

Case 3-1 (National Hockey League Enterprises Canada)

In July 1998, Glenn Wakefield, vice-president of National Hockey League Enterprises Canada (NHLEC), was faced with an opportunity to pursue the development of a retail outlet solely dedicated to Brand NHL merchandise. If pursued, Wakefield had to select one of three implementation options: NHLEC could retain managerial and financial control of the facility, control could be relinquished to a management firm, or floor space could be rented in a department store where NHLEC would maintain partial control over operations. Opening a flagship store would be a shift in the organization's strategy and Wakefield wondered if it was the right thing to do.

The National Hockey League

The National Hockey League (NHL), a professional hockey organization then housing 27 teams in total, was divided into two conferences, each consisting of three divisions (see Exhibit 1). Each team received representation from the NHL division responsible for officiating, scouting, and public relations as well as the marketing division. National Hockey League Enterprises. Additionally, each NHL team employed its own marketers who were responsible for promoting the team and selling tickets to the team's games.

National Hockey League Enterprises

National Hockey League Enterprises (NHLE) managed the promotion of the game, the licensing of NHL merchandise, and the exploitation of corporate marketing partnerships. NHLE was a large enterprise with job descriptions ranging from "Asia/Pacific Promotions" to "Grassroots Development". NHLE was housed in downtown New York, New York, U.S.A.

National Hockey League Enterprises Canada

NHLE's Canadian counterpart, the National Hockey League Enterprises Canada (NHLEC), was located in Toronto, Ontario, Canada. NHLEC was a relatively small operation under the managerial control of the New York office (an organizational chart is given in Exhibit 2).

One of NHLEC's primary strategic goals was to develop a distinct brand image. The ever-increasing number of licensees and retailers for NHL-branded merchandise was becoming too fragmented. Wakefield wanted the brand's image to be presented consistently to consumers at the retail level. He believed this approach would, in turn, translate into increased sales of NHL-brand merchandise and also increased recognition of the NHL. The greatest obstacle in achieving this goal lay not with the independent retailer, but with the larger department store chains such as Wal-Mart. NHLEC relied on these large retailers to push crucial sales volume but the end result was scattered NHL merchandise and an inconsistent brand image presented to the consumer. Frequent buyer turnover, power struggles and turf wars among the buyers, and the sheer size of these retailers had all contributed to NHLEC's difficulties in developing brand equity at a mass-market consumer level.

A New Approach

Wakefield had to find a way to convince large retailers that there was a better way to display and promote NHL products. One potential solution would be to focus NHLEC's selling efforts toward the general merchandise manager, rather than (and one step above) the individual buyer, encouraging a more coordinated purchase and display effort. Another option would be the introduction of the NHUs own store. This flagship store would sell merchandise purchased from NHL licensees. This store would be used to illustrate to these large retailers the positive effects that a consistent NHL brand image could have on sales.

The Industry

While the apparel industry experienced rapid growth throughout the 1980s, the recession in the early 1990s had hurt apparel sales (see Exhibits 3 and 4). Recovery from the recession had been gradual and it was a well-known fact that apparel sales were tied tightly to the overall level of economic activity (see Exhibit 5 for Gross Domestic Product data and Exhibit 6 for Canadian disposable income and expenditure on clothing).

With the introduction of both the Canada-U.S. Free e Trade Agreement (FTA) and the North American Free Trade 1 Agreement (NAFTA) in the late 1980s, Canadians had witnessed a multitude of lower priced imports entering the market. Within the last decade, there had been a restructuring of the retail apparel industry. Consolidation and the emergence of U.S.-based retail giants such as Wal-Mart had resulted in a highly concentrated retail industry. These large Canadian retailers had sought to narrow their supplier base and increase their margins. In addition, the Canadian dollar was trading at a record low (around U.S. \$0.66).

