The Gillette Company (A)

In the spring of 1986, Joseph A. Marino, vice president of marketing in Gillette’s shaving division, was concerned about the future prospects of his business. With sales of $2.4 billion, Gillette was the world’s largest blade and razor manufacturer and claimed a remarkable 62 percent share of the $700-million U.S. shaving market.

Growth in razors and blades had been slowing down, however, and competitors were putting a few nicks in Gillette’s performance. Revenues had increased just 3 percent over the previous three years (i.e., 1982–85), and during 1985, profits had risen only 1 percent to $160 million. Gillette had to produce a steady stream of new shaving products just to hold its ground in the United States.

More disturbing was that cheap disposable razors—unknown 12 years ago—now accounted for more than half of U.S. sales. That figure has been growing, and even though Gillette dominated the disposable market, cheaper razors meant lower profits. For a company that received one-third of its sales and two-thirds of its earnings from blades and razors, that was bad news. Foreign business, which accounted for about 57 percent of corporate sales and 61 percent of profits, was a sore spot, too. Although a weaker dollar was expected to boost Gillette’s overseas earnings, a weaker dollar would help Gillette only in the short term. Foreign razor and blade markets were also mature.

RAZOR TECHNOLOGY

Ever since an ambitious inventor named King C. Gillette introduced the first safety razor in 1903, men have been accustomed to continual, extensively advertised advances from Gillette in the state of the art of shaving. The company spends more than $20 million a year on shaving research and development. With the aid of the latest scientific instruments, a staff of 200 explores the fringes of metallurgical technology and biochemical research. They subject the processes of beard growth and shaving to the most rigorous scrutiny.

Every day, some 10,000 men carefully record the results of their shaves for Gillette on data processing cards, including the precise number of their nicks and cuts. Five hundred of those men shave in 32 special in-plant cubicles under carefully controlled and monitored conditions, including observation by two-way mirrors and videotape cameras. In certain cases, sheared whiskers are collected, weighed, and measured. The results of the tests are fed into a computer and processed by sophisticated statistical programs.

Gillette scientists know, for instance, that a man’s beard grows an average of 15/1000 of an inch a day, or 5 1/2 inches a year; that it covers about a third of a square foot of his face and contains 15,500 hairs; that shaving removes about 65 milligrams of whiskers daily, which amounts to a pound of hair every 16 years; that during an average lifetime a man will spend 3,350 hours scraping 27 1/2 feet of whiskers from his face.

Occasionally, other companies have obtained a technological jump on Gillette. In the early 1960s, a new longer-life stainless steel blade from Wilkinson Sword of Great Britain temporarily stole a big share of the market from Gillette’s carbon steel Super Blue Blade. But Gillette, as it always does, soon introduced its own longer-life version and recaptured much of the lost market.

To fully comprehend Gillette’s research and development inroads, one must visit its research facilities in South Boston. Displayed there are pictures taken through a field emission scanning electron microscope that can magnify objects 50,000 times. The photographs showed tiny sections—1/10,000 of an inch—of the edges of razor blades

This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.
made by Gillette and some of its competitors. The edges of the competitors’ blades looked rough and jagged. Although not exactly Iowa farmland, the edges of the Gillette blade resembled softly rolling hills, like the Berkshires in Connecticut. The reason for Gillette’s less formidable topography was the new “microsmooth” process invented by Gillette, whereby blades are given extra smooth edges by particles of aluminum oxide energized by ultrasonic waves.

COMPETITION

Probably no company in this country has so thoroughly dominated one consumer market as long as Gillette. A huge concern with $2.4 billion in annual sales (1985 figure), it controls over 62 percent of the shaving market. Electric razors in their initial years appeared to pose a big challenge to Gillette’s wet-shaving products. But today, they are used by only a quarter of all shavers, and most owners shave with them only occasionally. As a matter of fact, due to continual advances in wet shaving and the inability of electrics to deliver a comparably close shave, their use is slowly declining. Gillette’s few competitors, such as Schick (22 percent of the market), American Safety Razor, and Wilkinson, have been reduced mainly to manufacturing knockoff versions of and refill blades for Gillette razors.

