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Case Study

CARGUS: A CASE STUDY

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Abstract
The following case study analyzes the company Cargus, a Spanish manufacturer and distributor of an innovative stationary bicycle. It also provides an insight into the company's product positioning and promotion, business strategy, and management style. Although the names of the business and employees are disguised, all other aspects are factual. Cargus introduced an innovative stationary bicycle, which was unique in the market. This start-up company was founded by the inventor of the bicycle and an external investor who wanted to promote the product within the cyclist and fitness industries. The case shows the strategy the company took in driving the business and the response of the clients and potential customers. Lastly, the case provides a marketing analysis of what went wrong during the first year of Cargus' operations.

Keywords: fitness industry, positioning, management style, customer value, customer satisfaction.

Company's Background

In 1999, Sergio Terra, a Spanish former professional cyclist, designed a stationary bicycle that served as a training platform for professional cyclists. He started his own company in a city in the north of Spain, hired a small group of engineers and created a production team that began to manufacture and market the bicycle, which soon became very popular among cycling lovers. Terra's product wasn't the typical stationary bicycle one could find at department or sport specialized stores. It was a virtual machine composed by two parts: the stationary bicycle where the user would pedal and software that could be accessed through the built-in computer which transformed the bicycle into a powerful simulator. This unique, sophisticated, and innovative training platform had the potential to become successful not only among amateur cyclists, but also in the fitness world due to the variety of training options the product offered.

Being aware of the bicycle's potential, Terra had big dreams for his company and believed he had created a state-of-the-art product that could be used by a broader audience. In addition, he had envisioned an entire line of cardiovascular training platforms which included rowing, elliptical, and treadmill machines, all with a built-in computer and simulation software. Terra searched for an investor who would believe in his business idea and had the capital to invest in the project. In 2005, Pedro Hernandez, the president of Zafer Group, a company that developed projects in the construction industry, decided to invest in the project. He thus became Terra's partner in a joint venture and each party owned 50% of the newly born Cargus. Terra had convinced Hernandez of the high quality and flawless operational performance of the bicycle and Hernandez saw a potential to make a substantial profit. Soon after signing the agreement, the owners identified the need to have a formal location for its headquarters and a place to build bicycles in a more efficient and faster way. As a result, Zafer Group offered to share its operations building in a major Spanish city four hours from the current location. After a few months, Cargus had a warehouse to start building bicycles and offices ready for the soon to become Cargus team.

An Innovative Product

The Cargus bicycle is a sophisticated training platform that can be customized to meet the user's training needs. First of all, by using the built-in computer, the trainee starts the exercise by performing a stress test that assesses the user's level of physical condition, providing information about the highest rate his or her heart should reach when exercising. The bicycle also offers more accurate and professional tests such as the Conconi Test, which provides precise information about the physical condition of the user. Secondly, the Cargus bike can be transformed into a replica of the trainee's regular bike by choosing several characteristics such as the weight of the bicycle used during the training as well as the diameter of the wheels and its gear ratios (chain rings and sprockets), which are operated using buttons installed on the handlebar. Consequently, Cargus enables the customer to create as many types of virtual bicycles as needed. The third customization is based on the selection of the environment desired for the training. The computer software includes twenty of the most popular stages (sections) of professional circuits such as the Tour de France and the Giro d'Italia. It also offers the user the possibility to create and save his own stages. For example, one can decide the length of each stage, the gradient and even the wind effect. Lastly, the trainee can choose to participate in a competition against them self or someone else since other users can join her or him on the screen. Cargus training platform's most attractive feature lies in its ability to provide professional, healthy training while at the same time offering a fun environment that can take the user anywhere s/he wishes to go and compete in a virtual setting. Even though the product offers training options for professional sports men and women, a Cargus user does not need to have the physical condition of a professional athlete to realize the bike's training benefits. Additionally, the bicycle eliminates the risks attached to training outdoors such as dealing with traffic and depending on good weather conditions. Furthermore, Cargus bikes feature the Assisted Cardiovascular Workout (ACW) that guides the user through a program based on mesocycles (10 sessions) or microcycles (5 sessions), both aimed at improving the user's cardiovascular condition as well as serving as an aid to a weight loss program. The product also offers the possibility to improve one's performance through watt-based workouts to increase muscular power and interval-based workouts to improve cardiovascular performance. In addition, the Cargus Analysis Program uses graphs and data to provide the user with the necessary information to identify key factors for physical condition improvement.

