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The Ivey Business Review is an undergraduate business strategy publication conceived, written and managed exclusively by students at the Richard Ivey School of Business. The magazine aims to push the boundaries of student thought; foster the development of world-class business insights; and give the leaders of tomorrow a chance to voice their opinion on today's major business issues and strategies. Each article has been created specifically for the magazine and comes from several weeks of intense collaboration between the writers and members of the Editorial Board.

The Richard Ivey School of Business at The University of Western Ontario (www.ivey.ca) offers undergraduate (HBA) and graduate degree programs (MSc, MBA, Executive MBA and PhD) in addition to non-degree Executive Development programs. Ivey has campuses in London (Ontario), Toronto, and Hong Kong. Ivey recently redesigned its curriculum to focus on Cross-Enterprise Leadership -- a holistic issues-based approach to management education that meets the demands of today's complex global business world.

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Editorial Note

The fourth issue of the Ivey Business Review marks the end of the second successful year for the publication and what a difference a year makes. Just twelve months ago our thoughts were consumed by fear of recessions and financial crises, and our 'Going International' issue encouraged businesses to turn their focus abroad to find new opportunities. Today, with Japan reeling from natural disaster, Europe still struggling with its debt crisis and Canada poised for another election, times are just as uncertain as they were a year ago.

In this issue, our authors tackle as diverse and complicated a set of topics as ever. First, there's a close look at Microsoft's Kinect and how a product meant initially for video games represents a golden opportunity to restore their former glory and market leadership. There is also a close look at Canadian retail – from HBC's move upmarket to the implications of Target's Canadian invasion. Our title article, 'Footing the Bill', looks at the damaging impact of Soccer owners treating their teams like toys rather than businesses. Between articles on the importance of IPOs for tech companies, the business case behind targeting the gay consumer and whether the Tata Nano is right for India, there truly is something for everybody.

We hope you enjoy it

The Editorial Board

KINECT THE FUTURE

Microsoft's Golden Opportunity

Written by Howie Chan and Peter Walcher

Since the Office suite, Microsoft has not been able to produce an immediately profitable product, let alone an industry-defining one. The launch of the Xbox Kinect presents Microsoft with the unique opportunity to reposition itself as a pioneering company, or miss the boat on another piece of revolutionary and valuable technology. Designed to replace the Xbox controller, the Kinect uses 3D motion-sensing technology to detect movements in the human body, allowing players to use natural gestures to interact with the video game console. The true value of the Kinect, however, lies beyond gaming. Limited only by the practically infinite combinations of movements of the human body, Kinect technology has the potential to dethrone the reigning champion of human-computer interaction – the mouse.

> "You can immerse yourself in the experience. You don't have to take time out in this world to go be with the technology. You're in the environment of what you're doing, and the technology… these new styles of user interface let you immerse [yourself]."
>
> - Steve Ballmer
> CEO, Microsoft

The Success of the Kinect

Since its launch in November 2010, Microsoft has sold over 10 million Kinect units, making it the fastest selling consumer electronic device in the world. According to Engadget, the ratio between Kinect units and games sold is nearly 1:1, demonstrating that a significant portion of consumers buy Kinects for applications beyond the Xbox.

The applicability of Kinect's Natural User Interface (NUI) technology to both consumer and business markets makes the product particularly exciting. *The Globe and Mail* reports that the Kinect is already being used in hospitals to allow doctors to use "hand gestures to zoom in and out of images… without leaving the operating table." In the oil and gas industry, Ballmer was excited to promote its use as a web conferencing device with the ability to manipulate 3D models of an oil well via cloud computing. The value of the device beyond consumer electronics is why the Kinect has such significant future potential and is why it has been so successful.

The Kinect has fallen into a category beyond home entertainment; it's pioneering its own genre of technology, its own industry with no one at the helm. There is no clear direction for the blossoming industry and competitors already are and will continue to react to this market. Capitalizing on the power of this NUI technology must be Microsoft's priority in the coming months.

Introducing Kinect Hackers

While Microsoft designed the Kinect as a video game controller, independent programmers, known as Kinect hackers, had other ideas: applying the technology to desktop computing. This underground community extends beyond the at-home enthusiast to research labs at prestigious schools such as MIT. One program built at MIT allows users to manipulate pictures on their desktops using mid-air gestures. The Kinect allows users to experiment

with a new paradigm of human-computer interaction, spurring innovation by giving people affordable access to tools to create what we have, to date, only seen in futuristic films like Minority Report.

Applications and Potential Value Beyond the Gaming Market

Microsoft currently sells the Kinect at cost, profiting from royalties paid by video game developers and by providing the Xbox Live service. In order to capture value outside the gaming market, different software applications for the Kinect are essential.

At the time of launch, however, Microsoft did not fully understand this. When CEO Steve Ballmer was asked about Microsoft's vision with respect to applying the Kinect technology to a variety of different fields, he replied, "For Kinect it's the Xbox" - a seemingly shortsighted view.

After years of relatively stagnant product design, Microsoft has an opportunity to reestablish itself as an innovator and create a new standard for consumer interaction technology. Microsoft must stop treating the Kinect as a niche home entertainment product and embrace its true value. The next few years will be defined by Microsoft's current actions to recognize the niche product, acknowledge independent developers, transform and standardize it as a unique part of its Windows computing platform, and ramp-up the development of its endless applications. The Kinect should be company defining, extending far beyond the Xbox.

> "Microsoft has sold over 10 million Kinect units, making it the fastest selling consumer electronic device in the world."

Shrinking Time Frame to Act

In the last two years, the Windows Operating System (OS) has lost 2.6% market share per annum. Failing to seize this NUI opportunity would surely contribute to this negative trend and perhaps accelerate it.

Competitors also realize the potential of NUI technology in consumer electronics. Asus, originally a computer product manufacturer, is working with Microsoft's Kinect supplier PrimeSense to produce a device for PC-to-television browsing. To tempt Kinect hackers into developing code for the Asus platform, Asus prepared a scheduled developer kit launch in 2011 and expects to bring its product to market in Q2 2011. While Apple's customers have settled into their touch interface comfortably, Elliptic Labs has produced a motion sensing dock station for Apple's iPad. With an intended release of a software development kit set for spring 2011, Microsoft may have soon forfeit its first-mover advantage, a key factor in a product's success.

Given the strength in innovation of most of its competitors, it isn't a question of 'if' but 'when' they will release a competing product. In order to defend against these new entrants, Microsoft must move quickly.

What has Microsoft Done so Far?

Since Ballmer's address, Microsoft has hinted towards repositioning itself, calling the Kinect "the first incarnation of the next big thing in computing." Microsoft has also taken steps reactively to support the budding underground Kinect development community. It recently announced the release of an official software development kit (SDK) for the Kinect in spring 2011 to encourage third-party development. This release will allow users to openly develop a variety of PC applications to take advantage of the Kinect hardware and software. Microsoft has decided to package the Kinect SDK into an obscure pre-existing application environment (originally for Xbox game development) called the XNA community. Unfortunately, this development environment discourages innovation with high registration fees for developers, a declining user base, and fragmented access points for application purchases.

Although Microsoft purchases its Kinect camera from PrimeSense, it recently acquired Canesta, a competing American company. Acquiring Canesta has many benefits for Microsoft, most notably Canesta's range of patents for the world's smallest 3D sensor capable of being embedded in PCs, laptops and even smartphones. During the acquisition talks, Canesta CEO Jim Spare was quoted: "With Microsoft's breadth of scope from enterprise to consumer products, market presence and commitment to Natural User Interfaces, we are confident that our technology will see wide adoption across many applications that embody the full potential

of the technology." Through this acquisition, Microsoft insourced a drastically different culture of innovation, perhaps powerful enough to affect Microsoft's current view of the device.

Releasing the Kinect and taking steps to support Kinect developers has helped Microsoft in two ways. First, it allowed customers to sample the technology and begin adjusting to NUI. Second, it pushed Microsoft to the centre of attention for independent developers, driving innovation and generating hype for the next best Kinect hack.

"The next few years will be defined by Microsoft's actions to recognize the niche product; acknowledge independent developers; transform and standardize it as a unique part of its Windows computing platform; and ramp-up the development of its endless applications."

What Should Microsoft Do?

To date Microsoft has failed to capitalize on the Kinect opportunity. The company needs to ensure that developers bring innovative ideas to Microsoft rather than competitors, which will require providing developers with large-scale distribution through a revamped app store and investing significantly in R&D to shrink the Kinect camera for mobile application as soon as possible. The end goal should be to incorporate NUI technology into its next Windows OS, thus cementing Microsoft's OS as the leading platform for NUI, recapturing OS market share and rekindling innovation in a stagnant company. The benefits of this plan are long-term: if Microsoft establishes itself as the standard in this emerging market, similar to the Office suite, rivals will be unable to compete.

To build a competitive advantage over its NUI competitors, Microsoft should replace its failed XNA community with a new centralized app store that improve its front-end distribution strategy and offloads the cost of developing new applications for its software. When combined with the Canesta acquisition, these investments will help create substantial barriers to entry against competitors, building a significant application base and controlling its entire value chain.

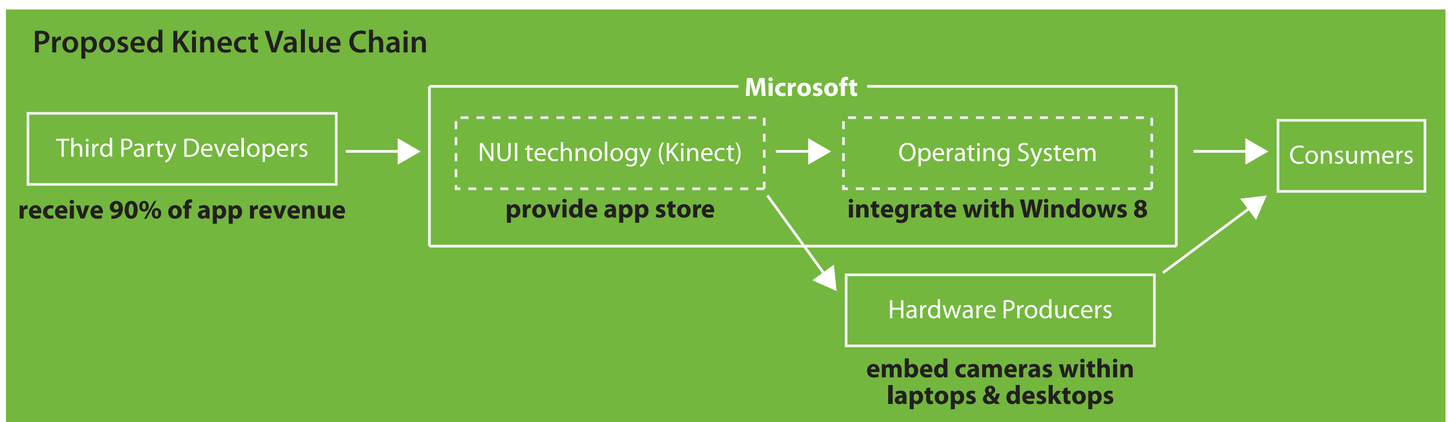
In order to implement NUI technology, Microsoft should prime the market for the technology by selling applications at cost and transferring earnings to its developers. A 90:10 split of profits between developers and Microsoft would motivate innovative ideas and compete strongly against Apple's typical 70:30 split, while covering the full cost of the Kinect application. Additionally, Microsoft earns 70% margins on its operating systems; therefore, it is in their best interest to sell operating systems rather than Xbox units, Kinects, or applications.

In conjunction with the OS release, Microsoft must work to bring the Kinect technology to the mobile market. Working with Canesta, the size of the Kinect camera needs to be decreased in order to embed it into a laptop, tablet or mobile phone. This proposal will be difficult for Microsoft, since it does not control the manufacturing of the devices installed with Windows OS. Microsoft must work directly with its manufacturing partners to ensure that the Kinect camera becomes a standard on future devices.

A key concern is whether Microsoft is prepared for this drastic shift in the way it operates. For years, Microsoft played it safe, choosing to upgrade the Windows OS every two to three years with minor add-ons and fixes. Having recently launched failed products like the Zune media player, Kin mobile phone, and Windows Vista, Microsoft's lack of innovation is apparent. To successfully transform, the company needs to change its corporate culture from a 'play it safe' motto to an innovation-driven philosophy.

Incorporating NUI with the next Windows OS is in Microsoft's best interest. Microsoft must next consider how its competitors will react. Apple and Google are positioned well in the operating system, laptop and mobile phone markets and will surely react to any success Microsoft has in NUI technology. Yet, because Microsoft can leverage its value chain against these competitors, the faster it seizes this new market, the better positioned it is for sustainable growth.

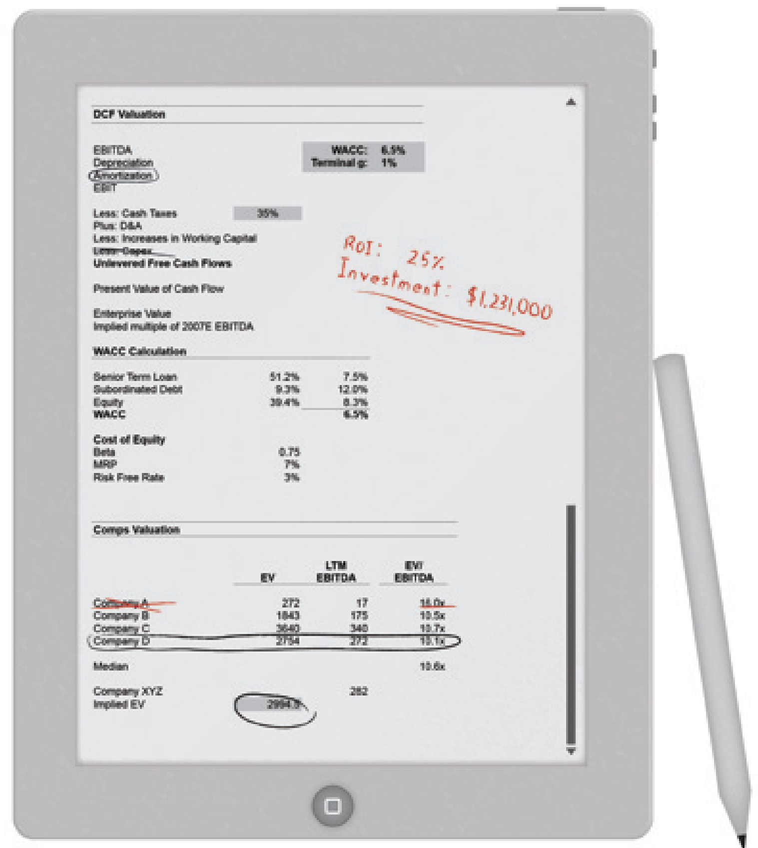
It's time to wake up Microsoft - the Kinect is your future.



One Step at a Time

The Next Revolution from Apple

Written by Joseph Ghobrial and Will Meneray



What is there to say about Apple that hasn't been said already? For a company that was on life support just over a decade ago, the meteoric revival is legendary in corporate America. The turning point was the acquisition of NeXT in 1996, which brought back co-founder Steve Jobs and rewrote Apple's corporate DNA. Now, legions of fans eagerly await every announcement by the company they have come to expect revolutions from. The most recent release, the iPad 2, is poised to become one of the fastest selling consumer electronics devices of all time – having sold as many as 1 million units during its first weekend alone.

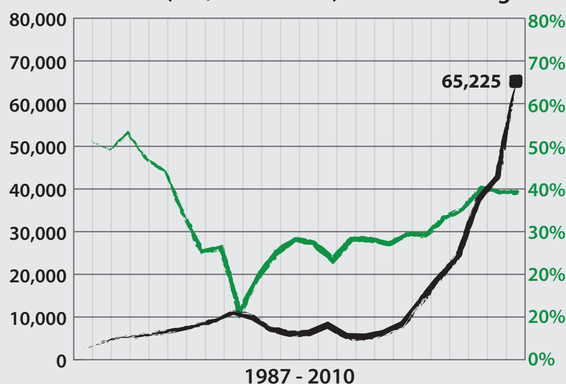
Yet in the midst of all the hype, the infamously long lines, and near universal Wall Street praise, something is noticeably absent. Ever since the iPod, the writing has always been on the wall for the next revolution. While consumers have always been amazed by the final incarnation of the product, Apple's next platform for content presentation has been predictable. In the case of the iPad, a tablet-like device was rumored as early as 2002 by Matthew Rothenberg, before finally catching steam in late 2009. The iPhone concept was predicted as early as 2005, 2 years before its initial release. Both of the final announcements were met with relief, rather than outright surprise.

This time, despite all the momentum surrounding Apple, there is no such speculation. There certainly is a great level of anticipation of refreshes for Apple's current product line – an iPhone 5, revamped Apple TV, the addition of video streaming to their iTunes offering – but nothing which would match the scale of those in the past. The company's innovative efforts have undoubtedly been distracted by the health of their prominent leader, but could Apple really be running out of revolutions to deliver?

The Story So Far

Apple's incredible run has redefined "success" in the corporate world by turning traditional industry economics on its head. Revenues appear nearly recession proof and margins grow even

Apple's Performance Over Last Three Decades



with new product introductions. Most impressively, the company is able to generate cash flow hand-over-fist – including $8 billion in the most recent quarter alone.

It is hard to imagine, given how profitable and revolutionary their products have been, that Apple spends relatively little on research and development. At 4% of sales, their R&D spending pales in comparison to almost all major competitors; with Google at 12%, Microsoft at 17% and RIM at a whopping 25%.

This startling disparity demonstrates something beyond just ruthless efficiency that is at the core of Apple's strategy. Unlike most major competitors, Apple embraces overlap between its products with little regard to potential cannibalization of sales. The iPhone, for example, replicates the iPod's capabilities, and the iPad poses a risk to both iPhones and MacBooks.

> "An ink manager running at a computer system receives ink information entered at a pen-based input/display device and accumulates the ink information into ink strokes. The ink manager communicates with a handwriting recognition engine…"
>
> - Apple Inc. Patent

While the convergence between the uses and perceived benefits of Apple's product line may result in some cannibalization, the economies of scale are immense. Technologies can be rolled out across a variety of platforms cheaply and quickly given the consistency between them. Apple applies this strategy to both hardware and software. By offering their core operating system across such a multitude of devices, Apple has been able to ease consumer adoption and begun to crack Windows's traditionally hegemony.

This points to the most critical element of Apple's strategy: rather than focusing on cutting costs, the company focuses on extracting the most value from the customer. This strategy manifests itself most clearly in the relationships Apple has with their suppliers.

Instead of purchasing generic, off-the-shelf components for their products like their competitors, Apple takes the time to research and develop them. This process is costly but ensures that they deliver the latest technology to the consumer. These components are then seamlessly integrated to provide the consumer the full capabilities of the technology. Under such circumstances, Apple is consistently able to be first to market with new technology and maintain its reputation for the highest quality – helping justify their premium price point at the same time.

