitors who traditionally sold perfumes and scents were entering the marketing including Victoria's Secret, Frederick's of Hollywood, The Gap, Banana Republic, and others. The growing number of competitors signals the rapid grow stage of the products at the time of the case. Even in the manufacturing segment (not considering the retail market) competition was heavy and included such names as Gillette, Lever Brothers, Chesebrough-Ponds, Jergens, Freeman, and St. Ives.

Students should review Exhibit B and compare the 1997 Burt's Bees Product List to get an idea of the products they were selling. Also review Exhibit C and D to profile retail trends for cosmetic and toiletry sales and the 50 largest manufacturers in 1996. These exhibits show the market saturation and the large numbers of players in the industry.

Students may quickly realize the importance of an on-going niche or niche-differentiation strategy for this industry as a way to break out of the pack of competitors.

3. *How important is the company mission statement now? Given what you know about today's green movement, what are her likely future chances of continued success?*

The mission statement serves to focus the company and position them as a natural product within the larger health and beauty products market. It is a strong mission statement in that it outlines their products and markets. Their beliefs continue to reiterate Roxanne's larger purpose for the company. Customers are assured of purity given the discussion of the ingredients and the products that are, more importantly, NOT used in manufacturing. The issue of reducing, reusing, and recycling also supports their mission. Given the continued emphasis on the environment and natural products, the company seems well positioned for the future. The case also discusses expansion internationally and this is a world-wide trend and should support the company's growth. Their tag line also supports the company and defines them – "we look different and we are different."

4. *What is the best route for Roxanne and her company to reach $25 million in sales? If expanding to retail is not viable given the crowded market, discuss the pros and cons of remaining a manufacturer and direct seller. How can they quickly move from $6-$8 million in sales to their goal of $25 million?*

The international expansion into European and Japan should continue and the company should target other countries as well. Remaining a manufacturer and direct seller would allow them the time to concentrate on their products, expanding their current product line, and expanding into new retail stores and outlets. Without having to enter the retail market directly, they can concentrate on the message, the image, and the products. Distribution and manufacturing efficiencies can also be a focus as the firm works to lower costs while increasing production speed. As they expand, the manufacturing emphasis will be important to quickly replenish inventories at the various retail outlets. Sales staff should concentrate on identifying additional retail outlets. Specific products may be viable in other locations as well – lip balm in convenience stores, products in health food stores and groceries (i.e., Whole Foods, Green Life Grocers), etc. By creatively looking at the product line as a whole and products individually, the firm can find ways to expand. Adding new products to further expand the line is also necessary. There are few disadvantages to remaining a manufacturer, particularly given the crowded market and the cost of establishing brick-and-mortar stores. However sales can be augmented via QVC and websites to rapidly grow.

As an update, Burt's Bees' annual revenue soared to $164 million from $23 million from 2000 to 2007.

Applicable Teaching Tips

If you have already covered the Lakota Hills case in Chapter 2, ask students what parallels they see to Laura Ryans' quest to make her specialty foods venture a success? What similarities do both the fry bread and the specialty skin care products company of Roxanne Quimby share? Breaking into the retail market – either for food or cosmetics – is exceedingly difficult for new products in a crowded field of products vying for limited retail shelf space. Both women believe in their ideas and their products but both lack the expertise (yet) in the retailing arena. An idea for a short position paper might be for students to compare and contrast these two women and their business ideas.

A project would be for student groups to visit several of the retailers of health and beauty products mentioned in the case and search for Burt's Bees products and compare the product offerings of competitors. Given the product list in Exhibit B of the case, what new products could the company consider and why? What products do competitors offer that Burt's does not? Compare the product displays and retail promotions of the various companies. What seems to work best? Which convey the product image and message? Students can take digital photos of the various displays to compare with the class.

Having students sample the products is another interesting class exercise. Purchase a Burt's Bees lotion, for example, and compare it with a mass market lotion from a big box retailer. What are the similarities and differences? Do students think the price difference is material? Would they pay more for the Burt's Bees products?

Visit the Burt's Bees website at www.burtsbees.com and review the current product mix and offerings. Have students discuss how they have changed since the case was written.

Epilogue

Copy and distribute the attached epilogue compiled from various press releases on the Clorox 2008 acquisition of Burt's Bees. After students have had time to read it, then begin discussion of this harvest. You may want to save this epilogue until after students have covered Chapter 19 "The Harvest and Beyond" to profile a conclusion to an entrepreneurial journey.

Questions for Discussion:

1. Was this a good deal for Roxanne and Burt's Bees?
2. Is this product a good fit for Clorox?
3. What could Clorox offer the company that Roxanne couldn't achieve alone?
4. Is it logical in maturity that a firm will be acquired if they are to continue to grow?
5. Did Roxanne start a trend in natural products?
6. What did Clorox see in the value of adding a natural product to their mix?
7. Is there synergy between Burt's Bees products and the other offerings of Clorox? Why?
8. Did Roxanne achieve her sales goal (and more)?
9. Why was Clorox willing to pay almost $1 billion for Burt's Bees? What opportunities did they see?
10. Did Burt's Bees sell out to Clorox – a company not known for chemical-free products?

11. Was this perhaps a cheaper way for Clorox to enter the natural personal care category without developing their own competing products for the natural/sustainable business market?
12. With 93 market-leading brands around the world, why is Burt's Bees a good fit for the marketing and distribution strength of Clorox? Since Clorox products are traditionally found in grocery stores and big box retailers, do you think Burt's Bees products will be found in these locations in the future as well? Why?

For More Information

Visit the Investors: News and Events section of the Clorox Company's web site at www.TheCloroxCompany.com.