Just when its competitors adjusted to one shaving system, Gillette unleashed yet another advance. In 1971 it was Trac II, a razor system that featured two parallel blades mounted in a cartridge 60/1000 of an inch apart. Gillette said the idea arose from a phenomenon called hysteresis discovered by its research and development people through slow motion microphotography. When a razor blade cuts through a whisker, the whisker is pulled slightly out of the follicle. A second blade, arranged in tandem, can thus take a second, closer slice off the whisker before it retracts and can thus provide a cleaner shave. In 1977, after research and development expenditures of over $8 million, Gillette made another “quantum leap forward,” as the company termed it, with Atra, a razor featuring a twin-blade cartridge that swivels during shaving and thus follows the face’s contours. Gillette said its tests showed that, whereas the twin Trac II blades are in contact with the face an average of only 77 percent of the time, the Atra can raise the figure to 89 percent.

The $7.95 Atra razor is the apotheosis of Gillette technology, engineering, and design. Weighing a hefty 1 1/2 ounces, it is a luxurious, elaborately crafted machine with a thick, beautifully tooled aluminum handle. Refill blades retail for 56 cents each. The Atra is available in expensive gift versions: one ($19.95) is goldplated with a rosewood handle; another ($49.95) features a sterling silver handle designed by Reed and Barton that resembles an antique table knife.

Recently, the company rolled out a new version of Atra called Atra Plus, a razor with a lubricating strip above the blade for smoother shaves.

A relatively recent entrant into the shaving business is the Bic Pen Corporation, maker of the familiar ballpoint pen. The company, which has $200 million in annual sales, is located in modest quarters in Milford, Connecticut. It does not have anyone regularly assigned to explore the fringes of shaving technology. It does not have a field emission scanning electron microscope. It does not do any ultrasonic honing. It maintains only a small shave-testing panel of about a hundred people who do not fill out data processing cards. It does not know and does not care how many hairs are in the average man’s beard or how fast they grow.

The apotheosis of Bic technology, engineering, and design is the Bic Shaver. Weighing only a quarter of an ounce, it is a diminutive, characterless object made of white plastic that looks like something used in hospitals. In fact, a version of it is used in hospitals. It has only one blade mounted on a short, hollow handle and sells for about 99 cents for four or 25 cents each. When the blade wears out, you throw the whole thing away. The Bic Shaver is not available in gold or silver plate or aluminum or anything else but plastic. It does not come in gift versions.
Bic Pen Corporation, though, is selling 200 million shavers a year in the United States, nearly twice as many as the number of Atra blades that Gillette is selling. The Bic Shaver, in fact, is the most serious challenge Gillette has faced since the early days of King Gillette.

Though Bic and Gillette came to purvey disposability from different perspectives, it was inevitable that sooner or later they would clash. The first clash between Gillette and Bic was in pens. Beginning in the 1950s, the pen market rapidly became commoditized as inexpensive but high-quality ballpoints gained at the expense of high-priced, high-status pens. When Bic’s throwaway “stick” pen began selling for 19 cents in the U.S. market in 1958, its major competitor was a 98-cent refillable pen made by Paper Mate, which Gillette had acquired in 1955. Paper Mate fought back with its low-priced Write Brothers line of stick pens. But Gillette’s mass market advertising and promotion skills were no match for those of Baron Bich. Bic now has 60 percent of the ballpoint market versus Paper Mate’s 20 percent.

The next clash involved butane cigarette lighters. Gillette initially went the cachet route with the 1971 purchase of S.T. Dupont, a prestigious French concern that produces luxury lighters selling for several hundred dollars. According to an ad, 500 separate steps and six months are required to manufacture Dupont lighters. Bic and Gillette, though, recognized that the lighter market was ripe for commoditization. By 1974, both were selling disposable lighters for $1.49, which were later reduced to 89 cents. These disposable lighters quickly stole market share from status brands.