Apple is able to accomplish this without ever controlling the low margin and capital-intensive manufacturing portion of the value chain. Instead, they use their enormous volumes and prepayment practices to entice manufacturers into a lucrative relationship. The power they have over these manufacturers is extremely potent. For example, Samsung, who provides the A4 and A5 processors for different iPhone and iPad models, produces better quality chips for a competitor than for its own products. Until its own technology in those categories catches up, they are helping sustain Apple's competitive advantage.

Most importantly, this relationship gets better with not just scale but scope. Since technology can be rolled out across platforms, each new device comes at an increasingly reduced cost. For Apple, the question is not whether to move but rather where to move next.

A Second Gap?

When Steve Jobs introduced the iPad in January 2010, he described it as filling a gap in the marketplace: the gap between smartphones and laptops. For this 'third category' to be successful, Steve explained, the device had to be better than both the laptop and the smartphone at some key tasks, namely, web browsing, photos, videos, and eBooks. With 2010 sales of 15 million units and expected 2011 sales of 40 million, the iPad clearly met those criteria.

The iPad filled the gap between the smartphone and the laptop for content consumption but, in doing so, created another. While Apple has a full line-up of devices at nearly every conceivable form factor and level of portability for content consumption, the same cannot be said for content creation. Tablets have been heralded as the beginning of the end for the laptop, but until they obtain the same capabilities for productivity applications – running Microsoft Office software effectively for example – they will do no such thing.

Ultimately, the functionality of the different devices are bound to continue to converge. In the near term, the need for a new device, one that bridges the gap between tablets and laptops, has emerged. No device is likely to improve on the laptop for formal document generation. Instead, filling this gap will require a device that does something neither a laptop nor media tablet does well: perfects note-taking, document annotation, and document organization.

This concept aligns perfectly with Apple's singular function devices. Just as the iPod was designed to kill the portable CD player, and the iPhone designed to kill the feature-phone, this new product would replace another outdated technology: pen and paper.

Introducing the iSlate

At its simplest, the iSlate would present a user with a digital "piece of paper" on which they can write and have their notes saved for future use. Users would also be able to read and fully annotate eBooks, pdfs or other documents accessed through e-mail, the Internet, or the device's internal storage.

The proposed device would have a similar form factor to the iPad. Instead of using a color LCD screen, however, the device would use an advanced version of the eInk displays found in many eReaders including the Amazon Kindle. Interacting with the device would involve using basic Multi-Touch gestures, augmented with a digital stylus.

eInk technology provides an experience as close to paper as currently possible in a digital device, while using only a fraction of the power required by an LCD display. This would allow the iSlate to last orders of magnitude longer on a single charge than both a laptop and a media tablet.

While the eInk technology currently on the market supports neither stylus nor touch input, the company behind eInk displays, E Ink Holdings, announced in August 2010 that they are working on such a display. If anyone is capable of creating large enough demand for this technology as to have its development rapidly fast-tracked, it would be Apple. In fact, they even filed a patent for similar technology in November 2009.

Journey to the Cloud

If the proposed device sounds simple and minimalistic, that's because it is. Apple has a long history of eschewing frills and extraneous features in the name of simplicity and a streamlined user experience. The iSlate is designed to do three things very well: note-taking, document annotation, and document organization. The former two are achieved by creating a device that approximates the pen and paper experience as well as possible. The latter has little to do with the device itself, but rather the ecosystem Apple should build to surround it: a cloud-based document storage and organization system.

The features of such a system are themselves fairly straightforward: as users take notes they are automatically uploaded to the cloud and indexed by time, date and location, cross-referenced to a user's calendar. Handwritten versions would be preserved in their original incarnation, but handwriting recognition software would be used to allow for searching and sorting notes by keyword. In this way, users will be able to search their notes by date, time, the meeting they were written in, and any text written within the note. Content could then be accessible through any internet-connected device and simultaneously edited by multiple users – aligning perfectly with the increasingly mobile and collaborative nature of information.

What begins to emerge is a system that eliminates the primary shortcoming of pen and paper – the ease with which information can be accessed. More importantly for Apple, the iSlate becomes the all-important gatekeeper to the enterprise consumer. The situation is identical to the iPod or the iPhone – where Apple profits by selling hardware, but the iTunes Store and App Store are key to the value proposition. Once users have their collection of notes stored on this system, it becomes increasingly difficult to switch to a competing product – even if better technology were to emerge. This provides not only a captive audience for the iSlate as it evolves, but a stepping-stone to additional enterprise product offerings that leverage the cloud.

The Next Revolution

So why should Apple take the risk? At first glance, such a product would appear better suited for a company with an enterprise focus like Research in Motion. A similar idea was originally considered by Palm, but couldn't get funded.

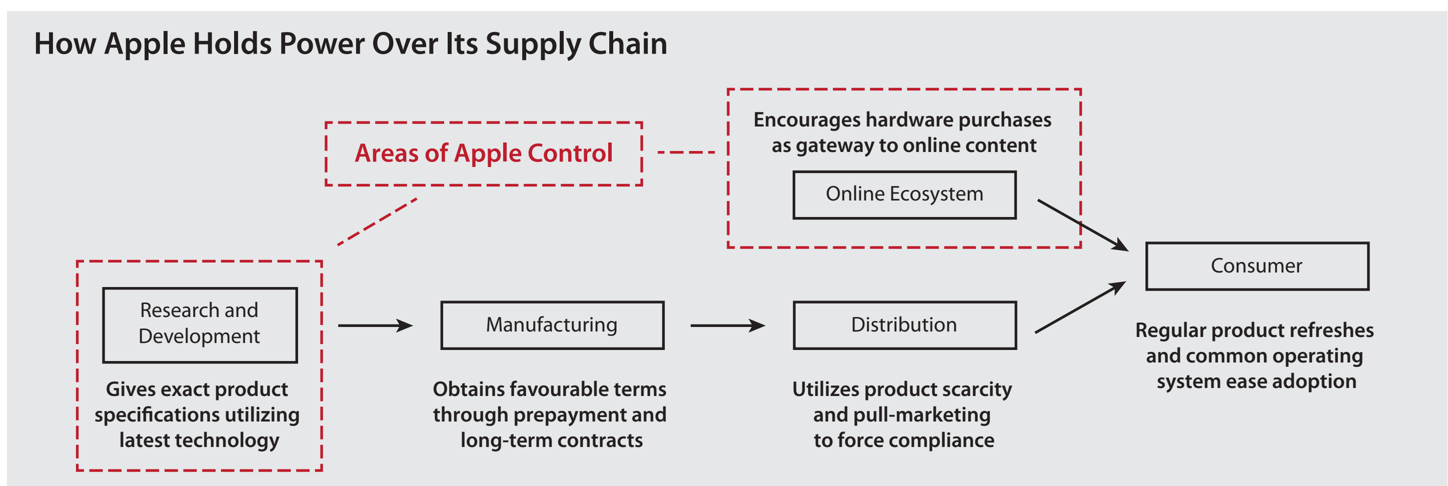
To date, Apple has left the enterprise market relatively untouched. Creating a product that fulfills a need found not only in corporate boardrooms, but also in classrooms, hospitals, and art studios could provide Apple with significant growth potential. With a comprehensive consumer product line, Apple must turn to the enterprise market to maintain its growth rate into the future.

This may be a risk for Apple's short-term position, but it positions the company well for sustainable growth. The consumer product line does not require reinvention – its growth is sustainable through incremental refreshes. With $60 billion in cash, Apple has the ability to take on risks. Further, with no dividend in sight, there is an expectation by the market that they will do so.

A product like the iSlate, however, addresses a much more compelling need. In the face of inevitable product convergence, where single-purpose devices slowly merge, devices that introduce specific technologies are imperative. For example, an Apple tablet using Multi-Touch was first developed in 2005 but eventually shelved. Instead, the technology was transferred to the iPhone and the iPad didn't arrive for another five years. This seemingly counterintuitive decision was actually very prudent: Apple first had to introduce consumers to the idea of Multi-Touch interaction on a familiar device before introducing it in a brand new category.

The rationale for the iSlate follows this pattern. Introducing content creation elements onto the consumption-optimized iPad dilutes its value proposition as current technology does not allow both to be done well on the same device. It is critical for Apple to create a separate iSlate-like device to build consumer acceptance for this style of interaction. Creating this acceptance enables the convergence towards a device – optimal for both content consumption and creation – that users will soon demand and technology will eventually allow.

At its most fundamental level, Apple's strategy has always been to prime consumers for its next technology. Creating a device like the iSlate, not in its specifics but in its purpose, does exactly that. As with all of Apple's products, less is more, at least for now.



A Healthy Getaway

Can Medical Tourism Improve Healthcare for Canadians?

Written by David Stewart and Sabriya Karim

Canadians enjoy the benefits of a universal healthcare system, but the sustainability of "healthcare-for-all" is increasingly questioned. As the aging baby boomers strain the system and wait times continue to escalate, many citizens are concerned – especially since Canada was recently ranked 26 out of 28 developed nations in terms of physician availability, with only 2.3 doctors per 1,000 people. It is clear that the Canadian healthcare system, once synonymous with quality, is in trouble.

The Waiting Room Fills, the Coffers Empty

Canada's healthcare deficit has been growing since the late 1990s. During this period, healthcare costs more than doubled as drugs and physicians became dramatically more expensive, while revenues have lagged. To put this issue into perspective, healthcare spending currently represents 11.7% of national GDP and approximately 42% of provincial spending. In contrast, education accounts for 20% of provincial spending. The budget deficit has led to wait times between referrals and treatments ranging from five to 36 weeks, contributing to Canada's poor reputation amongst developed nations for access to healthcare.

Canadians are increasingly noticing the strains on the medical system, and have grown concerned. Nanos Research indicates that healthcare is the most important national issue amongst citizens and it was identified as the primary public concern by 35% of the population in 2010, up from 23% in 2009.

Healthcare will continue to face top-line challenges in the immediate future, especially considering the Canada Health Transfer Program – a fund transfer program that allocates federal dollars to provincial budgets – is set to expire in 2014. The program, which represents

20% of provincial healthcare funding, has not been renewed to this point, adding to the uncertainty of the system's sustainability.

The Elephant in the Waiting Room

In June 2005, in the case of Chaouilli v. Quebec, the Supreme Court of Canada ruled that legislation prohibiting private medical care in the face of long wait times violates the Charter of Human Rights and Freedoms. This ruling effectively opened the Canadian market to private healthcare providers and led to the endorsement of private-sector health services by the Canadian Medical Association later that year.

The reality of long wait times has led to a sizeable jump in private spending on healthcare in Canada. In fact, the number of for-profit surgical clinics tripled between 2005 and 2008. These clinics provide hundreds of services in fields ranging from fertility to oncology. Canadians are clearly tired of the long wait times in the public system and those that can afford to are moving towards the more timely service offered by the private sector.

Enter: Medical Tourism

It is clear that the Canadian healthcare system, public or private, is in need of change. Dollars from abroad could enhance medical care in Canada by making use of unused capacity in the system. Medical tourism is a rapidly growing industry in which patients travel across borders for healthcare services. Whether fueled by price, quality or location, medical tourism has been booming for over a decade. Americans represent the largest medical tourist segment, spending approximately US$9 billion worldwide in 2010. With the U.S. driving the medical tourism industry, Canada has a tremendous opportunity to improve its own healthcare system with American consumer dollars.

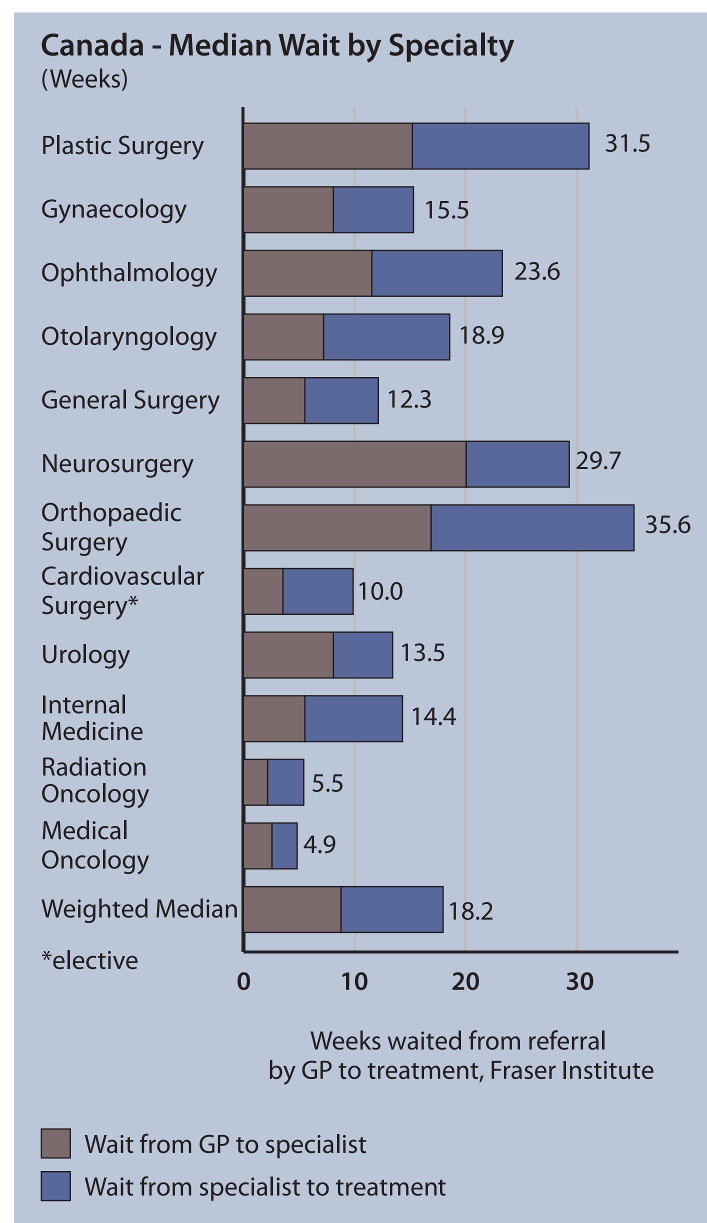
Canada has several competitive advantages over its international counterparts in attracting U.S. consumers. First, Canada can compete on price because of its lower costs. Due to the nationally-standardized procedural fee schedule in Canada, American medical tourists can avoid the higher price of surgeries in the U.S., which can run five times greater than the Canadian equivalent. But Canada's competitive advantage extends beyond price. Medical tourists also select destinations based on reputation, language, culture, legal risks and availability of follow-up care. With Canada's language, culture and low perceived care risk, American medical tourists will have fewer reservations about travelling to Canada than many other countries. Finally, Canada's location is a prime advantage; Americans can generally travel to Canada more cheaply than any other major medical tourism destination. Proximity proves to be a strong competitive force because tourists want to minimize travel should follow-up care be required. Canadian healthcare is well positioned to compete on any American medical tourist's key decision criteria.

Medical tourism could, in effect, subsidize healthcare for Canadian citizens and improve quality of service. With costs outpacing revenues for close to two decades, hospitals are in dire need of additional funding. The extra revenue stream supplied by medical tourists will allow the system to expand, creating more availability for Canadians. Medical tourism agencies, such as Canadian Healthcare International and Choice Medical Services, offer packages with flights, hotels, hospital bookings and procedures for medical tourists. These agencies are valid contributors to the state of Canadian medical care and should be embraced.

Leveraging Medical Tourism for Canada

Skeptics may argue that healthcare costs will naturally increase if Canada were to serve American medical tourists: with more American patients in the system, wait times would surely have to increase. In reality, however, as ACCESS Global Healthcare President Helen Cosburn explains, Canada's tight health budget means operating rooms (ORs) are subject to closure days and physicians and nurses are sent home to reduce staffing costs. Such forced closures result in days, even weeks, of available ORs, staff and resources that create an opportunity to treat foreign patients, while generating revenue for the hospital. Canadian ORs are, in effect, running well below capacity due to hospital budget constraints. Medical tourism provides a two-fold incentive for Canadian doctors to perform surgeries on American patients. Opening the OR beyond the hours funded by the government allows a doctor to earn additional income and gain experience, which can be extremely valuable for a young physician.

The revenue from American customers will help to supplement provincial healthcare spending and expand hospital budgets.



American spending would fill the gap simply by renting the OR during unused time. Length of stay in hospital beds can be controlled by filtering the services offered. Patient health, surgery type and bed availability all factor into the customer's post-operation length of stay and can be structured to eliminate any detrimental effects on Canadian patients. For example, cosmetic surgeries and hip replacements for healthy patients naturally have shorter recovery times than spinal surgeries for elderly patients. Restricting services to those patients likely to have a short bed stay, via screening at the first point of contact with a Canadian service provider will ensure that medical tourists have a net positive impact on the hospital's operations. Finally, doctors should be paid based on the Canadian fee schedule so that there will be no financial incentive to treat Americans over Canadians. Rather, doctors can supplement their personal income by performing additional surgeries, but only once their Canadian patients have been tended to. The number of hours doctors and nurses work is generally capped by budget constraints, resulting in fewer hours worked than the regulated maximum. Medical tourism is therefore a viable option to monetize this unused time while continuing to provide safe, high-quality healthcare to Canadians.

Americans for Canadians' Sakes

Despite these benefits, the most difficult part of turning this solution into reality is convincing the Canadian public that there will be no increase in wait times. The first step of implementation is to make hospital accounting transparent. Treating foreign patients amongst Canadians who are waiting for treatment can raise concerns about availability of resources. But, as Cosburn explains, if unused capacity is utilized and revenue is kept separate, hospitals can show that cash flows realized from medical tourists support the healthcare system rather than hinder it. For example, these funds could be treated solely as a fundraising stream to refurbish the facility or purchase new equipment and thus reduce the burden on the hospital's budget.

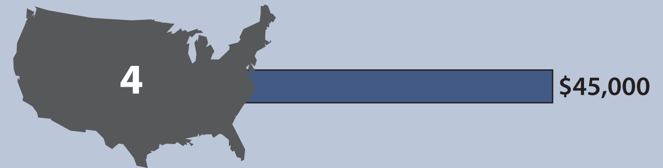
As more Canadians realize there are critical problems in the healthcare system, they will grow more receptive to a new funding solution. Medical tourism may not be the only approach to solve Canada's current healthcare problems, but it is an excellent opportunity to supplement hospital budgets and create a more accessible, effective healthcare system for Canadians. Looser hospital budgets will translate into more government-funded OR time and shorter wait times for Canadian citizens.

The outlined steps, coupled with Canada's clear competitive advantages in attracting medical tourists, will help the country carve its niche in the rapidly developing industry of globalized healthcare services. More importantly, Canadians can see their access to healthcare improve dramatically. Citizens must acknowledge the declining state of Canadian healthcare and corresponding rise in the private system and move beyond it toward a solution. Opening ORs to American customers is a terrific way to help hospitals serve Canadians better. The days of 36-week wait times could become a thing of the past with creative approaches to supplementary funding.

