

## Powercell Technologies - Strategic Marketing Direction?

Powercell Technologies is a B2B distributor and value-added retailer of rechargeable and disposable batteries used in institutions, specialty industrial situations, and hobbyist applications. The company is located in Burnaby, BC, Canada, and is central to the industrial and commercial heart of the greater Vancouver area. In business for 11 years, the company has been struggling to maintain profitability as a result of a strategic challenges they face.

### The battery market

Batteries are the primary or backup power source for a range of equipment and devices. This range has exploded in size and scope over the last 25 years along with the general increase in use of technology by organizations and consumers in the world. Examples of devices that use original batteries (those that come with the device) include:

- cell phones, smart phones, and wireless communication equipment
- laptop computers
- medical equipment
- portable industrial devices such as meters and portable power tools.
- flashlights

Demand for original batteries has been growing at 6% or more<sup>1</sup> per year. This growth rate is expected to continue in tandem with increasing demand for portability and smaller device sizes for industrial and consumer devices.

Demand for secondary batteries has been growing at about 5%. As with original batteries, demand for secondary batteries is expected to continue increasing steadily in the future.

Secondary batteries are used in a variety of ways, including as:

- replacements for original batteries when they wear out.
- second batteries for portable equipment such as video cameras, police flashlights, and power drills.
- for walkie talkies (portable two-way radios) .

### Consumer battery demand

Consumers rarely see industrial or "original" uses of batteries. Instead, they see devices personal to them with the original batteries already installed and ready to go - cell phones for example. Or they see those devices that require batteries to be installed in order for the device to operate - toys, flashlights, MP3 players, etc.

The first group of devices - cell phones, laptops, etc. - come with rechargeable batteries that last for many years as part of the initial purchase. Consumers, therefore, don't care

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<sup>1</sup> Various sources - estimates vary from industry to industry and from study to study, but what is clear is the on-going trend toward portability and small size, resulting in naturally large increases in primary and secondary battery demand.

about the battery component unless, after many years, they still wish to use the device and the battery has worn out. In such a case, they will shop at an online or physical retailer for a replacement battery. After purchasing this battery, they replace the worn out one and then forget about the battery for many more years. Often, however, the device is obsolete or broken before the user needs to replace the battery and it never gets replaced. The replacement rate is perhaps 25% of the total pieces of equipment sold. That is, for example, for every 4 cell phones sold, only 1 will ever have its battery replaced.

The second group of consumer devices - toys, flashlights, MP3 players, etc. - has a much larger market. This market is divided into disposable and rechargeable batteries. Disposables are those batteries which consumers:

1. Purchase at retail.
2. Install in a device.
3. Use the device until the batteries are out of power.
4. Throw the batteries in the garbage.
5. Buy new ones at grocery stores, department stores, convenience stores, etc.

Disposables generate tens of billions of dollars in sales for manufacturers and retailers worldwide.

Disposables cost pennies to manufacture, but are sold at high prices at final retail price. One "AA" battery might cost 10 cents for the manufacturer to produce (physical manufacturing cost) but after packaging, advertising, distribution, and retail markups, these same batteries will retail for \$1. The manufacturer and retailers share most of the vast profits inherent in such a large markup. Distribution of batteries in the consumer market is usually done direct from the manufacturer to the retailers. Where intermediary wholesalers are used, there is very little profit margin. Bargaining power in the consumer market is vested with the manufacturer and with the retailer portions of the value chain.

Consumers also use rechargeable batteries, primarily those called "NiCad", "NiMH" or "lithium" batteries. Rechargeable batteries are sold at large multiples of the price of disposables. For example, a \$1 disposable AA battery might cost \$4 or more as a rechargeable battery. However, Rechargeables still result in consumers paying a tiny fraction of the cost of disposables over the life of the rechargeable battery. With a typical life of many years and 500-1000 recharges, rechargeable batteries end up costing the consumer very little per charge.

Due to the "use and throw out" mentality of the "baby boom" generation in North America, rechargeables only represent a small fraction of the retail sales figures of disposables. This situation is slowly changing as consumers increasingly use portable devices and see the vast cost savings inherent in using rechargeable batteries. However, the rechargeable market is still small compared to that of disposables.