“Dupont lighters are in a class by themselves, and people are willing to pay a premium for them.” It was said that the click of a Dupont was so distinctive that, if you lit up in a restaurant, people knew you were using a Dupont. Now you can buy a disposable—a light at the end of a piece of plastic—for 89 cents. Why do people want a disposable lighter? They’re utilitarian. They work. You can lose them and not care because you have no investment in them, no loyalty toward them.

Gillette has done only slightly better with disposable lighters than with disposable pens. Bic’s lighter now has a 52 percent share of the market; Gillette’s disposable Cricket has 30 percent. Bic’s feel for the mass market, it should be noted, is not unerring. Its felt-tip Bic Banana pen, though lower priced, has solidly been bested by Gillette’s Flair. “In all honesty, the Banana just wasn’t a very good product,” concedes a Bic marketing manager.

The shaving market is the most recent and most crucial clash. Bic introduced its disposable shaver to Europe in 1975 and moved into Canada the following year. Aware that the United States would be next, Gillette came out with its own blue plastic disposable called Good News!, which has a Trac II twin-blade head, in 1976. Gillette, which knows a lot more about selling shavers than lighters and pens, has been no pushover for Bic. Each company now has about half of the disposable market.

Good News!, though, is really bad news for Gillette. One must appreciate that the razor blade business is a fixed-sum game: sales in this country are relatively static at about two billion blades a year. Since Gillette is the dominant manufacturer, every new razor and blade it introduces in effect cannibalizes its older products. Atra takes business away from Trac II, which took business away from double-edge blades. But Gillette has never bothered much about this because its new products are invariably higher priced than its old products.

The problem is that Good News! sells for a lot less than any of Gillette’s older products. Price is the key to commodity competition, and to stay competitive with the 25-cent Bic Shaver and with disposables from a few other producers, Gillette has had to sell Good News! for much less than the retail price of an Atra or Trac II cartridge. As many Trac II and Atra users have figured out, although you have to pay as much as 56 cents for a twin-blade refill cartridge from Gillette, you can get precisely the same cartridge mounted on a plastic handle for as little as 25 cents. Good News! not only produces fewer revenues per blade sale for Gillette but creates higher costs because Gillette must supply a handle as well as a cartridge. Every time
Good News! gains a couple of points of market share, Gillette loses millions of dollars in sales and profits.

CORPORATE CULTURE

To fully grasp the intensity of Bic Pen Corporation’s challenge, it is necessary to flash back briefly to the early days of Bic and Gillette. The founders of the two companies were strong-willed men who single-mindedly pursued powerful and remarkably similar visions. King Gillette’s vision came one morning in 1895 when he started shaving with his old straight-edged razor. It was not only dull, he realized, but beyond the help of his leather strop. To reestablish its edge, it would have to be honed by the local barber or cutler. At the time, Gillette was working for a company that made a great deal of money manufacturing bottle caps. The inventor of the bottle cap had often regaled Gillette with the bountiful proceeds derived from putting out an inexpensive item that people repeatedly use and throw away. In a flash, as he looked at his spent straight-edged razor, Gillette conceived of the idea of a safety razor with a disposable blade.

Less is known of the early vision of Marcel L. Bich, the reclusive Italian-born businessman and yachtsman who founded Société Bic in Paris, which controls the U.S.-based Bic Pen Corporation. But it is said that, in the late 1940s, “Baron” Bich, as he calls himself, hit upon the idea of a low-priced, reliable, disposable ballpoint pen. Existing ballpoints, which not only were expensive and required refills, frequently malfunctioned.

Gillette and Bich went on to make fortunes from disposability. But over a period of time, the philosophies of their companies diverged. Particularly after the death of King Gillette in 1932, his company sought to give its blades, and especially its handsome razor handles, an aura of not only superior performance but class and cachet. Each new technological leap could thus be more easily accompanied by a liberal leap in price and profit margin. Gillette’s chief marketing strategy became the promotion of new captive “systems,” or blade-handle combinations. Just as Kodak makes most of its money not on its cameras but on its film, profits in shaving are not in razor handles but in blades. Yet if a man could become convinced to trade up to a new, more expensive handle, such as Atra, he would then have to buy new, more expensive blades designed to fit only that handle.