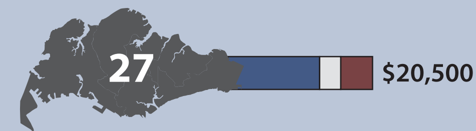
The authors would like to thank Helen Cosburn, President & CEO of ACCESS Global Healthcare, for her medical tourism industry insight

Comparison of Selected Medical Tourism Alternatives to U.S. Patients
(Hip Replacement Surgery)

United States

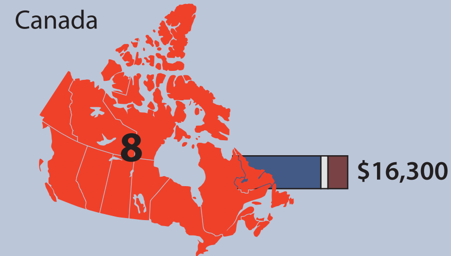


Singapore

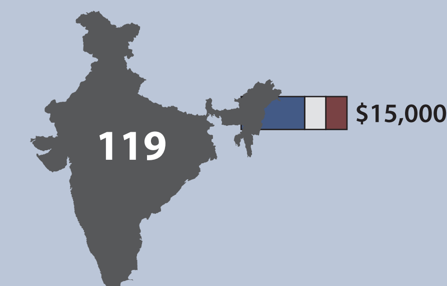


Mexico

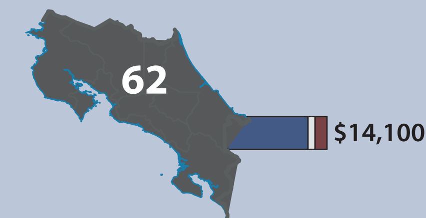
Canada



India



Costa Rica



Procedure Cost
Lodging
Airfare
1 UN Human Development Index Rank

The Bay's New Groove

Is Moving Upscale in Canada's Retail Market the Right Move?

Written by Christy Chak

As the oldest company in North America, the Hudson's Bay Company has certainly had a rich history. However, the company's revenues have recently been declining due to a lack of consumer interest. In January 2006, Jerry Zucker, an American investor, purchased the company with grandiose ideas of change. Unfortunately, his sudden death four months later halted all plans until 2008, when HBC was sold to NRDC Equity Partners, a retail and real estate private equity firm.

The Canadian retail landscape has been tumultuous. Until the mid 1970s, department store chains such as Simpsons, Eaton'sand Woodward's were popular and profitable. However, by the late 1990s, only three national chains remained: Sears, the Hudson's Bay Companyand Holt Renfrew – the rest declared bankruptcy or have been acquired. New specialty retailers such as The Gap, Benetton and Club Monaco infiltrated the Canadian market, competing at the same price points as traditional department stores. These retailers have changed consumer mindsets by offering more value to consumers by selling a specific brand and lifestyle.

Mass-market discounters, such as Wal-Mart and the pending arrival of Target, restrict The Bay's ability to move down-market. Specialty stores such as Roots, Town Shoes and Future Shop limit its ability to survive in the mid-market. With Holt Renfrew as the only formidable national department store in the Canadian luxury market, The Bay chose to move upscale.

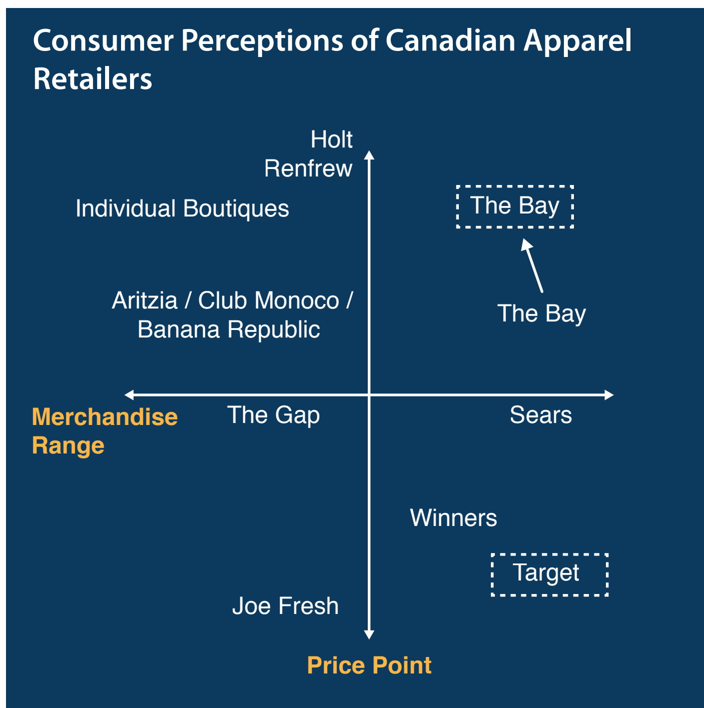
To facilitate the transition to a more upscale department store, Richard Baker, the CEO of NRDC, brought in retailing wizard Bonnie Brooks. Having worked previously at Holt Renfrew and most recently credited with the transformation of the Lane Crawford luxury retail chain in Hong Kong, Brooks is certainly qualified for the position.

Winning the Consumer

The Bay's historical customer was the middle-class female baby boomer. This consumer group grew up during the rise of the department store and once viewed the store as a one-stop shop for all merchandise needs. Compared to specialty stores, with their frequent product turns, The Bay begins to appear old-fashioned and outdated, with high prices, mediocre product lines and poor service. The modern consumer desires a streamlined and exclusive product mix that caters to their specific interests.

As The Bay's customers age, they are shifting their spending away from apparel towards more health and travel-related products. Brooks wishes to attract the younger, fashion-conscious audience in order to create a sustainable pipeline of consumers for the department store. According to Paco Underhill, author of The Call of the Mall, the modern woman's increasingly busy schedule dissuades her from driving to the suburban mall to idly browse through a department store. She now prefers to visit specialty stores in power-centers on her way home from work, park directly in front of the store entrance and be out within 15 minutes. The Bay must adjust to the contemporary demands of its primary customer base by narrowing its product selection and increasing convenience or risk becoming irrelevant.

Brands are important to this demographic but merely having the right products is not enough to lure them away from the specialty retailers. In a crowded marketplace, The Bay needs to differentiate itself by improving the store experience and selling a lifestyle to its customers. This goal of differentiation can be achieved by first ensuring the merchandise offered is aligned with the store's image and by enhancing the level of customer service. Department stores have traditionally been criticized for their employees' lack of product knowledge due to the sheer breadth of products. Complaints of snooty salespeople and stringent return policies also tend to be associated with luxury goods stores. An emphasis on customer service could allow The Bay to gain an edge over its Canadian competitors.



Brooks' Report Card

Since her appointment in 2008, Bonnie Brooks has implemented significant changes to the department store. She responded to customer desires by securing contracts with highly-desired brands like Ralph Lauren, Topshop and Halston. Additionally, she has secured exclusive rights to many up-and-coming Canadian designers. Through these actions, Brooks provided The Bay with a more appealing assortment of merchandise and access to exclusive brands.

Brooks also commissioned a renowned design firm to renovate The St. Regis Room at the flagship Queen Street location store in Toronto. Plans are underway to renovate the remaining flagship stores in the other major cities across Canada. Recently, Brooks negotiated an agreement with Oliver & Bonacini restaurants to rebrand 24 in-store restaurants at The Bay locations across Canada, modernizing store locations to enhance the store experience.

The changes that Brooks implemented have thus far focused on increasing revenue but also significantly increased operating expenses. Although customer feedback has been generally positive, there has been no indication that the capital investment will result in a quick return to profitability, particularly since most of the changes have only been implemented at The Bay's flagship Toronto store. While Toronto is a lucrative market, there are other areas around the country where there is a demand for luxury goods, with significantly fewer competitors in the luxury segment.

Issues with the Expansion

The Bay's current strategy continues to lack focus on the core target market as it projects conflicting messages to consumers. It is apparent that Brooks first identified the niche in the upscale department and automatically expected the younger consumers who purchase in this category to arrive once new brands arrived in the store. Although Brooks culled 850 underperforming brands and introduced 250 modern, higher-end ones such as Jason Wuand Mark Fast, these brands do not necessarily appeal to the new audience. A more effective strategy would be to first recognize the primary target audience and then cater the product mix to them. Additionally, baby boomers are still a lucrative market but Brooks may be alienating this traditional core consumer in attempt to lure the younger market.

More importantly, The Bay's proposed strategy is still not sufficiently differentiated to ensure success. Since Brooks' retailing background is primarily in apparel, she has neglected the other departments at The Bay in her attempt to compete with Holt Renfrew. There are more opportunities for differentiation in those other product categories. This is also a contradiction between the stores located in urban areas and smaller regions, both in terms of the product lines offered and the overall positioning. By limiting the majority of her changes to urban centers, Brooks' efforts only affect a small portion of the potential market. The company's size hinders its ability to execute changes swiftly and given the geographical dispersion of the population, it is difficult to cater to the demands of the fashion-forward consumer even if a carefully selected line of products was offered at stores in smaller cities and towns. It would take significant time and capital to appropriately renovate all The Bay stores to convey a consistent upscale image and compete with the small luxury Canadian market. Instead of trying to fill the niche between mid-market specialty stores and Holt Renfrew, perhaps there is another gap in the market The Bay can fill.

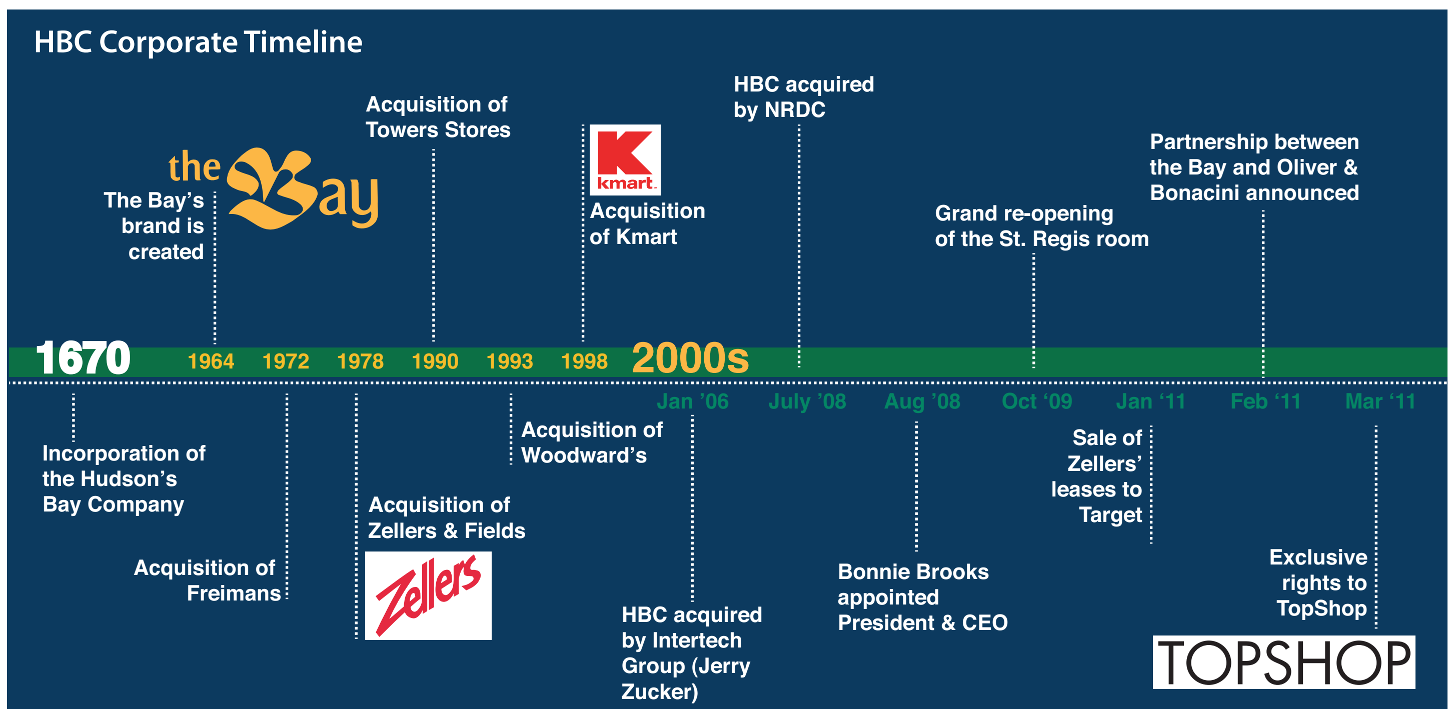
> "The Bay's current strategy continues to lack focus on the core target market, as it projects conflicting messages to consumers."

The (e-)Bay

In line with the evolution of shopping into an efficient and convenient task, online retail has steadily grown in Canada, with over $15 billion in purchases made in 2009. Customers have been petitioning retailers like Holt Renfrew for an online store to no avail. As a result, Canadians have been patronizing American retailers who offer a wider selection of merchandise and better prices, though the latter advantage is offset by exorbitant customs brokerages fees, duties and additional taxes. The Bay currently offers the ability to purchase cosmetics and home fashions online but not apparel, due to the concern that the merchandise will not fit or be what consumers expect (arguably the most common barrier to online shopping). However, this obstacle may prove to be The Bay's biggest competitive advantage in e-commerce. With 92 locations nationwide, compared with Holt Renfrew's 11 stores, The Bay can leverage its assets by allowing customers the flexibility of hassle-free in-store returns of online purchases to any one of its locations. Additionally, The Bay can offer a wider product range than any of its competitors, a significant advantage in online shopping, as customers can purchase multiple items and save on shipping fees. A strong Canadian online retailer that negates the extra costs and alleviates the fears of complicated returns would be welcomed by consumers.

The Bay can minimize the risk and investment required by testing out a pilot operation with manual fulfillment, eventually linking the online platform to real-time store inventory, depending on the success of the roll-out. In 2007, Nordstrom committed to investing US$450 million for full multi-channel integration of their stores, projecting online sales revenues of US$1 billion per year by 2013. Compared to The Bay's recent CAD $100-million expenditures on renovations, the cost of expanding its online presence is considerably lower and will yield significantly higher revenues. Thus, The Bay can establish itself as the first Canadian online department store, differentiating itself from its competitors and capturing new market share away from Holt Renfrew.

Concurrently renovating The Bay's flagship stores in the major cities can bring flashes of luxury to the brand, enhancing the potential for success with an e-commerce platform. As Brooks cannot seem to focus on one specific target audience, it is only through the implementation of drastic changes that The Bay can achieve sustainable profitability and continue to add to its rich history.



On Target?

Target's Attempt to Enter the Canadian Market

Written by David Jiang and Patrick Severide

The U.S. invasion of Canadian retail began with Wal-Mart's takeover of Woolco in 1994. Target, following in Wal-Mart's footsteps, now leads a second wave of U.S. entrants into Canada. In January 2011, Target acquired the right, but not the obligation, to take over up to 220 current Zellers leases from the Hudson's Bay Company ("HBC") for CA$1.825 billion, with additional renovation costs totalling $1 billion. The retail giant plans to open 100 to 150 stores between 2013 and 2014, news that was well received by Canadian consumers familiar with the brand. Target offers great variety, chic fashion and low prices, presenting heavy competition for Wal-Mart and other retailers in the Canadian market. Although Canada presents a vast opportunity, Target faces a number of obstacles. At a purchase price of $2.8 billion, there is cause for concern that Target has overpaid for its entry into a fundamentally different market.

Why Now and Why Leaseholds?

Given the unfavourable currency exchange between Canada and the U.S., it seems odd that Target chose 2011 to enter Canada. The company was perhaps enticed by the stability and growth of the Canadian retail sector, driven by rising consumer income levels and a growing population. Canada has posted an average quarterly growth rate in consumer spending of 3.52% between 2009 and 2010, as opposed to the U.S. at 1.96%. During the financial crisis, the U.S. peak-to-trough decline in GDP was 4.1%, marking the longest and deepest recession since World War II. While the Canadian economy has almost fully recovered its lost output, U.S. GDP is still 1.3% below prerecession levels.

This is not to say that entering Canada is without risks. The cost of doing business in Canada is much higher, largely due to the increased distribution costs associated with such a dispersed population. Consumer preferences and purchasing habits are different from the U.S. market, leading Wal-Mart to establish a separate buying department for Canadian stores. Target will likely have to adopt this practice. In addition, Target's prices are expected to be higher in Canada, a potential conflict with the brand's low-price positioning.

Knowing this, why did Target pay such a premium for Zellers' leaseholds? NRDC Equity Partners acquired all of HBC - including Zellers - for $1.1 billion in 2008; now Target is acquiring the property of the least profitable portion of NRDC's portfolio for $1.8 billion. The tight Canadian real estate market offered few opportunities for Target to build stores from the ground up: Lowe's attempt at this took four years to open only 24 stores. Target has sought entry into Canada for over a decade, but the lack of prominent locations and more recently, the economic downturn, hindered these ambitions. Target faced a decision: either acquire existing locations from an established company or build fewer big-box stores with the hope of acquiring more locations in the future. The latter option was unappealing because it lacked the economies of scale necessary to compete with Wal-Mart in the short-term. When the opportunity to acquire Zellers' leaseholds from HBC arose, it was simply too good to pass up. In one fell swoop, Target can now enter many of Canada's prime markets.

"Target has sought entry into Canada for over a decade, but the lack of prominent locations and more recently, the economic downturn, hindered these ambitions."

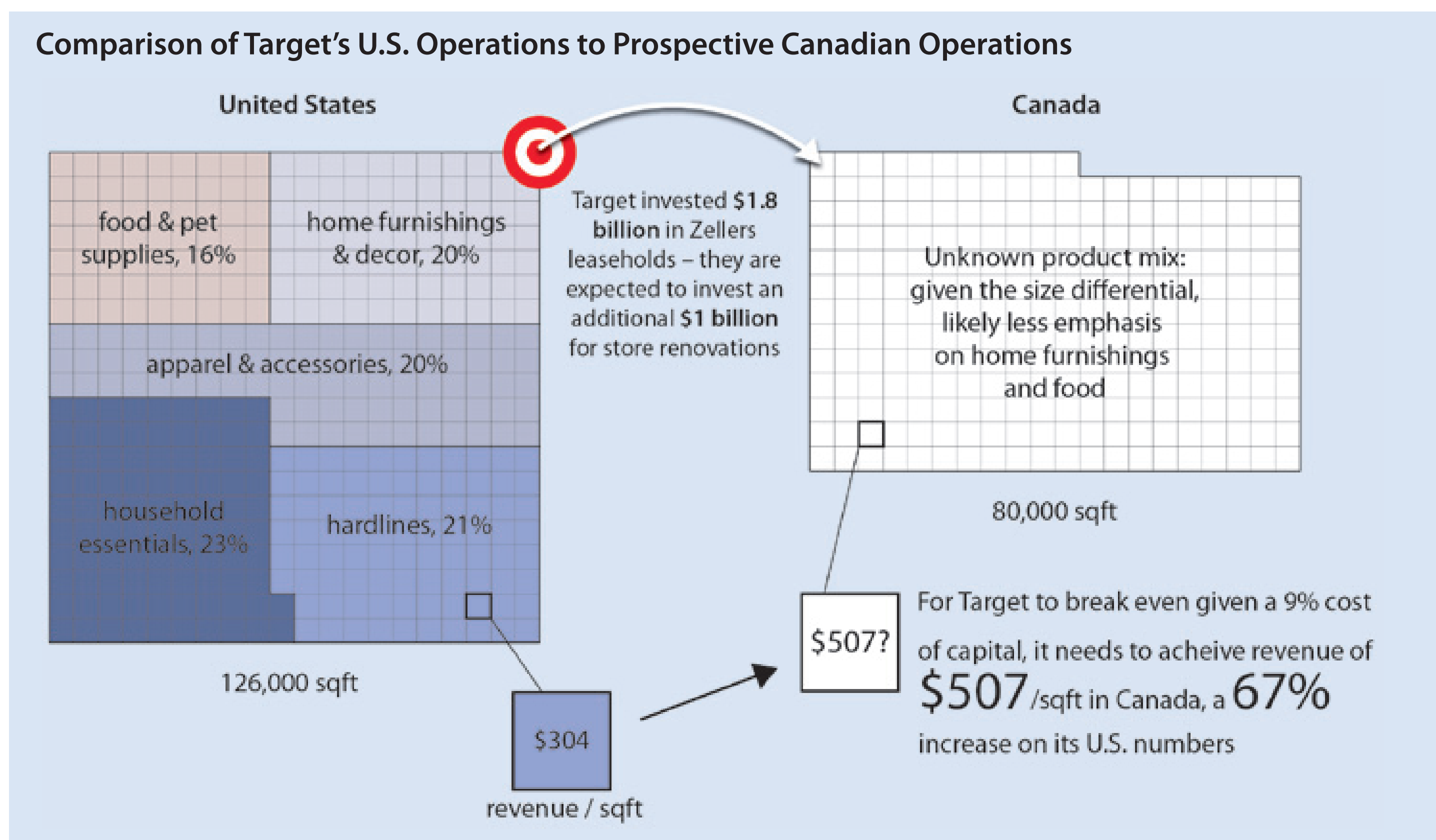
Can Target Find Success in Canada?