Analysis of the Competition and Industry

Prior to the creation of the new venture, Terra had done an extensive study of the competition and a thorough comparison between the training options offered by his bike and those presented by its main competitors in the market. The analysis included nine companies which were already commercializing stationary bikes and forty-two variables such as: computer, bicycle design, physical condition tests, information on burned and produced calories, training data analysis, and stage design.The result of the analysis was favorable for Cargus' purposes since most companies only offered an average of twelve training options of the forty-two the Cargus bike offered. Additionally, Terra compared the remaining products he planned to include in the cardiovascular line and obtained similar results. Cargus outperformed the products offered by the competitors in the market, surpassing them in terms of innovation. This information played an important role in Hernandez's decision-making process to invest in the project. The significant difference in innovation between Cargus' product and those of its competitors led him to envision a future of significant profits.In addition, a study about the fitness industry's distribution of sales revealed that the estimation of the total market was $1,300 million. The main five competitors: Life Fitness, Technogym, Precor, Cybex and Nautilus already controlled $780 million. If Cargus' innovative product was well received in the fitness channel, there was a good opportunity to gain a part of the market share with substantial profits as a result.

Company's Vision, Mission and Strategy

Cargus never elaborated a vision or mission statement, but it had a clear goal and strategy. The company's value proposition: *"Unlimited training and fun*" was strong, concise and was developed soon after the company started its operations. This value proposition served as the company's commitment to pursue a specific strategic goal: increase awareness among its target audiences, the cycling world and fitness industry, while expanding its business opportunities nationally and internationally. By approaching different channels, the company hoped to increase awareness in each one of them by communicating the company's competitive advantages: state-of-the-art technology, fun, sport focus, innovation, and adaptability. Even though the bicycle already had a built-in computer with two dimensional software, Cargus' plan was to replace it with new three dimensional software to emphasize the fun aspect of the training.

The Action Plan

In order to develop an effective action plan, Cargus hired a marketing company which specialized in the fitness industry to perform market research and design a specific action plan. The marketing company recommended that Cargus focus on two specialized channels. The first one, the professional channel, was mainly composed by technical and high performance training centers and the second one, directed to the general public, included gyms and sport clubs.

The company identified two main objectives. The first one was to achieve maximum awareness and affinity within each channel by pursuing product placement in both channels in between six months and one year (starting with one product and continuing with the rest of the line). The second objective was to achieve an effective positioning based on the main values of: technology, innovation, sport, and flexibility. Due to the diversity of the selected channels, the marketing company defined specific targets within each of them and recommended detailed actions accordingly. A combination of these actions was designed taking into consideration not only the quantitative dimension (number of components in each channel), but also the strategic importance of the different targets. As a result, the marketing firm presented a portfolio of actions that were evaluated considering cost, time of implementation, difficulty of implementation, potential impact in addition to awareness creation on the channel, and possible opportunities available in the industry. The actions proposed to Cargus included participating in industry conventions and events (including those in other European countries and the US); developing an integrated media campaign including traditional media channels and interactive media; designing strategic alliances with fitness, profesional sports, and medical associations; and developing strategic partnerships with specialized stores, and fostering sponsorships of popular cyclist professional races. The action plan provided detailed information for each action item including key contacts, an estimated action cost, positioning opportunities, and potential benefits and drawbacks related to the implementation of plan.

The Team and the First Year of Cargus' Operations

Once the warehouse for the production of the bicycles was ready at the headquarters and offices were assigned, Terra and Hernandez began the process of hiring people to build the Cargus team. In 2006, they hired a general manager, Mario Garcia, who soon started a selection process to fill the rest of the positions needed to start the company's operations. In a few months, each strategic area of the company: production, customer service, supply chain, marketing and sales, was managed by qualified and experienced executives who strongly believed in the uniqueness of the product and its potential to become successful in the fitness industry. Shortly after joining the company, each of these managers also hired a small group of people to fill positions in each department. Even though most members of the team worked in the Cargus headquarters, located in one of Spain's major cities, Garcia, Hernandez, Terra and his initial production team lived and worked in a city four hours away where they had a small warehouse they had been using in the past to build the bicycles. The physical separation of the production team soon had a negative impact on the flow of communications, slowing down the production process and delaying the implementation of the action plan. Although the company did not have a complete line of cardiovascular products ready to market, both the general manager and the marketing manager thought Cargus' presence in fitness events, both in Europe and the U.S, was one of the most important components of the company's strategy in order to create awareness and build a strong brand. Therefore, the marketing manager hired a marketing specialist, Maria Bermejo, to design the first marketing plan of the company as well as to initiate an advertising campaign in traditional and non-traditional media. Without previous experience in the industry, she followed the managers' guidelines and did extensive research to find out what were the most relevant and recognized events in the fitness industry and cyclist circles. At the same time, she designed an advertising campaign aimed at increasing awareness as well as to help promote the event plan. The marketing budget for 2006 was €418,300, approximately