Gillette was never concerned about what its people call “the low end of the market,” that is, cheap private label blades. If you put out a class product, Gillette believed, the major portion of the always-status-seeking masses would buy it. Shaving being serious business and the way one’s face appears to other people all day being a matter of some importance, most men, Gillette knew, didn’t want to skimp and settle for an ordinary shave when, for a little more money, they could feel secure that they were getting the “best” shave from Gillette.

In recent years, as the vision of its founder faded, Gillette conglomerated into nondisposability. It acquired other companies and began marketing such class durables as cameras and hi-fi equipment. Durables, though, have never been as profitable for Gillette as razors and blades. In 1985, although the company’s shaving division produced only 33 percent of its sales, it yielded 67 percent of the year’s profits.

Baron Bich, whose first business venture was making parts for pen makers in Paris, eschewed class and pursued mass with a vengeance. He was taken with the potential of what Bic people call “commoditization,” the devolution in recent years of certain expensive, high-status durables, including watches and cigarette lighters, into inexpensive, nonstatus, more or less disposable items. Commoditization has several basic causes. One is a shift in taste: different eras accord cachet to different products. More important is the technology of mass production. An item often has status because it is difficult and time-consuming to make and must sell at a high price. But if production techniques are developed that allow the item to be spewed out by automated assembly lines at a cost of pennies with little if any loss in functional quality, its status and allure will abate. People will not
feel embarrassed to buy and to be seen using the new, cheap version of the item.

A final cause of commoditization is consumers’ growing resistance to what is called market “segmentation,” the proliferation of new brands, flavors, and other diverse variants of common consumer goods. Although 35 years ago, according to a *Los Angeles Times* article, a retailer could satisfy 88 percent of his or her customers by stocking only five brands of cigarettes, now, to supply the same percentage of smokers, 58 different cigarette brands with a bewildering variety of lengths, filters, packages, flavors, and tar and nicotine contents must be carried. Large conglomerate consumer goods firms compete, not on the basis of who can sell for the lowest price, but on the basis of who can churn out and most aggressively market the largest number of new products.

Though all of this adds heavily to cost, consumers have generally been willing to pay premium prices for cosmetic differentiation. This allows companies to recoup their extra costs and to earn extra profits. But now, according to a recent *Harvard Business Review* study, consumers have become more price- and value-conscious and are beginning to rebel. In growing numbers, they are refusing to pay extra for individualized frills. They are bypassing national brands in favor of heavily discounted brandless products.

Baron Bich put a brand on his products. But to sell them as cheaply as possible and make them appeal to as many people as possible, he stripped them of all traces of cachet, glamour, and nonfunctional frills. He reduced them to pure generic utility and simplicity. He made them commodities. His marketing strategy was just as simple: high value at a low price. It was a strategy that would have won the admiration of King C. Gillette.

**PSYCHOLOGY OF SHAVING**

The battle between Bic and Gillette is more than a conventional contest over which kind of razor people want to use. It is a battle over one of the most enduring male rituals of daily American life.

Those of us who are old enough remember how the ritual used to be conducted because many of us watched it every morning. Like a chemist with mortar and pestle, our fathers would whip up a rich lather by stirring their shaving brushes around in their large ceramic mugs. Like an orchestra conductor during a brisk allegro, they would strop their gleaming straight-edge razors on long strips of leather. Writer Richard Armour once recalled the scene: “I loved to watch him grimace and pull the skin taut with his fingers preparatory to a daring swipe from cheekbone to chin. I held my breath while he shaved his upper lip, coming perilously close to his nose, and when he started his hazardous course along his jawbone, risking an ear lobe. When he scraped around his Adam’s apple, with a good chance of cutting his throat, I had to turn away until I thought the danger was past.”

Armour lamented that safety razors and aerosol lathers had taken the “skill, fun, and danger” out of shaving. Though the audience, if there is an audience, may be less apt, the morning ritual continues to occupy a very special place in most men’s lives. Face shaving is one of the few remaining exclusively male prerogatives. It is a daily affirmation of masculinity. One study indicated that beard growth is actually stimulated by the prospect of sexual relations. A survey by New York psychologists reported that, although men complain about the bother of shaving, 97 percent of the sample would not want to use a cream, were one to be developed, that would permanently rid them of all facial hair. Gillette once introduced a new razor that came in versions for heavy, regular, and light beards. Almost nobody bought the light version because nobody wanted to acknowledge lackluster beard production. (Later Gillette brought out an adjustable razor that enabled men with sparse whiskers to cope with their insufficiency in private.)