In the U.S., Target has successfully positioned itself against Wal-Mart by focusing on the urban-chic consumer. Affectionately known as 'Tar-Zhay' by its style-savvy customers, Target's uniquely diverse product mix offers everything from home appliances and groceries to stylish home décor and fashion-forward private brand apparel. The retailer further differentiates itself through the stores' unique interior design. Target uses a racetrack aisle that begins at the store entrance and leads shoppers on a mid-store circuit, exposing them to all major merchandise departments before depositing them at the checkout. Although the combination of these differentiating factors has led to overwhelming success in the U.S., two potentially fatal flaws exist in Target's Canadian strategy.

First, the average American Target store covers 126,000 square feet, a stark contrast to Zellers' average store size of 80,000 square feet. To succeed, Target needs to streamline its product mix and concentrate on high-margin items to compensate for this difference in retail space. Zellers stores also feature classic supermarket-style aisles and out-dated interiors, which require an additional $1 billion to retrofit.

The implications of these size restrictions could severely affect Target's ability to compete with Wal-Mart. Currently, Target counters Wal-Mart Supercentres with SuperTargets, its own version of a merchandise store with a full grocery line, fast food outlets and a bank branch, that average 175,000 square feet. In anticipation of Target's entry, Wal-Mart has announced plans to open 40 new Supercentres in Canada over the next year, with nine new locations and 31 retrofits of old locations. While Target has the option to build SuperTargets from the ground up, it may not have the capacity to compete head-to-head with Wal-Mart in the short-term. These issues must first be overcome if the venture is to succeed.

Second, Target currently leases only 4.8% of its properties. Entering into Canada through leaseholds represents a significant move from



Target's current real estate strategy. Under the standing Zellers agreements, the lease rate is set at $6 per square foot, well below the market average of $14. However, RioCan Real Estate Investment Trust, the largest Zellers landlord, has stated that it will evaluate each property and raise the rates in certain locations.

Profit potential can be assessed by comparing Target's current revenue per square foot and the required revenue per square foot to meet the $2.8 billion investment cost. Given higher distribution costs, it is optimistic to assume that Target's 4.1% net margin will carry over to Canada. Under the assumption that Target will open 150 stores, with a 9% cost of capital, Target must generate $507 in revenue per square foot to break even. Compared to the U.S. figure of $304, the Canadian revenue on a square foot basis will need to be 67% greater than that of the U.S. Even though Target will be able to charge higher prices in Canada due to the competitive landscape, such a significant increase in revenue per square foot is extremely optimistic.

> "To succeed, Target needs to streamline its product mix and concentrate on high-margin items to compensate for this difference in retail space."

For Target to extract maximum value from its investment, it is essential that the company recognizes the strategic differences posed by the Canadian expansion and adapts its strategy accordingly. Given that Target already faces shrinking store sizes, the inventory system must be remodelled to exclude larger items like appliances and furniture, as these low-turnover products increase holding costs and constrain valuable floor space. To maximize revenue per square foot in the short run, Target must emphasize high turnover of small products: specifically, trendy home décor and private brand apparel. Once Target establishes a strong presence in Canada and suitable locations become available, the company can look to expand its product mix by building SuperTargets.

Targeting Canada

Only time will tell whether Target's $2.8 billion gamble was a foolishly overeager attempt to establish a presence in Canada or a shrewd decision to capitalize on a great opportunity. Although the investment allows Target to immediately enter all of Canada's largest markets, a number of obstacles stand in the way of success. In the short-term, Target will not be able to bring its complete product line to Canada and will not be able to open any SuperTargets through this acquisition. These product constraints may hinder Target in replicating its value proposition in Canada. Although having name recognition among Canadian consumers should be an advantage, it may hurt Target in this instance if consumers visiting Canadian Target locations are disappointed by the lacklustre offerings.

Even though Target will likely be profitable in Canada and bring healthy competition into the market, it seems that Target overvalued the leasehold portfolio.

Retail Reaction

Retailer	Threat	Survival Strategy
Sears	Direct threat to Sears' mid-quality position within the market	Struggling to establish a mid-level identity, must focus on older demographic. This likely spells the end for Sears
HBC	Competition with HBC's strong clothing apparel business	By moving into upscale retail, HBC avoids direct competition
Loblaw	Emerging Joe Fresh line of apparel will face competition in "cheap-chic"	Loblaw's strength in groceries and Target's inability to immediately bring in SuperTargets
Canadian Tire	Competition for both Canadian Tire Retail and Mark's Work Wearhouse	Diversified product offering and emphasis on hardware lines will keep Canadian Tire afloat
Wal-Mart	Direct head-to-head competitor as seen in the U.S.	Expansion of Wal-Mart SuperCentres

Footing the Bill

European Football's Debt Crisis

Written by Kiva Dickinson and Ryan Hui

In the world of professional sports, Real Madrid Club de Futbol is royalty. During the 20th century, Real Madrid won thirty one Spanish La Liga titles, 17 Spanish Copa Del Rey Cups and the UEFA Champions League a record nine times. The iconic white jersey of 'Los Galacticos' has been worn by some of the greatest players of this generation, from Zinédine Zidane to current superstar Cristiano Ronaldo. A quick glance at the club's trophy case should be all that is needed to declare that they are the most successful club in the world, but is this evaluation complete? While Real Madrid has always been a winning team, its financial strategy has put it amongst the world's ten most indebted clubs. These ten clubs had a combined debt load of €4.08 billion in 2010, posing the question of whether financial health and on-field success are mutually exclusive.

> "Many shareholders invest in their favourite clubs to help them win, while the financial side of the operation becomes an afterthought."

Many shareholders invest in their favourite clubs to help them win, while the financial side of the operation becomes an afterthought. Winning is at the forefront for any sports team, but these clubs are also businesses and should be operated with consideration of shareholder value. The debt problem raises an important question in the footballing world: is the goal of a club to win games or to be profitable?

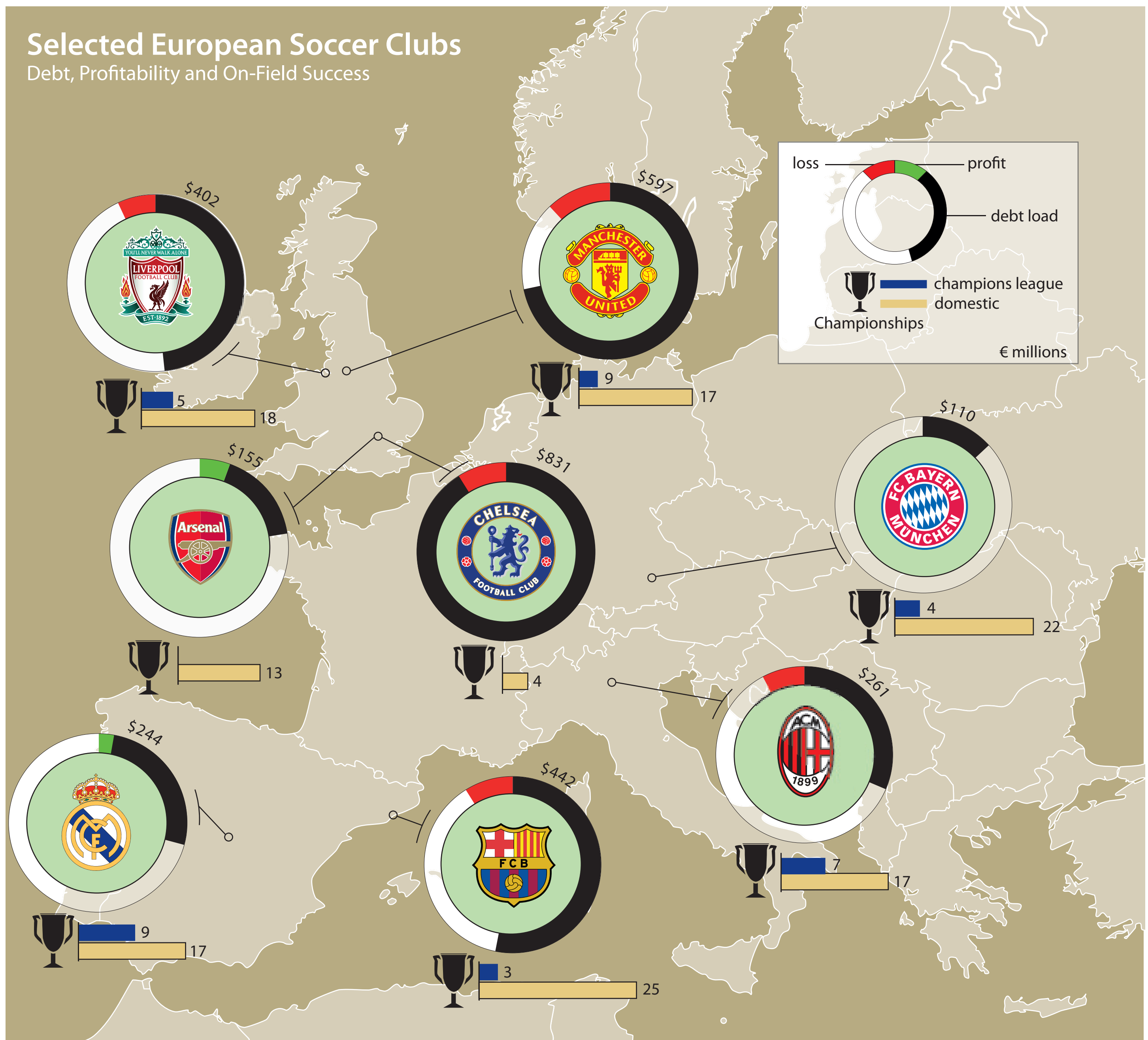
Breaking the Bank

The business model of a football club seems simple. Revenues consist of gate collections, television broadcasting fees, advertising and merchandise. Costs consist of player wages and operating expenses. The profitability of a club therefore depends heavily on its ability to generate fan interest. Clubs that cannot win are unable to attract fans that are willing to spend money.

A major use of cash, however, is missing from this model: player transfers. In football, rather than making trades, clubs purchase players from other clubs. In order to fund these acquisitions, many clubs take on an enormous amount of debt. FC Barcelona, arguably the most dominant club in the world today, follows this approach. In the summer of 2010, FC Barcelona broke the bank by purchasing David Villa and Javier Mascherano, pushing the club's total debt figure to €442 million. This forced FC Barcelona to take out a €138 million bridge loan to finance its payroll this year, making profitability a nearly impossible goal. FC Barcelona had a net loss of €77 million in 2010, questioning the sustainability of its position atop domestic and international competitions. If the team continues to lose money, Barcelona may be unable to re-finance the debt needed to continue its aggressive transfer-market strategy.

Building a Winner

Financially successful clubs manage their value chain by making sound investments that follow both economic and football logic. However, the vast majority of European clubs disrupt their business models by investing in overvalued players and expensive management teams, without a feasible plan to recoup the investment. This overindulgence in debt has thrust many clubs into financial distress and has resulted in several teams changing ownership.



Chelsea FC, based in the south of London, England, has climbed to the top of the footballing world under the control of oil tycoon Roman Abramovich. Abramovich, whose net worth is approximately €4.53 billion, took over Chelsea in 2003 and promptly spent over €700 million in his first five years as owner. Although the club recently attempted to curb spending, Chelsea still suffered a €78.6 million operating loss in 2010. Interestingly enough, very little of Chelsea's spending has been invested in the stadium portion of their value chain. Chelsea's Stamford Bridge, with a modest 41,841 seats, the eighth largest in the English Premier League, has not been upgraded since Abramovich took over.

Across town in the north of London, 2006 marked the opening of Arsenal FC's €533 million, 60,000-seat Emirates Stadium. As the second largest venue in the league, the stadium immediately increased revenue by €72 million annually. This strategy represents a fundamental contrast in resource allocation between Arsenal and Chelsea. While Chelsea has repeatedly sought out short-term solutions to improve its standing in the league, Arsenal has made longer term capital investments to drive incremental profit. This fiscal responsibility has paid off, as Arsenal posted an operating profit of €51.3 million in 2010, in stark contrast to Chelsea's €78.6 million loss.

Arsenal also captures value from player development by taking a fundamentally different approach than its English rivals. Arsenal's premier training academy not only helps to produce premier players that feed into the senior team, but also serves as a profit centre by nurturing young talent and selling players off through the transfer market. Arsenal's strategy allowed them to fill its starting roster spots with Academy graduates such as Cesc Fàbregas and Nicklas Bendtner, while selling talented graduates for a significant transfer premium—including the €5.7 million transfer of Ashley Cole to Chelsea and the €24 million transfer of Thierry Henry to FC Barcelona.

With premier players worth a significant transfer premium, smart clubs dangle these players on the transfer market in the hopes of capturing as much value from stars as they can while the players are at their prime. A successful training academy builds fan loyalty by allowing the fan base to follow young players from their developing years to their premier stage. In contrast, Chelsea fills most of its starting eleven with expensive players from the transfer market. Before Abramovich's takeover in 2003, net spending on player transfers was €77.7 million. Since then, this figure has increased to a staggering cumulative €442 million, distorting the football transfer market and resulting in net losses every year since 2005 for Chelsea.

> "In an era when financial and on-field performance are so tightly intertwined, the ideal owner must understand the complexity of the business, the role that winning plays and the optimal allocation of resources."

Striking a Balance

The success of business-savvy clubs like Arsenal must be analyzed within the context of their European competitors' strategies. Among the European Elite, the ideal balance between profitability and winning is almost exclusively held by Arsenal. However, this begs a fairly obvious question: if Arsenal has proven that achieving this position is possible, then why have the other elite clubs not followed suit?

Before other teams can achieve Arsenal's mix of profitability and league performance, clubs face a catch-22 that prevents scalable success in football. To win games, clubs must spend a substantial amount of money to field a strong team. Access to these funds, however, depends on on-field performance -- fans tend to spend more money to watch good teams. Since teams require fans' financial support, they take on debt in an attempt to improve league results.

In February 2011, Chelsea spent €58 million on Fernando Torres, the fourth largest transfer fee of all time. However, clubs that regularly invest in superstar players suffer from diminishing marginal returns. While purchasing a high-profile player on the transfer market may lead to more wins and higher revenue, the next expensive transfer will often have fewer financial and on-field benefits. Arsenal realized this and instead chose to invest in long-term revenue-driving assets like Emirates Stadium. In this approach, Arsenal develops players from a young age and sells superstars when they become overvalued by the market. Rumours suggest that Arsenal will continue this strategy by selling Fàbregas to FC Barcelona for over €40 million this summer.

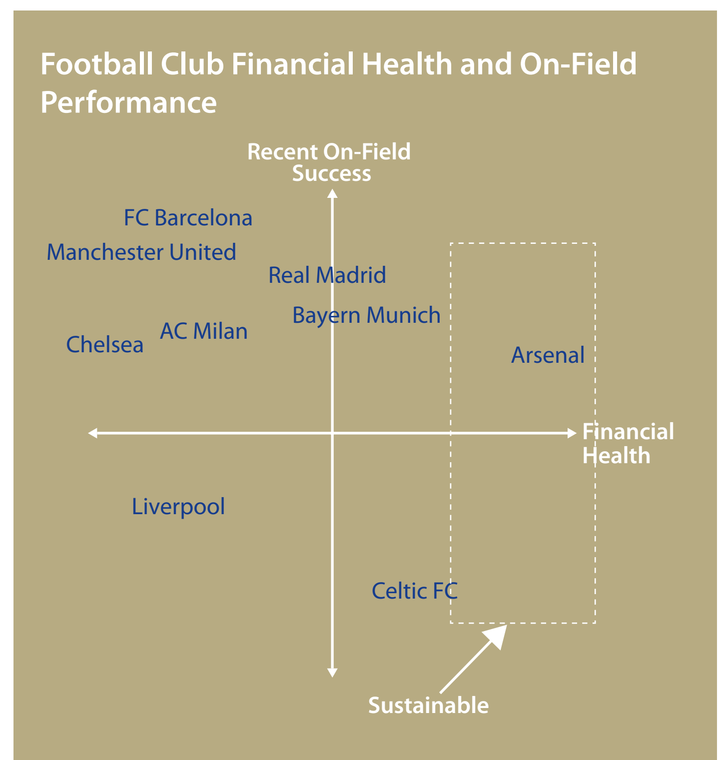
Although Arsenal has been good enough on the pitch to consistently qualify for the UEFA Champions League, it has never been dominant enough to win the tournament. Perhaps for this reason, its rivals are content with neglecting financial health to win championships. While the spending model of clubs like Chelsea and Barcelona has produced trophies and accolades, the clubs' financial position are unsustainable in the long run.

Opportunity Knocks

Despite his tremendous business success in the oil market, Roman Abramovich is a perfect example of an owner who does not operate his club as a business. The problem with football's dominant model of ownership is the risk of progressing down this slippery slope of indulgent player spending funded by unhealthy debt.

This raises the question of who can capitalize on the opportunity created by overindulgent owners who treat their teams as toys. In an era when financial and on-field performance are so tightly intertwined, the ideal owner must understand the complexity of the business, the role that winning plays and the optimal allocation of resources. Investing in player development, rather than player purchases, allows a smart owner to capitalize on the same transfer market that makes so many clubs unprofitable.