$577,000. Cargus allocated €300,000 to event participation, €86,000 to advertising and €32,300 to merchandising costs. The first fitness event Cargus attended was a success in terms of media coverage. However, it did not have the expected increase in sales revenue. After this event, the company decided that more aggressive participation in events was necessary in order to increase sales and create product awareness. Therefore, the marketing and sales teams collaborated together and travelled around the country promoting the Cargus bicycle. After a few months attending events, the company was expecting to see sales numbers increase yet revenues were lower than expected and costs kept increasing. It was at that moment that the marketing team contemplated the possibility of signing a contract with a sport celebrity who would act as the company's ambassador in order to promote the bicycle as well as to help boost sales. After considering several influential people who could represent Cargus' image, Terra suggested contacting Laura Triola, who had been a professional cyclist and winner of the Tour de France and Giro d'Italia, the two most recognized cyclist races in Europe. Terra knew her personally and thought she would be willing to collaborate with Cargus. Soon after, she agreed to be the company's brand ambassador and signed a contract for one year. During that time, she committed to attend events and promote the Cargus bike. As a result, the advertising campaign was also modified to include her image in the ads. Besides attending all appropriate national events, Cargus wanted to reach a broader audience in the rest of the European countries and also market its product in the United States. In order to gather information about the US fitness industry, one member of the marketing team travelled to Las Vegas to attend the Annual Art & Science of Health Promotion conference, which is the most recognized fitness event in the world. This visit served as an eye opener for Cargus. All the strong competitors had a complete line of cardiovascular products characterized by high quality and flawless operation. In addition, after talking with industry experts and attending several conferences, the marketing team member learned that having an entire line of products was needed in order to succeed in the fitness industry. The most relevant chain of gyms and fitness clubs didn't seem to be interested in purchasing isolated products. As a result, the company concluded it was not ready to approach the US market. Even though the company had recognized the need to have a complete line of products, Cargus did not focus its efforts and resources to achieve this. On the contrary, it focused on much less urgent tasks such as creating a DVD that would serve as a promotional marketing tool for the leading gym and fitness clubs' chains. This DVD would present Cargus bike's features and training options placing emphasis on the 3D software that was still in development. At the same time, the World Triathlon Championship was scheduled to take place in Lausanne, Switzerland the same year. The general manager decided it was the perfect environment to reach triathletes, who were a potential target audience for Cargus. Some of the members of the team travelled to Lausanne and the company participated in the exhibition area located in the main hub of the competition. After investing considerably to participate in the event, including travel and hotel expenses for the team during ten days, the outcome was a disaster. The event proved to be the wrong place to promote the Cargus bicycle because triathletes only had one free day to rest and visit the exhibition area. Cargus discovered that each participating team had a group of trainers who made the decisions on training equipment for its trainees. Most professional triathletes used well-established brands in the market and Cargus was an unknown brand at that time. Unable to reach trainers directly, the team could only attract the interest of a small group of triathletes who tried the bicycle but did not show further interest. After a disappointing event that led to no increase in sales, the team was understandably under great pressure to perform. The investor, having set high expectations from this event, expressed his discontent and his doubts about the future success of the project. In the meantime, the customer service department was going through difficult times as most bicycles sold in the previous few months were experiencing a variety of failures. Cargus customers from all around the country reported product malfunctions which needed to be fixed by the technical support team. As a result, maintenance costs went up and customer satisfaction decreased dramatically. With no process to collect and analyze customer feedback, the company decided to perform a customer survey to find out what the most common customer complaints were and to gauge Cargus' overall customer satisfaction. The results of the survey demonstrated that even though customers enjoyed using the bicycle on a regular basis, most of their bicycles required technical repairs at some point. In addition, customers complained about the lack of information regarding features available on the bicycle. As a result, the survey showed that the bicycles were being underutilized due to poor information on how to use them. At the end of the first year of operations, the company had incurred much larger costs than they had forecast which overshadowed sales revenues and the product did not offer the high quality Terra had assured. In fact, the customer survey brought to light major flaws that needed to be addressed by the design and production teams. Feeling the pressure of increasing costs and falling revenues, management was forced to lower costs and decided to downsize the team. It also reduced the sales force with the marketing and sales manager as the leader. The company focused entirely on increasing national sales by building partnerships with local sport equipment distributors and putting aside its goal of reaching international markets. In addition, Cargus ended its contract with Laura Triola and significantly reduced investments in advertising and event participation.