Burt's Bees Epilogue

In a press release dated Oct. 31, 2007, the Clorox Company announced its acquisition of Burt's Bees as part of its strategy to grow in and beyond its core in fast-growing, higher-margin consumer-product categories. The Clorox Company provided the following information and update:

The highly fragmented U.S. natural personal care market represents about $6.4 billion in sales and is currently growing at about 9 percent annually. Founded in 1984, the Burt's Bees® brand today is regarded among many consumers who purchase natural personal care products as the "most natural" personal care brand and as the leading natural brand in the U.S. The acquisition of Burt's Bees is strongly aligned with Clorox's Centennial Strategy to pursue growth in areas aligned with consumer "megatrends" in health and wellness, sustainability, convenience and a more multicultural marketplace.

"This acquisition allows us to enter a growing market that's consistent with consumer megatrends," said Clorox Chairman and CEO Donald R. Knauss. "With this transaction, we're entering into a new strategic phase for our company, enabling us to expand further into the natural/sustainable business platform. The Burt's Bees® brand is well-anchored in sustainability and health and wellness, and we believe it will benefit from natural and "green" tailwinds. It's in an economically attractive category with a margin structure that will be highly accretive to Clorox. Combined with our new Green Works™ line of natural cleaning products, and Brita® water-filtration products, we can leverage Burt's Bees' extensive capabilities and credibility to build a robust, higher-growth platform for Clorox."

Beth Springer, Clorox's executive vice president – Strategy & Growth, who will oversee the business, said, "Burt's Bees is a compelling strategic fit for us, and we believe we can expand on its strong trends over time to build even greater value. Burt's Bees has a highly effective strategy and plan, strong trade practices and organizational capabilities, and a robust culture and esprit de corps that we want to leverage and protect. We strongly believe Clorox's deep capabilities to drive demand creation through consumer communication and value-creating customer capabilities, coupled with Burt's Bees' strong heritage of innovation to delight consumers, create a right to win. We're delighted Burt's Bees president and CEO, John Replogle, will continue to lead the company, which will continue to be based in North Carolina."

"I'm delighted we're entering into this partnership with Clorox and that I will be part of this exciting next step for Burt's Bees," said Replogle. "The Clorox Company and Burt's Bees have complementary values, visions and strengths. Together, I believe Clorox and Burt's Bees can help this business realize its full potential."

"Burt's Bees' mission 'we make people's lives better every day — naturally' is a terrific complement to Clorox's mission 'we make everyday life better, every day,'" Springer said. "Burt's Bees' values align strongly with Clorox's and provide a solid foundation for working together and creating synergies between our management teams."

Terms of Deal and Financial Impact

Under the terms of the agreement, Clorox will acquire 100 percent of Burt's Bees from its stockholders in a transaction that is structured as a merger. The company is acquiring Burt's Bees for $925 million net of an additional $25 million payment for anticipated tax benefits. Clorox will fund the all-cash transaction through a combination of cash and short-term borrowings. The transaction, which is expected to close by the end of this calendar year, is subject to regulatory approval.

Commenting on the transaction, Clorox senior vice president and CFO Dan Heinrich said, "Burt's Bees is poised to capitalize on expanded distribution within the U.S. and other countries in which the

Burt's Bees® brand is currently marketed. The business is enjoying strong distribution trends. We believe we can add value and expand these trends over time through our strong customer capabilities, while maintaining Burt's Bees' higher margins. We see potential for expanding the brand into adjacencies, and we believe international expansion may offer significant upside potential beyond our valuation."

Based on its current growth trajectory and estimated 2007 net customer sales of about $170 million, Burt's Bees is anticipated to add nearly 2 points of top-line growth to Clorox in fiscal years 2008 and 2009. Including estimates of purchase-accounting adjustments and one-time transaction and integration costs related to the transaction, the company anticipates that the transaction will dilute its fiscal year 2008 earnings by about 10-15 cents per diluted share and that it will be slightly accretive in fiscal year 2009. Excluding such purchase-accounting adjustments, one-time transaction and integration costs as well as non-cash expenses related to the transaction, the earnings per share impact is anticipated to be neutral in fiscal year 2008 and solidly accretive in fiscal year 2009. Lehman Brothers acted as sole financial advisor to The Clorox Company. Goldman Sachs was financial advisor to Burt's Bees.

About Burt's Bees

Burt's Bees is a leading manufacturer of earth-friendly natural personal care products. The company manufactures more than 150 products in categories such as lip care, face care, body care, hair care, men's grooming, baby care and outdoor remedies. Burt's Bees® products are carried in nearly 30,000 retail outlets, including major grocery and drug store chains in the U.S., United Kingdom, Ireland, Canada, Hong Kong and Taiwan.

About The Clorox Company

The Clorox Company is a leading manufacturer and marketer of consumer products with fiscal year 2007 revenues of $4.8 billion. Clorox markets some of consumers' most trusted and recognized brand names, including its namesake bleach and cleaning products, Armor All® and STP® auto-care products, Fresh Step® and Scoop Away® cat litter, Kingsford® charcoal, Hidden Valley® and K C Masterpiece® dressings and sauces, Brita® water-filtration systems, and Glad® bags, wraps and containers. With 7,800 employees worldwide, the company manufactures products in more than two dozen countries and markets them in more than 100 countries. Clorox is committed to making a positive difference in the communities where its employees work and live. Founded in 1980, The Clorox Company Foundation has awarded cash grants totaling more than $69.7 million to nonprofit organizations, schools and colleges. In fiscal 2007 alone, the foundation awarded $3.4 million in cash grants, and Clorox made product donations valued at $5.9 million.

Source: http://investors.thecloroxcompany.com/releasedetail.cfm?ReleaseID=272197