## Institutions and other users of batteries

Institutions use batteries for a variety of purposes. For example, hospitals power lifesaving equipment with disposable battery support. Police use rechargeable batteries in

their flashlights and walkie talkies. Wal-Mart employees carry hand-held stock and pricing computers that require rechargeable batteries. These batteries are replaced every year or two due to continuous use of the devices by employees.

These institutions work hard to keep costs low by inviting multiple bids for their annual consumable and rechargeable battery needs. These buyers consider major name-brand batteries to be a commodity item and annually choose a supplier who offer the lowest prices.

Professionals, scientists, engineers, and technicians such as surveyors, geologists, civil engineers, and cable technicians also carry portable electronic equipment that requires batteries. These users require special battery packs that won't fail in critical situations. Professional users are willing to pay higher prices to have the packs built well using high quality battery cells. In general, these battery packs are built using rechargeable Nicad, NimH, and Lithium cells.

Finally, hobbyists purchase a variety of battery packs for their model airplanes, radio equipment, and experiments.

The market for institutional and other users of batteries is worth billions of dollars every year in North America<sup>2</sup>.

### Powercell Technology's past and current marketing strategy

Ted Stewart, owner of Powercell Technologies, states his strategy in this way:

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<sup>2</sup> Various sources. This market size is divided between OEM (original equipment manufacturer) bundling of batteries with the sale of equipment and sales of new and replacement cells.

## Glossary

Cells - individual power storing parts. May be labeled for retail sale or unlabeled for bulk re-sale.

Batteries - This word often used interchangeably with cells. Typically labeled for retail sale.

Battery pack - a group of cells connected and packaged together to look and act like one larger battery. Most often this connecting and packaging is done to meet the specific electrical voltage and amperage needs of a special device.

## The challenges

Due to compounding small losses over the years, Powercell is in trouble and needs a new strategic marketing plan. Some key questions that need answering as part of the plan are:

1. Why is Powercell not profitable? Explain in detail based on case information.
2. Identify and utilize several appropriate marketing models to analyze Powercell's overall business situation. Do not give definitions of the models.
3. What are some strategic and tactical marketing actions Ted could take immediately to improve profitability? Explain in some detail the following:
  - How Ted could take these actions and why the actions would work.
  - Which ones are long-term strategic initiatives, and which are short-term tactical moves.
  - How the general operations of the business would likely change after these actions are taken.

## Appendix 1: Some historical data

**Powercell selected financial and operational data:**

Year:	Sales (type)	Sales (units/orders)	Sales (\$)	Gross Profit Margin	Powercell Annual Profits (Losses)
2002	- Disposables to institutions:	350,000	\$175,000	8%	(\$18,000)
	- Rechargeable + specialty batteries to institutions:	8,000	\$16,000	40%	
	- Specialty batteries and custom packs - inside sales:	65	\$65,000	75%	
2004	- Disposables to institutions:	530,000	\$209,000	7%	\$12,000
	- Rechargeable + specialty batteries to institutions:	22,000	\$55,000	47%	
	- Specialty batteries and custom packs - inside sales:	140	\$165,000	75%	
2006	- Disposables to institutions:	780,000	\$285,000	6.5%	\$4,000
	- Rechargeable + specialty batteries to institutions:	26,000	\$59,000	36%	
	- Specialty batteries and custom packs - inside sales:	130	\$160,000	75%	
2008	- Disposables to institutions:	1,100,000	\$350,000	6.5%	(\$22,000)
	- Rechargeable + specialty batteries to institutions:	30,000	\$60,000	28%	
	- Specialty batteries and custom packs - inside sales:	165	\$215,000	75%	
2009	- Disposables to institutions:	1,450,000	\$410,000	6%	(\$27,000)
	- Rechargeable + specialty batteries to institutions:	35,000	\$60,000	25%	
	- Specialty batteries and custom packs - inside sales:	225	\$310,000	75%	
2010	- Disposables to institutions:	1,800,000	\$425,000	6%	(\$11,000)
	- Rechargeable + specialty batteries to institutions:	38,500	\$65,000	25%	
	- Specialty batteries and custom packs - inside sales:	275	\$400,000	75%	

**Number of Employees:**

1999: 2                      2010: 6

**Advertising and marketing focus:**

1999: Yellow pages (inside sales), trade shows, business cards, personal selling (institutional sales).

2010: Yellow pages (inside sales), trade shows, business cards, personal selling (institutional sales), web site (inside sales), word-of-mouth (inside sales).