Company Culture & Management Style

The culture of the company shared some characteristics of both the entrepreneurial and bureaucratic cultures. The members of the Cargus team working in the headquarters formed a very cohesive group and were focused on embracing innovation and creativity as well as seeking new business opportunities. Since the team was small and worked closely, the free flow of ideas was constantly encouraged which enabled the development of friendships among the members of the group as well as solid teamwork. The culture was different at the original facility. Terra was an autocratic manager who focused on monitoring procedures. He was not willing to share his knowledge with the rest of the team and kept the key elements of the bicycle design as a secret only to be shared with his small team of engineers. Terra's decision-making process was extremely centralized. As a consequence, Terra constantly micromanaged his small production team which hindered the collaboration process with the headquarters production group four hours away. His management style reduced or even blocked the communication flow within the company. The existence of this subculture, which was not clearly aligned with the headquarters culture, soon created dysfunctional conflict in the organization (Gibson, Ivancevich, Donelly, Konopaske, 2009). In addition to his centralized authority, Terra frequently exercised his power. He was, after all, the founder of the company and the inventor of the bicycle. Even though there was a general manager, all decisions in the company needed to be approved by him. As a result, his authority was never questioned by his direct subordinates who would comply with his directives solely due to fear and intimidation. One research study breaks management styles into four types: Type A managers that often display characteristics of autocratic leaders, Type B managers who desire to practice some form of permissive leadership, Type C managers who value their own ideas but not the ideas and opinions of others, and Type D managers who are secure in their positions and feel free to expose their own feelings and to obtain feedback from others (Gibson, Ivancevich, Donelly, Konopaske, 2009). At Cargus, there was a noticeable conflict in the company's management style. Terra was a Type A manager, who pursued neither exposure nor feedback and also approached others in a cold manner. On the other hand, Garcia, the general manager, was a Type D manager, who practiced sound interpersonal skills and embraced an open communication environment within the team.

Analysis - What Went Wrong?