Arsenal has demonstrated that this model works both financially and on the pitch. This model represents an opportunity for owners who see beyond the glamour of owning a world-class football club and recognize the tremendous business potential. The current market structure could allow wealthy investors to capitalize on overindulgent owners. Arsenal will eventually reach the upper-echelon of European football on the strength of its prudent financial strategy and long-term focus on player development. Unlike its rivals, when Arsenal wins the Champions League, it will not need a loan to fund the parade.



SMART GRID

Written by Jiemi Gao and Kevin Zhou

The introduction of a smart electrical grid has the potential to transform the power industry by giving electricity users leverage in their dealings with utility companies. Simply put, this advanced grid will use dynamic pricing and advanced usage measurement techniques to match the supply of electricity with demand and vice versa. This new system is hoped to give consumers more control over their utility consumption and even profit from the resale of generated electricity. The system encompasses the entire electricity grid infrastructure, smart meters, appliances and consumption management software. The proposed smart grid system has the potential to empower consumers via the introduction of a two-way value chain. Electricity can be consumed and stored at off-peak times, and can then be sold back to the grid during peak hours. This creates a supply chain with multiple sources and uses.

> "Despite their seemingly increased power in the value chain, the smart grid will not significantly benefit residential consumers."

Smart grid is inevitable and its impacts will be felt across society. As smart grid is rolled out, there will be winners and losers. Initially, many of smart grid's advertised benefits may not appear. Only businesses that capitalize on the inefficiencies of current technology and develop correct business models will sustain long-term profits.

Why is it Coming?

Smart grid is an attractive alternative to the world's current electricity grid because it offers both environmental and economic benefits.

Greenhouse Gas (GHG) emissions are a global concern. UN initiatives and climate summits continually push governments to reduce target GHG emissions. Although Canada's energy source is more sustainable than that of the U.S., emissions on a per capita basis are still higher due to inefficiencies in the dispersed power grid and cold winters. With the goal of emission reduction in mind, the Canadian government is slowly rolling out the smart grid initiative in various parts of the country.

These eco-friendly benefits serve to mask the underlying motivator – money. Smart grid is an ideal vehicle to support economic development. Electricity consumption is forecasted to double in the next 10 years, creating costs if new supply is not created. The cost of outages, valued at $150 billion a year in the U.S., justifies the cost of implementing smart grid. Furthermore, commercial consumers (who account for more than 70% of energy consumption) support

smart grid. The manufacturing industry, for instance, consumes enormous amounts of energy. These firms can reduce energy consumption and benefit from cheaper off-peak electricity by shifting production times and investing in energy-supplying devices, such as solar panels. Despite costly initial investments, these large-scale users can reap a decent return.

Effect on the Consumer

Nothing is free. In the case of smart grid, the unlucky stakeholder is the residential consumer. Initial investments are hefty and returns are disappointing. Consumers will effectively pay for smart grid upgrades through higher energy prices. The Ontario government has announced that residential electricity rates will increase by 46% over the next 5 years – potentially adding $1,611 of annual electricity costs to the average consumer's bill. Beyond rate hikes, residential consumers will also have to purchase and install smart meters at their own expense. Since the technology is fairly new, these $300 smart meters cost more to maintain than current meters and have a shorter useful life.

> "These expensive appliances reduce electricity costs by a mere 1-3% per month, leading to a payback of three to seven years."

Residential consumers must also purchase smart appliances and applications to realize the promised benefits of smart grid. These appliances are expensive – unaffordable to most families – as they cost 1.5 times the price of regular appliances. These expensive appliances reduce electricity costs by a mere 1-3% per month, leading to a payback of three to seven years. Although electric vehicles offer more opportunity to leverage the smart grid, their hefty price-tags place them beyond the reach of the average consumer.

For consumers, smart grid has little benefit unless major changes to behaviour occur. Ten years from now, consumers need to reduce total electricity consumption by as much as 17% or peak time usage by 58% to pay the same bill.

Despite their seemingly increased power in the value chain, the smart grid will not significantly benefit residential consumers. The investments required to fully reap the benefits of the grid are prohibitively high for the average consumer. Many of these investments require consumers to change their behaviour to receive the full benefits, something that people are reluctant to do. For these users, unlike certain businesses, the benefits of smart grid will not become tangible for many years.

Businesses on the Road to Profitability

There are many different types of businesses that stand to gain from a transition to smart grids, either through consumer or industrial channels.

Consumer electronics companies stand to gain from the opportunity to gather and analyze the data generated from the smart grid. For example, consumer data related to appliances and time of the day usage can help companies to organize marketing efforts and product mixes. Customized packages rather than mass market appeal will become more relevant in today's information era.

Software, hardware and IT companies stand to gain from the grid. New hardware requirements from its installation will include data storage, wireless towers and transmitters and microchips. Software will also be a big winner as complex algorithms will be required to monitor the two-way flow of electricity. Software that can provide peace-of-mind by securing consumer data and protecting privacy will also be in high demand.

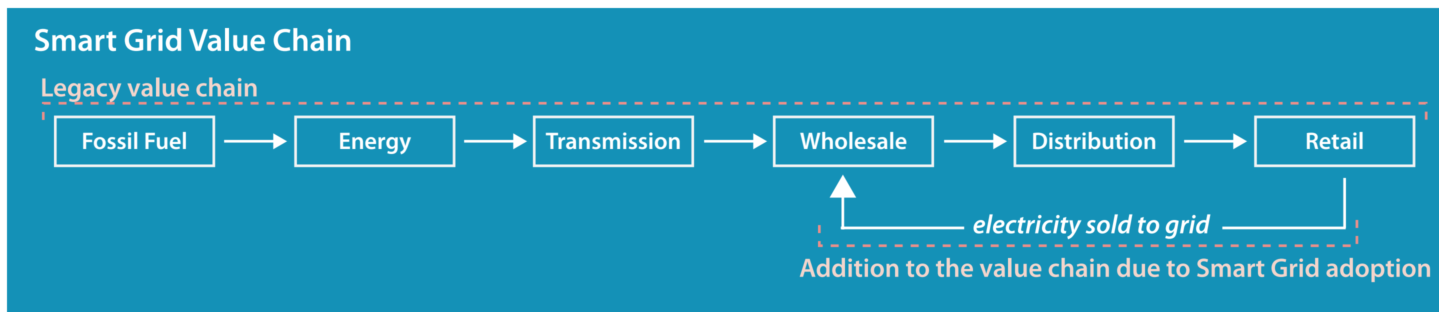
The appliance industry should expect huge growth. Retail prices for smart appliances should trend lower as companies invest heavily into research and development. If branded effectively, smart appliances may command much higher margins than traditional appliances. The new wave of smart appliances should also speed up the replacement of old machinery.

How Can Businesses Capitalize?

To capitalize on the advent of the smart grid, businesses selling smart grid products should convince industrial users and consumers of the benefit of their technologies. Regardless of the business model, corporations must take the following actions before they can realize the benefits of smart grid:

1. Help consumers understand smart grid
2. Convince consumers to invest long term in the smart grid
3. Decrease the sticker shock of any purchases
4. Show tangible results early on
5. Increase convenience and ease of use
6. Capitalize on energy consumption data

Consumers must first be educated on the benefits that smart grid presents. Smart grid is a naturally complex subject and consumers are very reluctant to purchase something they do not understand.



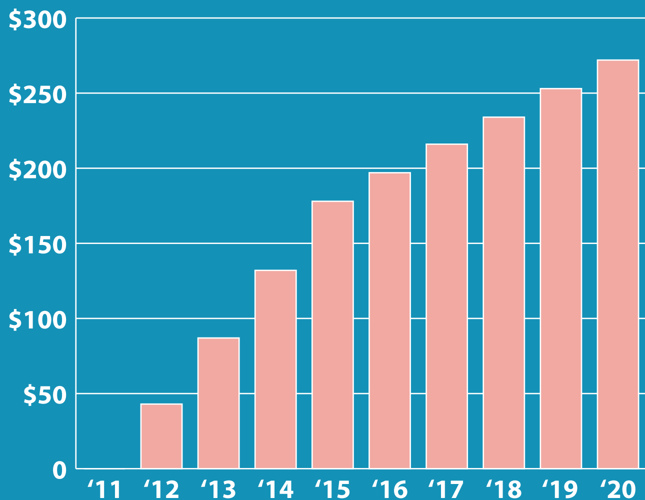
Although there are opportunities for customer value, such as rate arbitrage, the opportunities cannot come to fruition without education. The ElectroSave is an example venture whose success depends on consumer knowledge to succeed. By educating consumers about the potential advantages of the new grid, they can convince consumers to invest in the grid for the long run, creating captive consumers.

Since consumers dislike large investments, decreasing the 'sticker shock' of devices is an essential portion of switching them to smart grid based products. This transition can also be eased by showing 'quick wins' – early tangible savings to consumers that they can visualize at the time of purchase. Consumer willingness to pay can also be increased by creating automated products that require little additional time or work investment.

Certain businesses can also use the data generated through smart grid use to design new products and services. The companies that best take advantage of these opportunities stand to be leaders in new industries.

Who Wins?

Smart grid will permanently change the face of energy distribution. Immense value is created for many energy-intensive businesses that can now more effectively manage their energy consumption. Consumers on the other hand, stand to lose in the short run if they do not alter their behaviour significantly. Any major shift in a market dynamic creates voids in which value can be captured and the market that smart grid creates is no exception. Opportunities range from new strategies on the part of major corporations to new and interesting entrepreneurial ventures. Although the transition to smart grid will not be smooth, forward thinking businesses stand to gain.



ElectroSave

ElectroSave aims to fulfill the smart grid industry key success factors. It is like a cellphone provider for home electricity. ElectroSave will make the initial investment into electric energy storage devices such as appliances, Electric Vehicles and batteries.

In exchange for using these products, consumers will rent these devices on fixed contracts. Arbitraging the rates, the devices are programmed to consume and store energy from the grid during off-peak hours and feed electricity back to the grid during peak hours. The electricity savings will be split between ElectroSave in the form of rent and the consumers as a reduction in their bills.

Unlike other solutions, ElectroSave offers cost savings without changing consumer behaviour. ElectroSave also reduces sticker shock because consumers can rent the devices rather than paying for the full investment.

Saying No to an IPO

Are Tech Companies Better Off Private?

Written by Nicholas Kuchtaruk

As the market recovers from the uncertainty of the recent recession, investors are desperate to snatch a piece of the booming technology industry – so desperate, in fact, that comparisons are being made with the hysteria of the 1990s internet bubble. Rumored IPOs by LinkedIn, Groupon and Skype have investors salivating. Players who have not yet filed to go public, such as Twitter and Zynga, are also garnering interest. Facebook, arguably the most sought-after prize in the tech space, has many wondering if it is ready to 'friend' the stock market.

A decade ago, investors would have eagerly awaited an IPO to partake in the success of these tech firms. The IPO system favoured investors since tech companies seeking growth had few alternatives to public financing. However, a recent deal between Goldman Sachs (GS) and Facebook suggests that investments in technology are taking a new form.

The Future of Financing

Many in the media have targeted Facebook as the next 'sure thing' IPO. Cue the underwriters? Not necessarily. Times are changing and Facebook CEO Mark Zuckerberg has repeatedly delayed a public offering.

In January of 2011, Zuckerberg entered a multi-party financing with GS for US$450 million, Russian investment firm Digital Sky Technologies for $50 million and an elite list of GS clients for an additional $1 billion via a Special Purpose Vehicle (SPV). The SPV is a legal entity that enables a collection of GS clients to be considered a single investor. The SPV structure effectively prevents Facebook from surpassing 500 investors – at which point they must disclose financial statements, as per SEC rules.

Investors are becoming increasingly accepting of the risk associated with opaque private companies. The benchmark for disclosure and liquidity is being lowered each minute these companies stay private. Large investors certainly have appreciable access to management but the individual investors that provide capital through structured vehicles do not necessarily have the same quality of information. Several investment banks are even creating SPVs to allow clients to invest in the most popular companies. For example, JPMorgan's Digital Growth fund is designed specifically for clients interested in private social media investments. Despite

SEC scrutiny, these financings are poised to become more common, increasing the capital available to private tech companies.

Shifting landscape

Surely tech companies are watching the GS–Facebook deal carefully. The GS valuation has accomplished two important things for tech companies: first, it has given them valuation credibility based on the reputation of the investment bank. Second, it has provided a template for future financing. Facebook received a sizeable capital injection and did not need to go public to do so.

> "The time horizon, nontraditional founders and culture of innovation that are the backbone of many successful tech firms tend to clash with the desires of traditional investors."

One has to wonder, are IPOs still necessary for tech firms? With funding available via SPVs, going public is no longer a requirement of tech companies' financing plans. The capital required to take on new projects and incentivize talent is now available to private firms. However, SPVs alone do not satisfy the need to create liquidity for founding members. Entrepreneurs have thus created secondary markets for trading private shares.

Secondary Markets

SharesPost and SecondMarket are secondary market trading platforms for private company shares. These online markets allow shareholders – employees and current investors, in private companies – to conveniently trade their shares. Since June 2009, SharesPost has grown to 45,000 members managing $125 billion in capital. Transaction volume in Q4 2010 was $1 billion for 150 of the hottest start-ups.

> "One dynamic that is changing is all the activity in the secondary market where founders can get a little bit of liquidity from existing investors or incoming investors. Sometimes that can allow them to take a few chips off the table yet still take a risk by staying in the company as opposed to exiting in a liquidity event."
>
> \- John Simon
> General Catalyst Partners

Secondary markets for private shares also offer more attractive returns for current investors: an IPO typically prices at a discount to fair value because institutional buyers need an incentive to take a large position. SharesPost and SecondMarket, on the other hand, offer very attractive valuations. The combination of limited disclosure requirements and media hype around private companies helps build investor optimism and drive share prices higher. In Facebook's case, this optimism took the form of a 50% premium: the social media company was valued at $75 billion on SecondMarket at the end of February 2010, just two months after a $50 billion valuation through the SPV deal.

With the liquidity available through SecondMarket and SharesPost, investors can more easily trade shares of private companies. This allows early investors to sell a portion of their shares, locking in some return without having to relinquish their entire stake. With the number of transactions through secondary markets growing quickly, both shareholders and investors clearly value these services.

Not a Good Fit for Tech

The nature of the tech industry makes going public unappealing, since the focus of Wall Street is at odds with the goals of budding tech enterprises. The long time horizon, nontraditional founders and culture of innovation that are the backbone of many successful tech firms tend to clash with the desires of traditional investors.

Conversely, growing tech companies focus on increasing their user base rather than profiting immediately. A company that prioritizes developing their technology or increasing their user loyalty could be forced to make unappealing tradeoffs to satisfy shareholders' expectations regarding profit. For example, companies such as Facebook and Twitter have emphasized that increasing their subscribership is more important than user monetization. Would this long-term perspective be possible if they were public? Analyst scrutiny and the pressure to meet quarterly EPS figures would surely weaken long-term focus. With access to alternative financing readily available, companies can continue to delay profitability in an attempt to grow.

The founders of many tech companies are not the typical CEOs of the past. Young entrepreneurs tend to be uninterested in relinquishing control of their projects and thus avoid diluting ownership. Being the face of a public company also leads to increased personal scrutiny. Founders may shy away from the limelight and choose to remain private. Google's Larry Page and Sergey Brin were uninterested in being the face of Google, and thus relinquished their chief executive roles for board positions, which many feel was the beginning of a negative cultural shift in the organization. Does it make sense for young founders to step aside simply because the typical face of a large company is an older individual with a traditional business background? Certainly, CEOs that have built enterprises from basements and dorm rooms into global titans are not thrilled with the idea of passing the reins to a more 'established' executive, as shown by Page's return to Google.

Innovation is also central to these companies. In an environment in which a first mover advantage is often critical to achieving success, companies cannot risk falling behind. The publicity and reporting standards associated with being public increases the likelihood of competitors catching wind of potential innovation, not to

Why Can Companies Stay Private?

1. Private Placements Provide Companies with the Capital to Grow

$1200
$1000
$800
$600
$400
$200

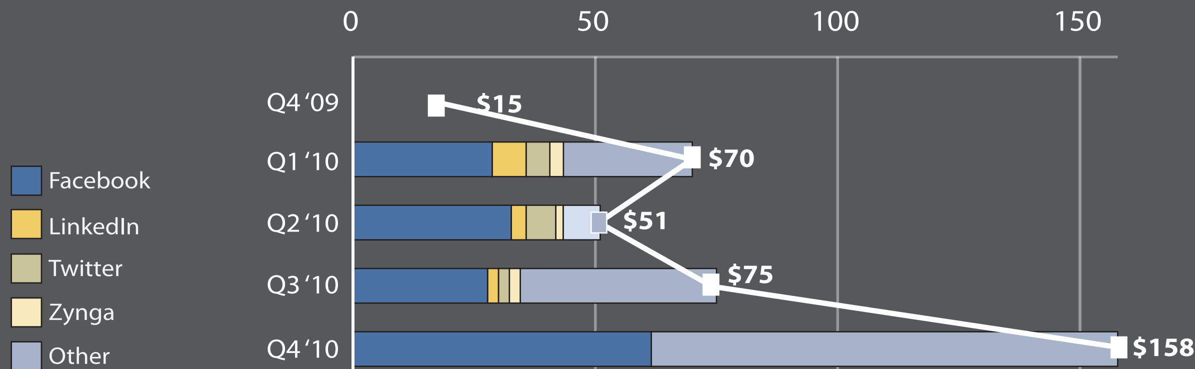
Facebook Financing Rounds
Implied Facebook Valuation

$0 · $5 · $100 · $550 · $2,000 · $15,000 · $10,000 · $9,000 · $14,000 · $24,000 · $35,000 · $50,000 · $65,000

2004	2005	2006	2007	2008	2009	2010	2011
$0.5, Peter Thiel	$12.7, Accel Ptn	$27.5, Greylock $1,000, Yahoo! offer rejected	$240, Microsoft $60, Li Ka-Shing	$60, Li Ka-Shing $15, Samwer Brothers $100, TriplePoint	$200, Digital Sky $90, Elevation Pt	$120, Elevation Pt $516, Accel Ptn sell part of stake $500, Goldman $1,000, Goldman Clients (SPV)	$65, General Atlantic

Facebook investments and resultant valuations ($US billions)

2. Secondary Markets Provide Employees and Early Investors with Liquidity



Total Value of SecondMarket Transactions per Quarter ($US millions), % of Transactions by Company

mention the increased regulation when public. Are the resources being directed toward appeasing SEC legislation truly helping the company achieve its end goals? There are significant benefits to focusing capital and manager energy on continuous innovation – in the minds of some young tech builders, a public listing could be viewed as a distraction rather than a benefit.

Firms across many industries would benefit from remaining private – hence the rise of private forms of capital. However, the use of SPVs and secondary markets seems exclusive to tech firms at this point. The tech industry generates significant buzz by virtue of new products' impacts on consumers, contributing to investor appetite for tech financing. Also, the overwhelming majority of trading volume on secondary markets is in tech stocks, so the liquidity does not exist to support other industries. Finally, many other industries require high capital investment from their founding – they need to raise money consistently, and an IPO is the most tried-and-true way to accomplish that. Tech companies like Facebook and Twitter, on the other hand, require little capital investment to succeed.