The first shave remains a rite of passage into manhood that is often celebrated with the gift of a handsome new razor (or the handing down of a venerable old razor) and a demonstration of its use from the father. Though shaving may now require
less skill and involve less danger than it once did, most men still want the razor they use to reflect their belief that shaving remains serious business. They regard their razor as an important personal tool, a kind of extension of self, like an expensive pen, cigarette lighter, attaché case, or golf club set. Gillette has labored hard, with success, to maintain the razor’s masculine look, heft, and feel as well as its status as an item of personal identification worthy of, for instance, a Christmas gift.

For over 80 years, Gillette’s perception of the shaving market and the psychology of shaving has been unerring. Though its products formally have only a 62 percent share, its technology and marketing philosophy have held sway over the entire market.

Now, however, millions of men—about 12 million, to be more precise—are scraping their faces with small, asexual, nondescript pieces of plastic costing 25 cents, an act that would seem to be the ultimate deromanticization, even negation, of the shaving ritual, thus relegating shaving to a pedestrian, trivial daily task.

**NEW SEGMENTS**

Good News! is a defensive product for Gillette. Though distributing it widely, the company is spending negligible money advertising it. Gillette knows, though, that it must do more than counter the Bic threat. It must keep the whole disposable market contained. That means, most immediately, luring from disposables two chief categories of users: teenagers and women.

According to Marino, shaving is just not a high-interest category to a lot of kids in high school. “They don’t have to have a Gillette razor or their father’s razor to prove they’re old enough to shave. They don’t need life-style reflection in a razor. They want a good shave, but they don’t want to pay a lot of money.” One might venture several explanations for kids’ indifference to the traditional aura of shaving. According to some people, there has been a progressive emasculation of the American male. Given this hypothesis, the unisex plastic disposable is a predictable response. Another view is that boys today are more secure in their sexual identities than the previous generation and thus don’t need the old symbols of masculinity.

Whatever the case, as far as Gillette is concerned, use of disposables is an ephemeral adolescent affection. As kids grow up, Gillette expects that promotion, advertising, and sampling will convince them that captive systems, such as Atra and Trac II, are a better and more mature way to shave.

Women are a more complex problem. Despite the fact that as many adult women shave as men, though much less often, Gillette and the other U.S. razor manufacturers are so male oriented that until quite recently they never sold a razor designed for women. Women had no choice but to pay for such masculine features as hefty metal handles. One Gillette marketing man contends with a leer that “women seem to like a longer handle for some unknown reason.” Yet already nearly 40 percent of women who shave have switched to disposables. Bic is now selling the Bic Lady Shaver, a slightly modified version of its regular disposables. Gillette, Schick, and other producers are trying to find ways to entice women away from disposables with feminine versions of their male products.

So far, Gillette’s contain-and-switch strategy has not been very successful. In 1976, Gillette said disposables would never get more than 7 percent of the market. Marino said at the time, “You know, we considered it for trips and locker rooms, for the guy who forgets his razor.” The disposable market, though, soon soared past 7 percent, forcing Gillette into continual upward revisions of its estimates. In terms of units sold, disposables have now reached 50 percent of the market.

Bic is predicting that disposables will ultimately capture 60 percent of the market. Indeed, Bic has been investing so much money advertising its shaver—$15 million in 1985—that it lost $5 million on the product. Baron Bich is known for his willingness to run a deficit promoting a product as long as it keeps gaining market share. As evidence that gains will continue, Bic people point to the huge disposable market share in many European
countries: 75 percent in Greece, 50 percent in Austria, 45 percent in Switzerland, 40 percent in France. According to Bic, mass products tend to follow the population curve. If 40 percent of one segment of the population uses disposables, eventually everybody will.