Companies that believe in customer value have built an outstanding reputation based on: innovation, financial soundness, employee talent, use of corporate assets, long term investment value, social responsibility, quality of management, and quality of products and services (Johnson, W., Weinstein, A.,2004). Even though Cargus had a unique product with the potential to become successful in its market and managed to gather a qualified team, it did not use its corporate assets in the most effective way to achieve its goals. In addition, Cargus failed to generate a long term investment value by depleting its resources too soon and lacking a decision plan based on accurate research. Furthermore, the lack of a high quality product made it difficult for the company to generate customer satisfaction, so Cargus was unable to achieve customer loyalty.Research shows that management values have an impact on how an organization creates value and, ultimately, its success (Johnson, W., Weinstein, A., 2004). Terra's egocentric management style was not focused on the wellbeing of his employees or the success of the company. His lack of trust of the team diminished the productivity of the company, which had a negative impact on its overall financial performance. In addition, the SQIP approach states that value is a combination of Service, Quality, Image and Price. Even though companies cannot expect to be market leaders in all these areas, they must meet acceptable threshold levels regarding each dimension (Johnson, W., Weinstein, A., 2004). Cargus perception of value creation at the initial stage of its operations was to offer a high-quality, innovative product with an attractive image. However, after a year in business, the company realized the product lacked the quality it was expected to have and it was not providing even an adequate customer service level to its customers. The results of the customer service survey showed that customers were not properly informed about the features of the product and reported recurrent failures. Cargus did not react immediately to solve these problems, so was unable to build a strong brand. When the quality and service pillars of the company fail, it is very difficult to build customer satisfaction, let alone customer loyalty (Johnson, W., Weinstein, A., 2004). Therefore, as a result of product malfunctions and limited information made available to users, customer-corporate ties were not strong and Cargus struggled to achieve the word-of-mouth, public relations role that creates new business opportunities through referrals (Johnson, W., Weinstein, A.,2004). By analyzing the STP marketing model, Segmentation, Targeting and Positioning, it is possible to identify some of Cargus' erroneous marketing practices. Research shows that a successful target marketing strategy begins with identifying potential profitable customers, learning their values, analyzing the offerings they need and use, focusing marketing efforts on them and constantly monitoring their satisfaction (Cahill, D., 1997). Cargus' founder, Terra, had already identified profitable customers among cyclist lovers. However, the company failed to focus their marketing efforts on this audience first, in order to increase customer satisfaction and loyalty. Additionally, Cargus was unsuccessful in monitoring customer satisfaction. Had the company directed the majority of its marketing resources, time, and attention to its profitable customers, it would have been aware of their needs and preferences. Consequently, Cargus lost the opportunity to improve the quality of its product. It also missed an opportunity to provide superior customer value and increase customer satisfaction and long-term loyalty, all of which make an important contribution to a brand's profitability. Research also demonstrates that companies should provide a consistent quality experience by paying close attention to factors under their control. In order to do so, they should ask the right questions, such as: "Are our processes creating value?", "Is the company improving how work is done?", "Are the company's processes customer oriented?" and "Are we focusing on sales instead on customer satisfaction?" (Johnson,W., Weinstein, A., 2004). However, Cargus did not pursue customer satisfaction as its top priority; therefore, it failed to perform an internal analysis, which would have documented the poor quality of its product, ineffective production processes, and the delay in identifying and responding promptly to customers' complaints. Furthermore, the company was not market-oriented. Instead, its sales-oriented strategy was focused on attracting new business in lieu of driving its efforts and resources towards building growth and retention among the existing customer base. As a result, the company's marketing objective was solely focused on increasing sales volume as opposed to improving customer satisfaction. Additionally, Cargus' planning approach was reactive, instead of proactive, which became evident after the company received the unsatisfactory results from their customer service survey. Lastly, Cargus' time perspective was tactical and fixated on short term achievements. Rather, a desired market oriented perspective would aim to achieve medium and long term goals (Johnson, W., Weinstein, A., 2004). By analyzing Cargus' positioning strategy through the three levels of positioning, we can observe that the company focused on the core product, which usually works efficiently in the short term. In this level, companies focus on the tangibles: price, quality, and technical specifications (Johnson, W., Weinstein, A., 2004). A more effective approach would have been to build the extended product (level 2) and subsequently reach the total product (level 3) after the company identifies what it stands for (Johnson, W., Weinstein, A., 2004). Cargus failed to reach this third level and remained in a constant struggle to surpass the first one. After one year of operations, the quality of the product was still questionable and the main customers' complaints remained unresolved. In order to compete successfully, companies must deal with a set of macro issues as well as customer specific concerns. The Customer Value Funnel (CVF) model presents four levels: global business community, market, organization, and customers. The company needs to analyze these carefully since they will have an impact on its overall performance. According to the CVF, the value drivers of the company should be what is valued by society (level1), suppliers (level 2), partners, competitors and regulators (level 3), owners and employees (level 4) and customers (level 5) (Johnson, W., Weinstein, A., 2004). By taking a closer look at Cargus, we can conclude that the company's values did not match those of the marketplace. Far from exceeding customers' expectations, Cargus was struggling to meet them. As a consequence, the delivered and perceived values were very poor and far from what the competitors were offering in the market: complete lines of products and flawless execution. As a result, sales and profits continued to grow at a slow pace and customer retention was diminished. Research also suggests that successful management practices begin by taking a complete view of the company and analyzing the key processes in relationship to the marketing cycle (Johnson, W., Weinstein, A., 2004). Had Cargus studied its core business processes, it would have realized that two of them: customer service and product/service development, needed to be redesigned and improved for quality. The company did not follow the PDSA (Plan, Do, Study, Act) Deming Quality Cycle (Johnson, W., Weinstein, A., 2004). Instead, Cargus management believed that the competitive advantage of the innovative bicycle was so dominant that there would be no competitor threats that could possibly undermine the strong confidence in its market performance potential. As a result, they failed to continuously analyze internal processes to improve quality. Cargus should have determined how to improve the company's processes by asking questions such as "How can we improve our knowledge?" and "How can we improve our processes?" A thorough analysis of who set the standards, what those were, as well as how to achieve them, would have served to stimulate the Cargus team to improve the quality of its processes resulting in an enhanced company performance.

Conclusion

Cargus started its operations with an innovative product, which was unique in the market. The team believed in the product and was driven to work hard to successfully promote the bicycle within the cyclist and fitness industries. However, they did not invest their resources and efforts to increase customer satisfaction and loyalty among their most profitable customers. Instead, they rapidly tried to reach international markets before they even had established their brand and product quality thus exhausting their pool of resources by the end of the first year of operations. Cargus failed to provide a high quality product and superior customer service and failed to analyze its core business processes in order to ensure the delivery of the quality its customers expected. Finally, the existing conflicts in the company's management style and its sales-oriented strategy had an unavoidable negative impact on Cargus' performance.

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