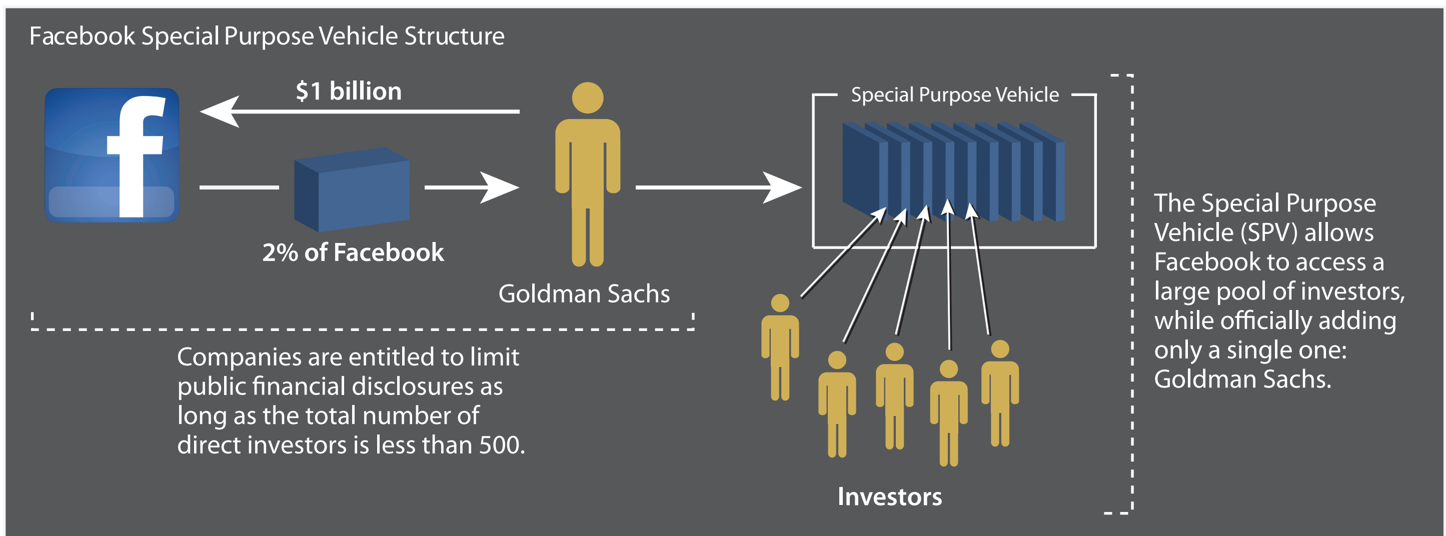
> "The increased publicity and reporting associated with being public increases the likelihood of competitors catching wind of potential innovation, not to mention the increased regulation when public."

In The Future

Going forward, many speculate the SEC will grow more active in scrutinizing private financing. With significant capital and a sizeable number of investors involved, increased regulation is expected. It is unclear how the SEC's role will develop to protect investors on the private markets, and how any changes will restrict private financing moving forward.

On the corporate side, without the pressure from shareholders to monetize the business concept and a strong business track record, some tech visionaries may not optimally translate users into profitability. Yet with such significant investor interest, many investors do seem to believe in some of these nontraditional business leaders. Mark Zuckerberg, in particular, seems to have discovered how to take advantage of the recent financing trend.

Facebook is undisputedly today's tech darling. When Zuckerberg states that he will not take his company public until at least April 30, 2012, and others suggest he will delay indefinitely, people wonder why. It seems he has realized that tech companies today are playing in a far different environment than in years past. Young entrepreneurs should pay attention. With the emergence of new financing alternatives and secondary markets for private stock, growing tech companies are no longer forced to IPO, and pay the steep price associated with being public. For the sake of innovation, the entrepreneurs of tomorrow should take advantage of this opportunity to stay private.



Water Wars

The Race for Emerging Markets

Written by Rohit Guntur and Hemant Challapally

For over a century, Pepsi and Coca-Cola have been entangled in the 'Cola Wars' - a struggle for soft drink supremacy. However the past decade has seen worldwide sales of carbonated drinks decline by 21%, while sales of bottled water have grown by 96%. Additionally, bottled water sales surpassed carbonated drinks by volume in 2008. Recognizing the superior growth opportunities presented by bottled water, Pepsi and Coca-Cola are aggressively taking action to position themselves as major players in the market. Both have made significant investments around the world, laying the groundwork for a new round of confrontation. The water wars have begun.

By 2014, the global market for bottled water is expected to increase by 25% to become a USD $100 billion dollar industry – 3x Coca-Cola's 2010 revenues. Globally, Pepsi and Coca-Cola actually lag behind Nestle and Danone Group in terms of global market share, not to mention that local companies are the dominant players in many markets. The intense rivalry of the Cola Wars is not yet present in the battle for bottled water supremacy but the size and resources of Pepsi and Coca-Cola ensure the degree of head-to-head competition will increase as they continue to expand.

> "Recognizing the superior growth opportunities presented by bottled water, Pepsi and Coca-Cola are aggressively taking action to position themselves as major players in the market."

How to Win

Due to environmental concerns and market saturation, the majority of growth in bottled water sales will come from emerging markets that are projected to grow at 5-7% per annum, compared to the developed world's 1%. The real competition between Coke and Pepsi will occur in these markets.

The victor of the water wars will not be determined by a single battle. While it is important to compete in each of the major markets, success in one country will not spill over to others. Unlike the Cola Wars, where success in the U.S. market enabled Coca-Cola to establish an 'Americana' brand that had aspirational appeal in markets around the world, the battle for bottled water supremacy is distinctive from country to country. This difference can be attributed to the fact that water is

much closer to a commodity than cola. It is not possible to establish an aspirational bottled water brand in developing markets.

Instead, the firms will compete largely on distribution, inch by inch, battle by battle. Due to the relatively commoditized nature of these products in developing markets, the primary differentiator to consumers is cost. The efficiency and breadth of distribution systems in each country are key determinants of success, since over 90% of the cost can be attributed to sources other than water itself. As Pepsi and Coca-Cola expand their global empires through this channel, this battle will increase in intensity. In order to gain an advantage, both companies have considered joint ventures with local companies as a means to quickly expand distribution.

"... firms will compete largely on distribution, inch by inch, battle by battle."

In order to win in any single market, companies will also require access to adequate water resources. Although not costly, water resources are limited in many countries, giving the holders key positions of power in the marketplace. Since transportation costs are high, it is not economical to move bottled water over long distances – increasing the importance of local supply.

By evaluating distribution networks and local water supply, the winners in each of the three fastest growing markets of Mexico, India and China can be assessed.

Race for Mexico

Mexico has the highest consumption of bottled water in the world and continues to grow as a result of the widespread mistrust of tap water. Mexico provides a near term since the market is expected to grow quickly in the next five years. Pepsi currently maintains the upper hand with a 13% market share versus Coca-Cola's 10%. However, Coca-Cola will surpass Pepsi over the final phase of growth due to two factors: superior water supply and entry into the 20-litre bottle market.

Coca-Cola's long-term advantage in Mexico will be driven by larger water supply. They have secured licenses to extract 29.5 million m3 of water, compared to Pepsi and Danone, which have only secured 7.9 million m3 and 4.8 million m3 respectively. As Mexican demand continues to grow, only Coca-Cola will have the ability to successfully supply it using low-cost, local water sources.

The home delivery service for 20-litre bottles is an attractive segment because it eliminates the largest cost that suppliers face, bottle production, and therefore has higher margins. Coca-Cola's $5 billion dollar, five-year investment strategy in Mexico challenges the two leaders in the 20-litre market, Bonafont (Danone) and Eloctropura (Pepsi). If they can secure a greater share of the 20-litre market, Coca-Cola will likely surpass Pepsi in market share in the coming years.

Coca-Cola's aggressive strategy has them well-positioned to defeat Pepsi in the battle for market share. Pepsi has laid its cards on the table and Coca-Cola has responded tactfully. Pepsi already has water brands for multiple segments and cannot make any significant moves to counter Coca-Cola. In fact, they should not make any moves. Coca-Cola will win the final battle in Mexico but there are bigger markets to be won.

Race for India

The potential for bottled in water in India is staggering, as the country accounts for 17% of the world's population and is expected to pass China as the most populous country in the world by 2025, according to the U.S. Census Bureau.

For years, the Indian consumer has demanded access to safe drinking water but this demand has gone unanswered. This situation would typically result in inelastic demand, something very attractive for Pepsi and Coca-Cola. Both firms, however, have struggled to compete in this market. Their dominant competitor is Parle Bisleri, an Indian company that targets semi-urban and rural areas. Parle Bisleri secured a first-mover advantage in these regions and has captured 39% of the market. Coca-Cola and Pepsi focused their efforts on urban consumers by leveraging existing distribution networks. While they achieved success in these markets, size is limited, with seven out of every ten Indians living in rural areas.

It appears that Pepsi will defeat Coca-Cola in India due to its superior distribution networks. Pepsi recently announced a deal to partner with Tata, a huge regional player, to work together to redefine the concept of affordable water for Indians. Together, they plan to price a one-litre bottle below Rs. 10 – 33% lower than current prices. By working with Tata, Pepsi tapped into a strong Indian network but at a potentially high price. In return, they agreed to share some of their non-Indian distribution with Tata.

India is a market that requires the utmost attention. By concentrating on rural communities, Pepsi can capture an additional 2 billion litres in volume over the next five years, an additional 10% in market share. This will give Pepsi a sizeable advantage and will establish itself, along with Parle, as a major leader in this market.

To succeed in India, Coca-Cola must respond by replicating Pepsi's strategy, targeting the Tier II and III cities outside the major hubs. These smaller and less developed cities are experiencing a rapid migration from the surrounding rural areas. Poor access to safe drinking water leads consumers to heavily rely on bottled water. However, what differentiates these markets from urban areas is income levels and frequency of purchase. These consumers are at lower income levels and thus buy water more frequently in smaller quantities. In order to capture this market, Coca-Cola must price its bottled water at a lower price point. The semi-urban market competes on volume and Coca-Cola has to sacrifice their margins to gain market share. By extending their bottling, distribution and marketing networks into these cities, Coca-Cola may be well-positioned to close the gap between itself and Pepsi.

Race for China

The rapid economic growth and scale of the Chinese market provides a terrific opportunity for multinational beverage companies. Current levels of growth will likely continue, as consumers have embraced bottled water due to perceived health benefits. Also, significant local water demand exists, with 6.2 billion litres in unmet demand over the next five years.

Regional players occupy the top two spots in the Chinese market. Coca-Cola is in third place with a 9.2% market share, while Pepsi trails far behind. The drawback is that China is fraught with competitive and regulatory challenges that make growth elusive. The significant difference in market share between the two players is a huge advantage for Coca-Cola. For Pepsi to counter quickly, they can explore joint ventures in an effort to improve their distribution network.

At the same time, this strategy entails a high degree of risk. Take for example Danone, which created a joint venture (JV) in 2007 with a leading Chinese beverage manufacturer, Wahaha. However, because of contract violations on Wahaha's part, in which they allegedly reproduced the JV's products and sold it at lower prices, Danone left the Chinese bottled water market completely in 2009. Pepsi, unlike Danone, cannot afford to abandon the Chinese market.

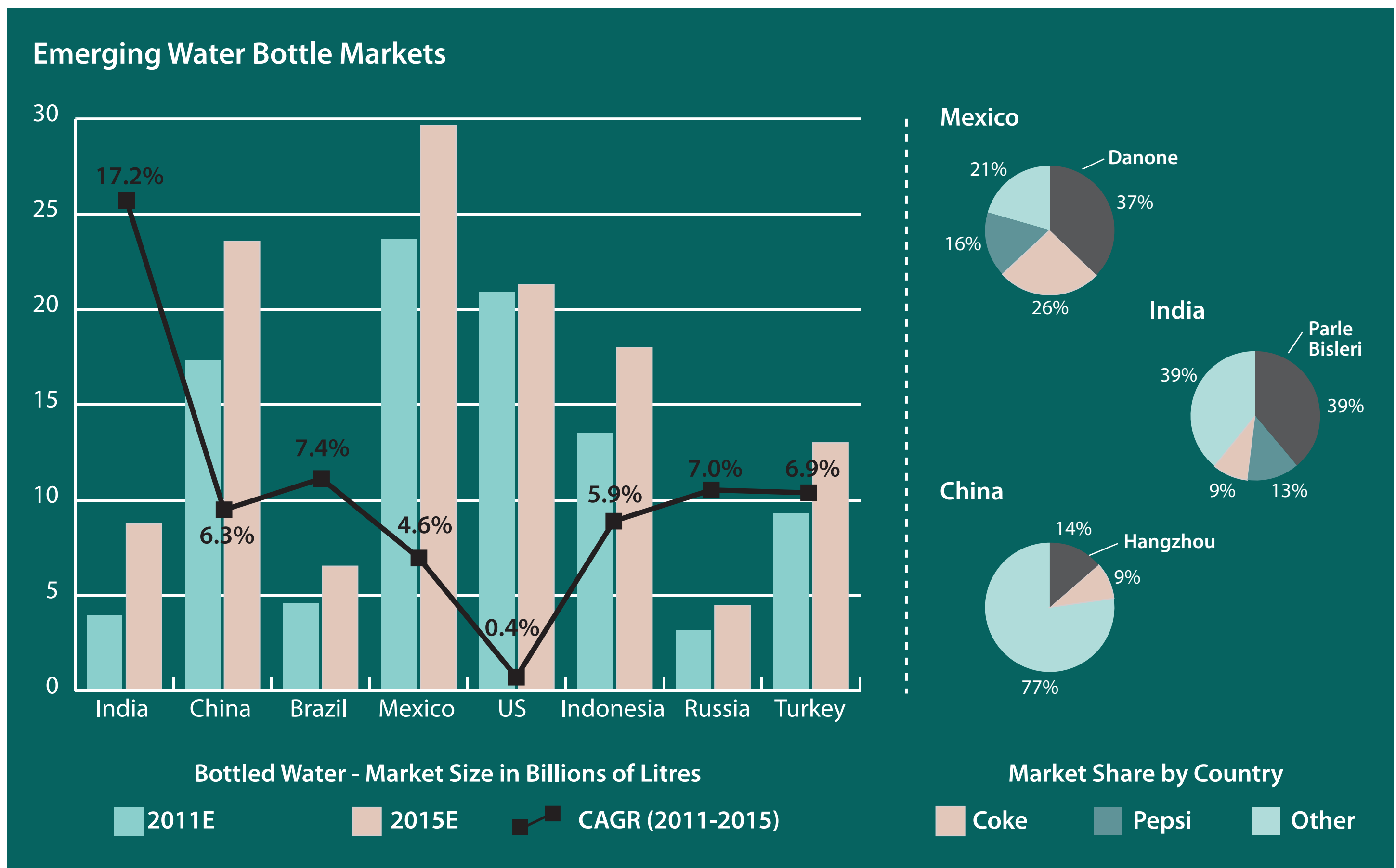
> "By concentrating on rural communities, Pepsi can capture an additional 2 billion litres in volume over the next five years, an additional 10% in market share."

In order to succeed in China, Pepsi needs to improve its distribution network so it can reduce its price point. They currently operate on higher price points whereas the top players, all of whom are regional, dominate the market because they compete with the lowest prices. At the same time, Pepsi needs to invest in market heavily, given that brand loyalty is the second biggest consideration after price in the Chinese market. This strategy is obviously capital intensive but the short-term squeeze is what Pepsi must endure to be a significant player in the long term.

This is not a Sprint

It appears as though Coca-Cola will emerge victorious in China and Mexico, while Pepsi will take India. Winning each of these countries is a feat in itself because of competitive pressures and regulatory hurdles. Within individual markets, Coca-Cola and Pepsi must focus on distribution and access to water in order to build and retain competitiveness. To respond to Coca-Cola's current advantage, Pepsi should move into the semi-urban markets and offer low priced products to push higher volumes. Building sustainable partnerships with regional players will also help them cultivate distribution channels throughout emerging markets.

No singular victory, however, will guarantee success at a global level. In fact, in this commodity market there is no such thing as a sustainable, global, competitive advantage. Ultimately, in the wars over water, just like the Cola Wars that preceded it, there will be no winner.



Tata's Nano

The Ship Has Sailed on the People's Car

Written by Chris Smith and Vrajesh Shah

When Ratan Tata, Chairman of Tata Group, looked at the masses of India, he saw more than just a business opportunity. Exposed to the dangers of the crowded and fast-paced streets in one of the most rapidly emerging economies, the rickshaw and scooter drivers in India were being left behind by its rapid development. Ratan's quest to improve their quality of life and that of the millions of Indians without efficient transportation, would ultimately lead him to the Nano.

At its simplest, the concept was a low cost vehicle produced from the same scooter parts as its predecessors. Slowly, the vision evolved. Three wheels eventually became four. A shell without glass windows or side paneling and doors soon met global safety standards. Some forty patents later and 'the people's car' was born. The car was symbolically priced at one lakh (US$2,250).

True to Ratan Tata's dream, the Nano represented more than just an affordable mode of transportation. It offered nearly every Indian the opportunity to make an enormous leap towards achieving the standard of living enjoyed by the developed world. The rest of the developing world awaited anxiously the results of the Nano experiment. If Tata could make it work in India – a country renowned for barriers regarding infrastructure and low car ownership – it could work anywhere.

Yet close to two years after its launch, the Nano continues to struggle. Sales have lagged forecasts, production has been plagued by delays and new competitors are poised to enter the market. In the words of Carl-Peter Forster, Tata Motors CEO, the Nano is still a 'raw diamond in need of polishing,' but for how much longer? As the Indian consumer continues to evolve, the Nano falls further and further behind. Once filled with so much promise, is the Nano still 'the people's car'?

Ultimately, the Nano has surpassed the level of affordability of the lower-income market it was intended for. Worse, the market that can afford it does not want it. The Nano is stuck somewhere in the middle of a spectrum with profitability on either end.

The Indian Market: Changing Dynamics

For the Nano to truly be 'the people's car,' it would have to be designed with the rural market in mind. Comprised of 790 million people, or 70% of India's total population, this market is twenty three times the size of Canada.