Although Wakefield wondered what impact all of this would have on small NHL licensees and what the NHL store might do for these retailers, his review of the retail industry convinced him that the timing was right for such a venture. GDP for both Canada and Ontario was expected to grow steadily at a rate of three per cent into the next century. Additionally, lower unemployment, reduced housing costs, and general consumer confidence were predicted to characterize the years to come.

Demographics

Consumer demand was also driven by demographic factors, the first of which was population. Refer to Exhibit 7 for selected population growth statistics. The "baby boom' and "baby boom echo" population accounted for 56 per cent of the total population, with this group driving growth in consumer demand. As baby boomers aged, their needs in terms of apparel were likely to include a greater emphasis on quality, comfort, functionality, value, and service; whereas, by 1996, those in the "baby boom echo" phase had entered their teenage years, a time when people were typically more fashion-conscious.

Other Trends

Canadians were spending a greater portion of their disposable income on consumer goods such as computers, electronics, and leisure products—leaving less for apparel. Also, as consumers became more knowledgeable about products, they placed increased importance on the price-value relationship. Today's consumers demanded "value"—high quality merchandise at reasonable prices and had begun to shop at more inexpensive retail stores. Furthermore, today's consumers spent less time shopping for apparel. Since less time was spent shopping, consumers looked for reliable indicators of product quality and service prior to the purchase. In addition to these changes in consumer behavior, there was a trend towards relaxation of the dress code in the work place.

As consumers became more knowledgeable about products and demanded more from retailers, quick response (QR) technologies—such as electronic data interchange (EDI)—were being utilized to provide top-notch service to customers. These technologies allowed retailers to immediately process, store, and forward point-of-sale statistics to the manufacturer who, in turn, could replenish inventory levels.

Alternatives

Wakefield identified three models for establishing a NHLEC retail presence. In the first model, NHLEC would have complete managerial control over the location and operation of the retail store. There were three viable locations to choose from: Vancouver, Toronto, and Montreal. Investment funds of \$2,200,000 for start-up and approximately \$800,000 in working capital would be required. He wondered how NHLEC could raise those kinds of funds. He also knew that if the venture was not profitable, NHLEC would have to absorb the loss and NHLEC's budget was simply not large enough to sustain significant losses. If he decided to pursue this option, Wakefield would have to convince New York to give the go-ahead. The location would need to be 15,000 square feet in total, with 10,000 of that being retail space. The average lease range for a downtown Toronto location was \$50 to \$60 per square foot. Wakefield estimated the store could generate \$750 per retail square foot per year. Cost of goods sold was estimated to be 50 percent of sales. Salaries and wages were estimated at 10 percent and other miscellaneous costs at 15 percent. Net income would be taxed at 45 percent and the prime lending rate was currently at 6.5 percent (borrowers would typically pay an interest rate of prime plus one and a half percent).

In the second model, NHLEC would hire and relinquish all control to a management firm that would handle all the operational and administrative functions. In turn, NHLEC would collect a licensing fee—15 percent of gross revenue—from the management firm. Typically, a management firm would rent a much smaller space, likely around 4,000 square feet, and might require NHLEC to invest as much as \$500,000 for furnishings and fixtures. While he knew that several of these firms existed, he also knew that it was often a challenge to persuade them to adopt a project. How could he pitch the idea to such a firm?

In the third model, NHLEC could rent floor space in a major department store (i.e., The Bay, Sears, etc.). Wakefield estimated the location would be 200 square feet in size and would generate \$200 revenue per square foot per year. The department store usually charged an operating fee of 10 percent of sales to manage the area and a lease rate equal to 50 percent of revenues. An initial investment in inventory of \$6,000 and another \$6,000 would be needed to equip the space with fixtures and signage.

With these three options before him, Wakefield sat down to write out his proposal. He knew each proposal would have to be evaluated based on the following criteria:

- Maintaining sufficient control to present the proper "Brand NHL" image.
- Limiting NHLEC's investments—both financial and human resources.
- Establishing a profitable retail outlet.

Glenn was unsure how important this last criterion was in the face of the project's true objective to increase the exposure of "Brand NHL".