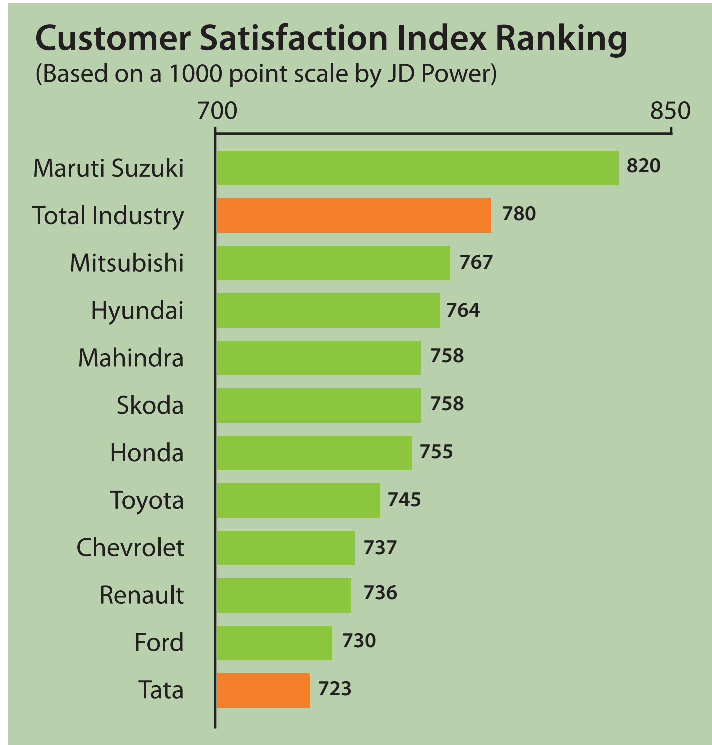
Generally speaking, rural consumers have very specific characteristics that differentiate them from the urban market. Rural income as a percentage of GDP has fallen from 62% in 1970 to 48% in 2005. This is due, in part, to the faster growth in per capita urban income. While India's average per capita income is $1,016, there is a substantial difference between rural and urban areas. Urban consumers boast an income that is roughly 2.8 times higher than their rural counterparts. A distinct strategy is required for each market in order to appeal to consumers with divergent standards of living.

To cater to the Indian market, the Nano needed to represent stylish, low-cost, private transportation. Ratan Tata knew this and positioned the Nano as a 'safe, affordable, all-weather vehicle for a family which is today traveling on a two wheeler.' Affordability is the main driver of Tata's strategy, with cost reduction at its core. Yet looking at how the market has reacted to the Nano, it becomes unclear whether 'the people's car' has truly lived up to this title. To be widely adopted, Tata will have to address either the aspirational or utility needs of consumers.

Aspirational Purchasing

A central theme to the purchasing decision for Indian consumers is whether they see a product as aspirational. Indian consumers use the products they purchase as an outward representation of status. At 28%, the annual growth rate of the Indian luxury goods market is one of the fastest on the planet. As income rise, so too does the importance of such purchases.

In the context of automobiles, consumers are aspiring for a car that is beyond their reach. India's prospective car owners no longer want just the most basic models and instead are beginning to look at all the features that consumers in developed countries have come to expect. This shift is critical given the importance of status in Indian culture. Certain features – air conditioning for example – are becoming as critical a representation of status as the cars themselves.



This movement spells trouble for the Nano. A JD Power survey that ranks consumer satisfaction for cars in India had them ranked lowest amongst all automakers in 2008, which points directly to the consumer impressions surrounding the brand. Concerns about engine fires and other quality issues increasingly add to the negative outward impression for purchasers of the vehicles. The Nano does not carry the signal of status that urban consumers want their vehicle to convey.

With rapid economic growth and only approximately 1.4% of the population owning a vehicle, the Indian market should represent an attractive opportunity for auto manufacturers. However in India the growth of urban income is outpacing the need for a cheap entry vehicle. To the urban consumer, why buy the Nano when you can spend marginally more to get a vehicle that is more spacious, more luxurious and of a higher status in society?

Cheap, but not Necessarily Affordable

The Nano also struggles to reach a price point that is affordable for the Indian consumer. Tata is cognizant of this predicament and has made the Nano much more readily accessible to the average consumer. For example, they have offered 100% financing for customers and imposed minimal collateral requirements. However, Tata's lack of success in reaching their sales goals suggests that deeper problems exist.

Tata has thus far failed to convince cost-conscious consumers to make the leap from having no motorized transportation to purchasing the Nano. Consumers are much more likely to first adopt vehicles like the two-wheel Mahindra Duro priced at 0.3 Lakhs, one third the cost of the Nano.

However, rising commodity prices – particularly steel – have resulted in retail price increases of 6% and called into question the sustainability of a low-price strategy. Increasing interest rates and fuel costs further undermine the Nano's affordability. Low-income consumers, to whom the Nano already represents a significant investment, are likely to require third-party financing.

The lowest income Indians can justify a purchase only if there is an opportunity for income generation behind it. They want the vehicle that gives them the ability to start micro enterprises or transport goods to market. A small two-door compact does not fit those needs.

Ultimately the Nano is poorly positioned for India. The vehicle marketed as 'the people's car' may not be attractive to the aspirational consumer. The rural consumer represents an even more challenging situation. Not only can they not afford it, but the Nano fails to provide sufficient utility to justify a purchase. If the objective of the Nano was to create 'the people's car' then Ratan Tata failed.

Growing Competition

Competition in the market for low-cost vehicles may be limited for the moment but a wave of new entrants further threatens the Nano's positioning. If competitors follow through on their plans and produce a car that is either cheaper or more aspirational, the Nano will be further isolated from profitability.

The Maruti Cervo is set to hit the market by April 2011, priced around 2 Lakhs. Not only is it comparable in design and more expensive, its four doors make it more spacious; this coupled with price, makes it more of a desirable purchase for the aspirational consumer.

Nissan-Bajaj-Renault will bring out their Ultra Low Cost Car (ULC) in 2012. When they do, the Nano will be completely cornered. Not only will the market have a car that is priced slightly higher and indicative of higher status, the Nano will no longer hold the title of the cheapest car in India.

The Actual Car of the People

The vehicle closest to fitting the needs of the rural market is the new Tata Magic, a modification of the Ace line of micro trucks priced at roughly 2 Lakhs. Conventional trucks are currently too expensive to service this market and the Magic is well suited for both commercial and family use. It is also durable enough to overcome many of the infrastructure issues that plague rural India. If Tata can find a way to price it in a range comparable to the Nano at 1.5 Lakhs, then it will truly be 'the people's car'.

There are several steps that Tata can take to help low-income consumers surmount the affordability barrier. First, the Magic will be positioned as a utility vehicle and therefore perceived as more of an investment than a discretionary purchase. A vehicle that enables farmers to transport their product to market faster or get people to distant employment will actually generate income for rural consumers. Second, the attractiveness of the Magic as a group purchase, a vehicle shared among extended family or small communities, will partially offset the initial financing barrier. Finally, Tata should extend its financing initiatives to make a purchase more reasonable for the average rural consumer.

Tata must turn its focus away from the Nano and position the Magic as 'the people's car'. Unfortunately, they have continued to focus their investment activities on the Nano, recently investing 200,000 Lakh in a new facility intended for Nano production. This shift in strategy will see Tata focus primarily on serving the needs of the rural market, positioning them on the far left of the spectrum. The manufacturer that finds the balance between price and utility will be the most profitable amongst the low-income consumers, specifically in the rural markets.

Ultimately, all hope with the Nano may not be lost. The car's value proposition is still compelling in select international markets; there are tantalizing opportunities outside of India. Even in India, the Nano may still reach the volume needed to be a profitable piece of Tata's portfolio but it will never fulfill Ratan Tata's vision as the 'peoples car.'

Indian Auto Industry - Positioning Map

Locating Your Future

Geography's Effect on Career Progression

Written by Jack Hansen and Lauren Lee

Each year, graduates of Ivey and other professional programs in North America agonize about their career decisions. These students are generally bright, motivated and hard-working and are looking for options that use all of these attributes, while promising upward mobility and suitable pay. Yet, it is not clear whether these graduates are making their decisions from a long-term perspective and if they are taking the right variables into account.

Upon starting a first job, students immediately open and close doors for the rest of their career. Although it may not be pleasant to consider, this choice will determine students' future jobs, who they meet, where they live and potentially their spouse – in short, it is life changing. Business programs teach students how to research markets, evaluate opportunities and make rational, strategic decisions; however, students do not seem to apply this approach to arguably the most important decision in their life: where to start their career.

Instead, students tend to focus on short-term criteria such as prestige, starting salary and immediate exit opportunities. Although these factors are important, students may be hindering their long-term potential by ignoring one significant factor: location. Rather than considering location as a strategic decision to position oneself for future success in terms of earnings potential, students tend to choose jobs in well-developed locations at the expense of other, faster-growing areas.

The Right Place at the Right Time

Despite focusing on the intricate details of individual success stories, the themes touched on in Malcom Gladwell's *Outliers* highlights an important lesson that can (albeit ironically) be broadly applied: success depends largely on being in 'the right place at the right time.' Through various anecdotes, Gladwell postulates that beyond a base level of natural aptitude and hard work, the key determinants of success stem from rare opportunities, fortunate circumstances and cultural environment. People tend to assume that luck is the main facet of being in the right place at the right time, as though a person possesses no control over such a position. This assumption likely stems from the narrow focus and

glorification of extreme success stories, such as those of Steve Jobs and Mark Zuckerberg. Their stories are indeed distinctive and almost impossible to recreate. However, it is important to note that widespread prosperity was also experienced by the entire industry and the peripheral services that developed in the Silicon Valley during its explosive growth. This situation is far more predictable and replicable, as demonstrated by the formation of several famous 'clusters' -- groups of companies that prospered as a result of favourable circumstances and the services that support that industry.

"Business programs teach students how to research markets, evaluate opportunities and make rational, strategic decisions; however, students do not seem to apply this approach to arguably the most important decision in their life: where to start their career. "

For example, those working in oil and gas flourished in the 1980s. Yet, given the choice to work in a professional service firm in Calgary or Toronto during that period, most graduates likely would have chosen the safety and prestige of Toronto, even though the actual work in professions such as accounting, law and investment banking would be very similar. Although this choice undoubtedly worked out for many individuals, those who chose Calgary would have produced better results on average, as nominal GDP per capita in Alberta increased by 5.1% per annum from 1990-2009, compared to 2.68% in Ontario. The difference in opportunities encountered is also shown by the percentage increase in positions at firms in the cities over the same time frame. For example, Blake, Cassels & Graydon LLP (Blakes), a leading Canadian law firm, has 100 lawyers in its 1985-founded Calgary office. In contrast, the firm has 330 lawyers in Toronto – up from approximately 125 in 1985. Recent graduates starting in Alberta benefitted from less competition for promotions, as the number of senior positions undoubtedly grew. While managing the increased volume of work, these employees also likely developed their skill set by being delegated more responsibility and created important connections, tools that allowed them to advance faster than their Ontario counterparts. Furthermore, working in Calgary did not prohibit further promotion within the firm – Blakes' current chair is originally from the Calgary office.

'Predicting an Outlier'

Individuals may be quick to dismiss this story as merely a coincidence or fluke; however, the explosive growth and widespread fortune of Calgary (and Alberta in general) should not come as a surprise. The increases in employment in non-commodity based firms have undoubtedly been driven by the resulting increase in economic activity. The rise of Alberta's economy has been inextricably linked to oil prices, which have risen by a factor of five in real terms since the early 1980s. While the exact timing of such an upsurge may be difficult to anticipate, it was reasonable to assume increased energy prices over the long run, given that world population and income per capita were expected to grow substantially.

Predicting areas of high growth is not unlike the creation of clusters, which tend to form due to social and natural elements. For example, Israel's booming high-tech industry arguably arose from the nation's risk-friendly attitude, military culture and lack of natural resources. Thus, to some extent, an individual can predict and take advantage of secular tail winds – long-term trends that are unaffected by short-term variations. Although the exact timing of opportunities is not predictable, by having exposure to the industry as a whole, individuals stand to experience significant monetary gains. The questions then become, how can individuals foresee these secular trends and how can swings be taken advantage of?

Before trying to identify which trends to monitor, a student should first determine an industry or profession preference. Location is only one way to strategically plan a career and is by no means the only important factor to consider. Based on the chosen industry, students need to ascertain the levers for growth or development of that field and compare them to the projections for the different locations.

For example, a student interested in immigration law should chose Vancouver to start their career. A number of trends could support this decision. Although the annual number of immigrating permanent residents is consistently less than half that of Toronto, Vancouver is still a top destination for new immigrants, particularly immigrants from mainland China, Hong Kong and Taiwan. More importantly, this group tends to be more wealthy and thus more likely to pay for legal services. As Asian countries increase their presence in global markets and resources become more scarce, immigration to Vancouver will continue to expand.

These broad trends do not just apply to immigration law. A significant influx of wealthy immigrants will likely create demand for other services and create opportunities for businesses, as foreign investors begin to store their wealth away from home. Even further, professional service firms will be expected to grow in the region as Asian companies and markets begin to play a larger role in the local economy and Vancouver remains one of the major North American gateways to Asia.

Although many graduates make their initial career decisions with the expectation that they will quickly move on to a different job or geographic area, this does not mean the effects of secular tailwinds should be overlooked. Even if a job is not meant to be a final career destination, it can provide value in two ways; by opening doors to new opportunities or by imparting skills that will be used in further ventures.

A Strategic Decision

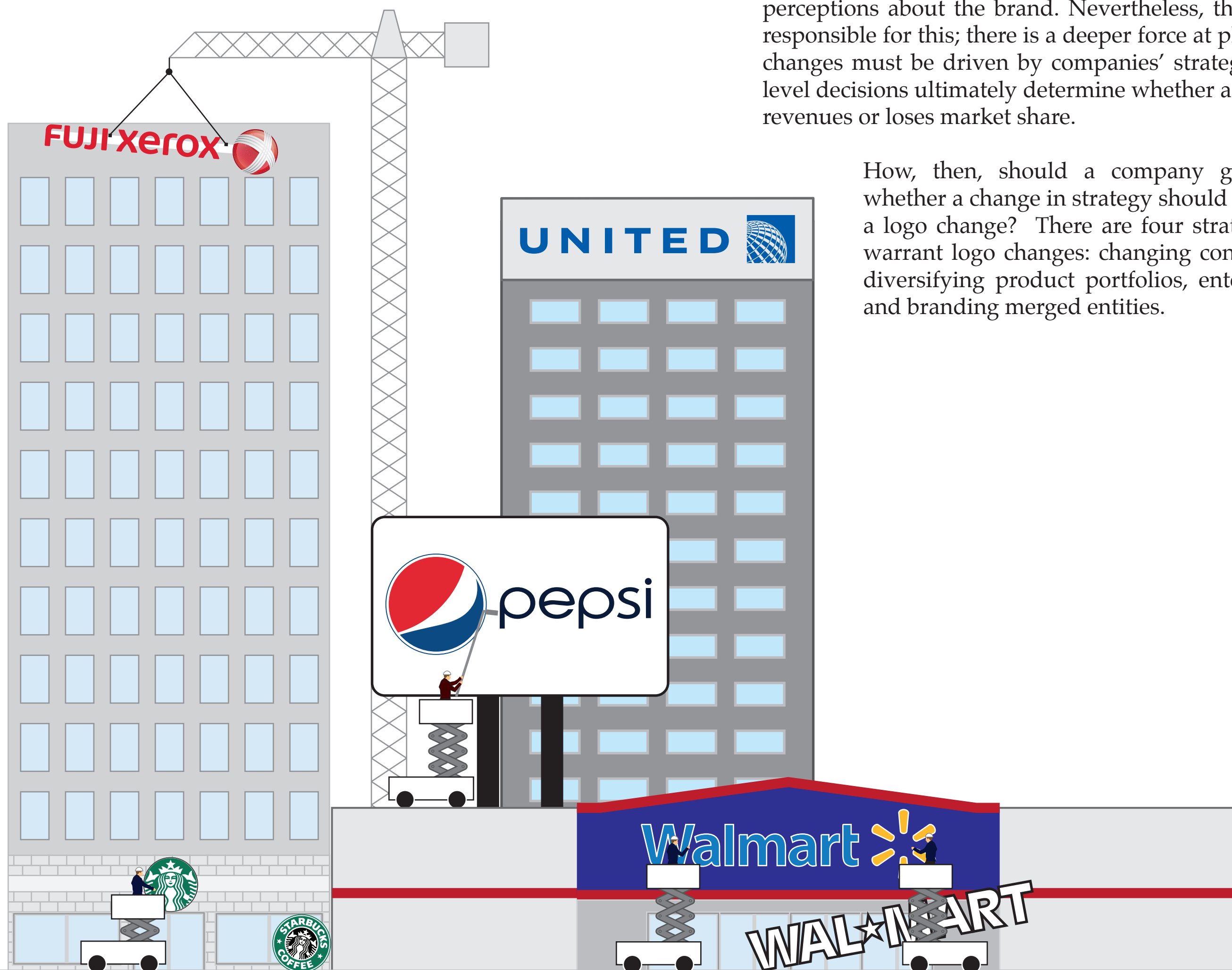
Outliers exist at broad levels and can be capitalized on by individuals who see these trends early in their careers. For students, choosing the location to start their career is a strategic decision that can heavily affect their exposure to extraordinary opportunities. Moreover, this decision can significantly increase the long-term earnings potential of graduates. When deciding where to start a career, students should account for many factors including firm reputation, learning opportunities and work/life balance; however, they must evaluate location critically, not just as a city that they will explore on weekends, but as a strategic decision that could dramatically affect their long-term prospects.

Justifying a Corporate Facelift

Understanding Why and When it Makes Sense for Companies to Change Their Logos

Written by Emily Shi and Aaliyah Madadi

The old cliché, 'don't judge a book by its cover,' is a far cry from reality. Companies are often judged by the image they convey to consumers. A company's logo is often the first point of interaction that a business has with the public and its significance is sometimes underestimated. As an integral part of a business identity, a logo truly represents the face of a company. With a level of subtlety, logos also represent the company's values through the images, colours, fonts and characters included in the symbol. However, perhaps a logo's most important role is to create an emotional connection with consumers - one that proves to be strong enough to foster brand loyalty in the future.



Businesses pursuing major strategic changes often correspondingly change their logos to send consumers a message. Whether this message is one of corporate rebirth, repositioning or new market entry, many companies see the logo as an indivisible element of firm strategy. Analysis of major logo changes over the past 20 years suggests that there is no definitive correlation between financial performance and a logo change. This may come as a surprise to some companies, given that they are making a considerable investment to change their logo. As such, it is likely that companies would expect to see some performance improvement following the change. There are, however, other benefits that could show in later financial performance, including changes in consumers' perceptions about the brand. Nevertheless, the logo alone is not responsible for this; there is a deeper force at play. Given that logo changes must be driven by companies' strategic decisions, high-level decisions ultimately determine whether a company increases revenues or loses market share.

How, then, should a company go about assessing whether a change in strategy should be accompanied by a logo change? There are four strategic scenarios that warrant logo changes: changing consumer preferences, diversifying product portfolios, entering new markets and branding merged entities.

Dimension #1: Adapting to Changing Consumer Preferences

At a time of evolving market trends and increasing competition, staying in tune with consumers becomes particularly important and challenging. As customer preferences change, companies must either adapt the way they serve consumers or risk being disconnected and disregarded. Unilever was an example of a company that benefited from adapting to changing preferences; in 2004, its customers began demanding more transparency and accountability for its brands. Unilever responded by highlighting its corporate identity and values on all its branded products, from Hellmann's mayonnaise to Axe bodyspray. Unilever's new logo – featuring 24 icons that represent Unilever's values – was unveiled as part of this shift in 2005. The new logo signaled to consumers that Unilever was adapting to their changing preferences by making corporate values more transparent and visibly presenting itself as an accountable parent entity.

Looking at a more dynamic industry, changes in the fashion world are driven by evolving consumer preferences. FCUK won global attention by creating witty, blunt sexual innuendos with its apparel label. Over time, however, consumers grew tired of the innuendo and felt that the logo was being overused. In an effort to keep consumers interested in the brand, FCUK eliminated the logo from future advertisements in 2004. This change allowed the company not only to establish its identity as a fashion-savvy company, but also to restore a connection with its consumers - the result of adapting to their changing demands.

Dimension #2: Diversifying the Product Portfolio

Companies can also use logo changes to expand the scope of associations that consumers make with their brands. As a company diversifies its product or service mix, its old logo may not be representative of the new offering. Starbucks customers can now order an item other than coffee; he or she can choose from beverages, food and alcoholic drinks. In March 2011, Starbucks appropriately dropped "Starbucks Coffee" from its logo to reflect the product extensions being offered in its stores. The company wants consumers to rethink its identity as solely a coffee provider, given that Starbucks' strategy centers on growing the brand through a diverse product portfolio.

Starbucks Logo Timeline
(1971 - 2011)

1971

1987

1992

2011

Starbucks is not the only Seattle-based company to change its logo in response to a product mix change. Any avid online shopper knows that today, Amazon is the provider of "everything under the sun from A to Z." In 1999, after establishing itself as the "Earth's biggest bookstore," the company decided to expand its product offering to include DVDs, computer software, electronics and more. Amazon effectively changed its logo to rid itself of the company's association with books alone. Logo changes can help companies expand their consumers' views of the corporate identity.

Dimension #3: Entering New Geographies

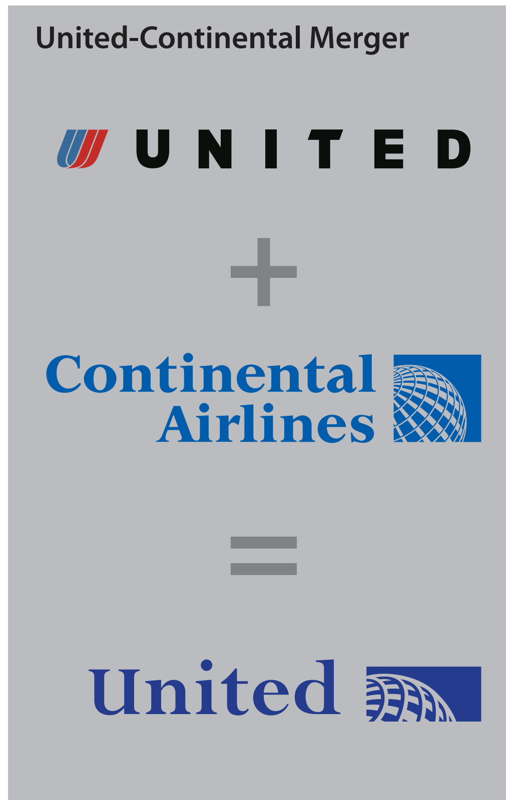
Adapting to local consumers is one of the challenges of international expansion. Multinational companies often try to account for differences in social norms and consumer behaviour by designing logos that are understandable across cultures. For companies entering new geographies, this cross-cultural approach to logo design helps build a connection to local consumers without sacrificing the logo's power among other customers. Changing to a more universal logo helps companies present a consistent brand message. Such was the case for LG, which originally stood for 'Lucky Goldstar.' Believing that this name was more relevant to Asian consumers than to North Americans and Europeans, the South Korean conglomerate introduced its initialized name and logo in 1995 as it sought to penetrate global markets. In creating a universally understood LG identity, the company was better positioned to expand into over 80 countries.

It's not just the mega brands that must ensure logos are accessible to other cultures. Chinese auto manufacturer Great Wall Motors (GWM) is quickly emerging as a global force, with exports to 121 countries. GWM's 2008 logo change was thus part of its strategy to establish itself as a global automobile manufacturer. Thus, the redesigned logo had to be easier to interpret for consumers in GWM's new markets and look less like a Chinese national symbol. Much like LG, GWM understood that successful global expansion requires an identity that many cultural groups can appreciate.

Dimension #4: After a Strategic Merger

We have seen several cases of freshly merged companies re-establish their identities through logo redesigns. Take United and Continental Airlines, for instance: the two American air

carriers merged in 2010 to create United Airlines. The newly formed company would take top spot from Delta Air Lines to become the world's largest carrier by traffic. By including distinctive features from both United's and Continental's logos, the merged company's emblem suggests the new entity is greater than the sum of its parts. In this case, the merged company also took on a new name, making a logo redesign essential. Changing the logo allowed United Airlines to present a new identity - the dominant player it has now become.



Candidates for a Logo Makeover

Based on the four strategic dimensions, it appears that Joe Fresh and General Motors are perfectly poised for a logo change.

Not Fresh Enough for NYC

Joe Fresh, Loblaw's in-house apparel and accessories brand, is making a bold move into the international fashion arena, as it plans to open a flagship store on Fifth Avenue in New York City. The humble Canadian brand hit the billion dollar sales mark last year, but the orange-boxed logo fails to exude a fashion-savvy character worthy of Fifth Avenue signage. With a store only steps away from Tiffany & Co., Prada and Saks Fifth Avenue, the brand's private label, Canadian roots will surely be evident. Now is the ideal time for Joe Fresh to complement its geographic expansion strategy with a logo change. Joe Fresh needs the face of its label to represent an edgy, chic brand that understands the needs of today's value-seeking, fashion forward consumers.

GM: Go Modern

General Motors (GM) is another company poised for a logo redesign. Currently, its classic blue-box logo is indicative of the company's past – a celebration of a 103-year heritage. Despite this, the focus today is on where GM plans to go in the future. As the company emerged from bankruptcy, it prioritized changing public opinion and convincing consumers that this is a new company with different values. With plans to launch 14 hybrid cars by 2012, GM's new logo should represent its greener product offerings and signal the company's strengthened dedication to fuel-efficient vehicles. GM should, however, be cautious and prove its environmental credibility before changing its logo. Otherwise, the aesthetic change could be viewed cynically: an example of a company that does not understand that a logo change means nothing unless accompanied by a change in strategy.

Valuing the Gay Dollar

Why Appealing to the Gay Community Makes Sound Business Sense

Written by Brendan Stevens

Despite the growing acceptance of the Lesbian, Gay, Bisexual and Transgendered (LGBT) community in Canada, the LGBT consumer market remains vastly unexploited relative to its size. A recent study by the International Gay and Lesbian Chamber of Commerce and the National Post pegged the buying power of the LGBT community in Canada at just over $100 billion, which is 10% of the $1 trillion Canadian consumer market. The LGBT market is bigger than any ethnic market in Canada, and is fast approaching the size of the youth market. This market size is particularly striking given that it is based only on the 6% of the Canadian population that currently self-reports as being LGBT. However, research suggests that closer to 10% of the population is a member of the LGBT community. Therefore, the current LGBT market is projected to grow rapidly as more consumers feel comfortable enough to 'come out' and publicly identify as being gay.

The value of the LGBT market is high not only because of the sheer number of consumers but also because of the characteristics of these consumers. A majority of gay couples live in a dual-income household with no children. As a result, 76% of LGBT household incomes are above the national average, which fuels their high level of disposable income. Because this market has been underserved for so long, companies that have begun appealing to these consumers have found them fiercely brand loyal, further elevating the attractiveness of this market.

Only recently have some businesses identified to the tremendous opportunity the gay community presents. By analyzing the experiences of Subaru, Ford and TD Bank in the gay market, other companies will discover how to effectively leverage the lucrative LGBT segment in their own strategy. Although the risk of alienating mainstream consumers as a result of appealing to the gay community still exists, it is lessening in importance and there are a few strategies companies can employ to mitigate potential consumer backlash.

The Case of Subaru and Ford

The automobile industry in North America has had a particularly long and interesting history in regard to marketing to gay consumers. In the early 1990s, Subaru established four distinct customer bases: healthcare professionals, educators, IT professionals and outdoor enthusiasts. Market research conducted in 1994 revealed that Subaru had a fifth core base: lesbians. Further inquiry revealed that these lesbian consumers were generally of a high socioeconomic status with a very active lifestyle, which fit nicely with Subaru's value proposition. In 1996, Subaru decided to target the broader LGBT community by being one of the first car companies to advertise in gay and lesbian magazines. The brand's definitive slogan for the following decade became, "It's not a choice. It's the way we're built." Subaru's slogan is an excellent example of diction that means one thing to mainstream consumers and another to LGBT consumers – subtle brand messages help connect Subaru

with the gay market. Additionally, the company hired openly gay tennis star Martina Navratilova as its spokesperson. Subaru also became a sponsor of many gay pride events at the state and national level, and integrated diversity policies and benefits for LGBT employees into its human resource strategy.

What stemmed from these strategies was the strongest growth in the number of cars sold in the company's American history. Prior to 1996, Subaru's unit sales in the United States had stagnated. However, following the company's decision to target the LGBT community, sales increased dramatically. From 1996 – 2003, Subaru's compounded annual growth rate (CAGR) was an impressive 9%, compared to overall US auto sales at 1% in the same period. Now, fifteen years later, the gay community remains one of Subaru's most important consumer segments. Subaru's gay strategy extends well beyond simply advertising to the LGBT community – the company has fully integrated gay-friendly policies into most facets of its business.

> "The LGBT market is bigger than any ethnic market in Canada, and is fast approaching the size of the youth market."

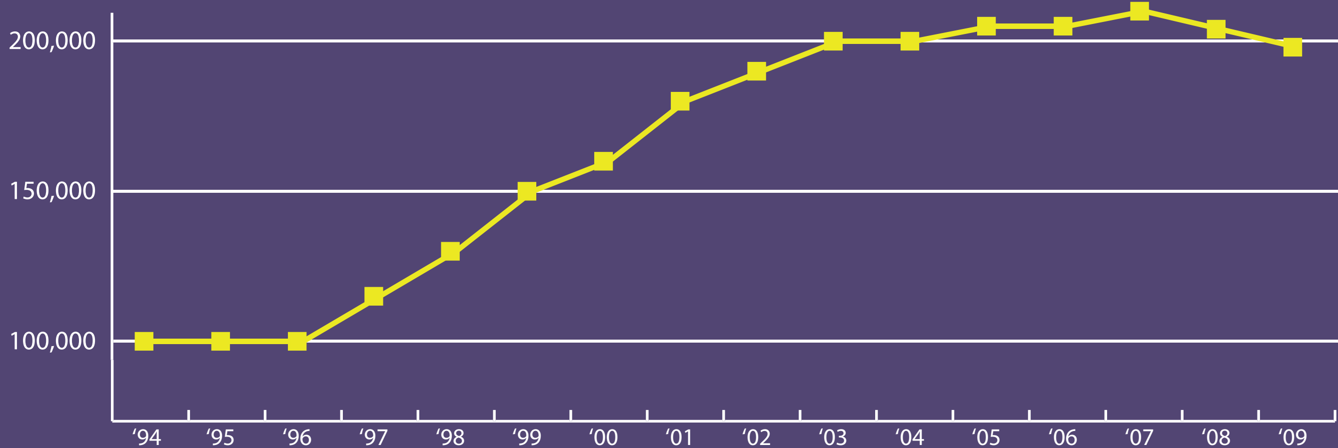
In 2005, Ford began its advertising campaign targeted at the LGBT community by pledging to donate $1000 to GLAAD (Gay and Lesbian Alliance Against Defamation) for every Jaguar sold to a member of the organization. Soon after, Ford started to market its Land Rover and Volvo brands to the LGBT community through targeted channels in the gay media. That same year, while Ford sales as a whole dropped 5%, Land Rover sales rose 31% and Volvo sales rose 15%. Ford is now considered one of the most gay-friendly companies in North America, consistently topping the Human Rights Commission's list which ranks companies on their diversity policies.

Ford's approach to the Gay Dollar provides an excellent contrast to the approach taken by Subaru. While Subaru aligned its overall brand with being gay-friendly, Ford strategically aligned only three of its brands – the brands that fit most effectively with the discerning tastes and high incomes of the gay community. In doing so, Ford effectively paired its products with the most logical markets and mitigated potential consumer backlash on the company as a whole. Furthermore, by placing advertisements in the gay media as opposed to the mainstream media, Ford hedged against this risk.

The Case of TD Bank

As a natural extension of its brand strategy centered on the slogan, "Banking Can Be This Comfortable," TD has taken a leadership role in the corporate diversity realm. In 2004, 'promoting and enhancing a supportive environment for LGBT customers and employees' was made a strategic priority for the bank with the ultimate goal of making TD the bank and employer of choice for the LGBT community. TD has partnered with a variety of external organizations to show its support for the gay community – in 2005, TD became a top sponsor of Pride Toronto and the annual Toronto Pride Parade. TD has also launched a marketing strategy that depicts the gay community in a realistic, non-stereotypical way whilst emphasizing the bank's 'comfort' appeal. Significantly, these advertisements have been displayed through highly visible avenues, including billboards and public transportation. These advertisements mark one of the first attempts by a Canadian company to target the LGBT community aggressively through mainstream channels. However, it is important to note that this strategy has only been implemented thus far in downtown Toronto, where the attitude towards the gay community is particularly positive.

TD has garnered significant recognition for its efforts and according to EVP of Commercial Banking, Paul Douglas, the bank's approach to diversity has had a marked effect on its employees. The number of employees claiming same-sex benefits has increased 75% since 2005 and employee turnover in Canada has dropped by over 5%. According to a study conducted by the University of California, Berkeley, workplaces that value diversity often experience a



tangible increase in employee morale that corresponds with improved performance and dedication to the company. TD's integrated approach to the LGBT community has uniquely situated the bank within the Canadian market and has positioned the company to take full advantage of the Gay Dollar moving forward.

Who Should Seek the Gay Dollar?

In general, companies are faced with three options regarding the Gay Dollar. First, the company can choose not to pursue it actively. Second, the business may adopt the Subaru approach and broadly pursue the gay market. Finally, a company can follow Ford and TD's example by selectively pursuing opportunities within the LGBT community.

The decision to appeal to LGBT consumers – and how to appeal to these consumers – must be informed by a company's industry, geography and industry position. Certain industries are more conducive to gay marketing than others; however, companies must be careful to not disregard opportunities based on stereotypes. While it is true that industries such as fashion, travel, interior design and fine dining appeal to gay males in general, there are also opportunities present in less obvious industries such as cars and banking.

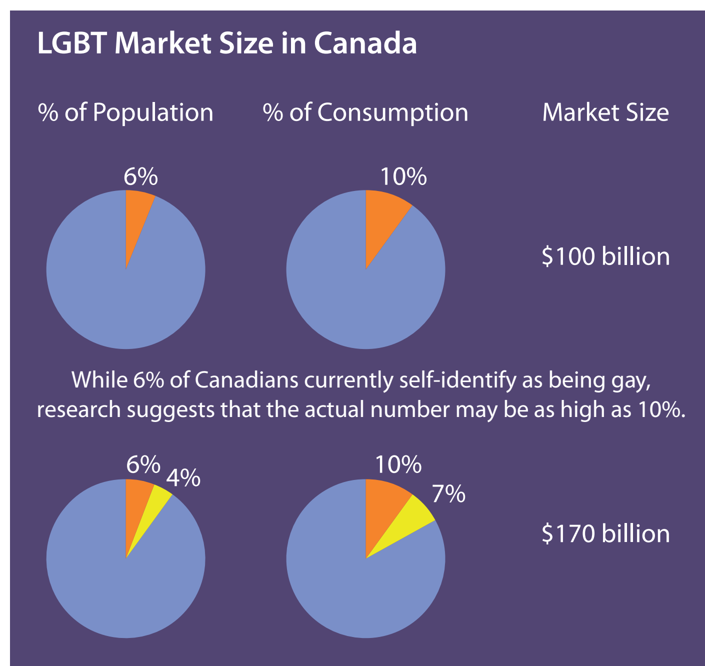
In a general sense, the gay market can be used to increase sales volume by tapping into an underserved consumer group, or increase revenue per customer by leveraging the community's higher incomes. The importance of the first mover's advantage cannot be overstated: companies in industries yet to recognize the importance of the Gay Dollar can gain tremendous loyalty from LGBT consumers if they are the first to appeal to them. At the same time, any company offering a product or service that has 'masculine' connotations should exercise extreme caution in this market, as appealing to LGBT consumers could weaken this brand association. However, as society progresses, few industries will remain that would not allow a company to create a successful LGBT strategy. The experiences of IKEA illustrate this point nicely: in 1994, Swedish home furnishing retailer IKEA received bombs threats following the release of a television commercial that featured a gay male couple. The company was quick to pull the advertisement as a result of obvious safety concerns. In 2006, IKEA launched another television campaign with a gay couple and no such threats were made. The company has now advertised directly to gay consumers quite successfully for the past five years.

Geography is also a critical consideration. Large cities are often epicentres of the gay community (the highly populated cities of New York and Los Angeles have among the highest proportion of gay people in the US), and they typically contain citizens that are more accepting of LGBT individuals. Companies should customize their marketing strategies, as TD has done, to distinct geographies by gauging the social climate and size of the gay community within that city. Multinational corporations must be particularly careful, as a gay-friendly brand association in North America could severely damage the company in places where homosexuality is considered taboo.

Finally, a company's industry position is another significant factor. Subaru was able to take a broader approach to targeting the gay community in part because it was a niche player. Industry leaders, such as Ford, need to be more selective because they must satisfy a broader market. Smaller companies may choose to pursue the Gay Dollar as a key source of revenue, while larger companies should strategically choose certain products and services to benefit from the lucrative gay population. In the 1990s, AT&T – one of the leaders in the telecom industry – launched a direct mail campaign featuring a gay male couple as well as rainbow coloured telephone cords. The company faced massive backlash from the religious right in the US, and the controversy was covered in media around the globe. Fearful of a widespread consumer boycott, AT&T quickly pulled the advertisement. Companies must be careful to not fall into this trap by being more subtle and strategic with their approach to appealing to the gay market.

Perhaps most importantly, truly successful LGBT strategies must include both internal and external corporate initiatives and demonstrate genuine support for the gay community. After all, while only 30% of the LGBT community's purchasing decisions are influenced by targeted advertisements, over 50% of the community's purchasing decisions are influenced by a company's employment practices and active promotion of gay-friendly policies. Subaru, Ford and TD have been unwavering in their social stance, and all three companies have forged community partnerships and supported causes that gay people genuinely care about. Furthermore, by explicitly integrating LGBT considerations into employment policies, these companies have not only strengthened their corporate culture but have also internalized the message they espouse in their marketing campaigns. Companies must be careful not to treat LGBT consumers as a homogenous group, as there is a lot of diversity within the market itself. By demonstrating an understanding of and appreciation for the existence of subsets within the larger community, companies will further showcase their genuineness and increase the effectiveness of their efforts.

It is clear that the Gay Dollar offers incredible value to companies, both in Canada and around the world. The only question is: who will earn it?



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