PRODUCT IMPROVEMENTS

When it got into a war in the old days, Gillette could always win by unleashing its ultimate weapon: superior technological strength. Shaving technology, though, has come a long way since 1903. Further innovations are not easy. It is awfully hard to make the next dramatic improvement.

One potential leap would be a blade so tough that you would not have to wash your face to soften your beard. But few experts see such a blade as technically feasible. Dry beard hair is extremely abrasive and about as strong as copper wire of the same thickness. Even though today’s blades are made of very durable steel, their precision-honed edges are quickly destroyed by dry whiskers.

Another potential improvement is a much longer-lasting blade. Yet such an advance may not be worth the effort. The only technology that matters now is that of assembly lines, which can reduce manufacturing costs.

Whatever the likelihood of future quantum leaps, the fact remains: despite the topographical differences discernable by high-powered microscopes, today all brands of razor blades deliver an extremely good shave. Gillette studies show that over 93 percent of shavers rate the shaves they are receiving as very good or excellent. Asked about the quality of Schick’s blades, a Gillette executive conceded that it is much the same as that of his company’s blades. “They have the same steel, the same coatings. Schick has copied us very well and done a hell of a good job. I think our quality is more consistent, but as far as giving you a good shave, their blades are damn good.”

Gillette’s chief selling point against Bic is the alleged superiority of twin blades against a single blade. But to what degree this advantage can be capitalized on is debatable. As a Bic executive put it, “We don’t really know what happens when two blades shave the skin, but our tests show that a large percentage of customers can’t tell the difference. I give Gillette a lot of credit for coming up with the two-blade concept. It’s a magnificent marketing idea. Two blades are better than one. It has a surface sense of logic to it. But on a perceptual level, which is the level most of us deal on, there isn’t any difference.”

OPPORTUNITIES IN THIRD WORLD MARKETS

Gillette discovered a while back that only 8 percent of Mexican men who shave use shaving cream. The rest soften their beards with soapy water or—ouch!—plain water, neither of which Gillette sells.

Sensing an opportunity, Gillette introduced plastic tubes of shaving cream that sold for half the price of its aerosol in Guadalajara (Mexico) in 1985. After a year, 13 percent of Guadalajaran men used shaving cream. Gillette is now planning to sell its new product, Prestobara (Spanish for “quick shave”), in the rest of Mexico, Colombia, and Brazil.

Tailoring its marketing to Third World budgets and tastes—from packaging blades so they can be sold one at a time to educating the unshaven about the joys of a smooth face—has become an important part of Gillette’s growth strategy. The company sells its pens, toiletries, toothbrushes, and other products in developing countries. But despite Gillette’s efforts to diversify, razor blades still produce one-third of the company’s revenue and two-thirds of its pre-tax profit.

The market for blades in developed countries is stagnant. On the other hand, in the Third World a very high proportion of the population is under 15 years old. All those young men are going to be in the shaving population in a very short time.

Few U.S. consumer-products companies that compete in the Third World have devoted as much energy or made as many inroads as Gillette, which draws more than half its sales from abroad. Since
the company targeted the developing world in 1969, the proportion of its sales that come from Latin America, Asia, Africa, and the Middle East has doubled to 20 percent; dollar volume has risen sevenfold.

Gillette has had a strong business in Latin America since it began building plants there in the 1940s. Fidel Castro once told television interviewer Barbara Walters that he grew a beard because he couldn’t get Gillette blades while fighting in the mountains.

The company’s push into Asia, Africa, and the Middle East dates to 1969 when Gillette dropped a policy of investing only where it could have 100 percent-owned subsidiaries. That year, it formed a joint venture in Malaysia, which was threatening to bar imports of Gillette products. The company has added one foreign plant nearly every year in such countries as China, Egypt, Thailand, and India and is now looking at Pakistan, Nigeria, and Turkey.

The company always starts with a factory that makes double-edged blades—still popular in the Third World—and, if all goes well, expands later into production of pens, deodorants, shampoo, or toothbrushes. Only a few ventures have gone sour: a Yugoslav project never got off the ground and Gillette had to sell its interest in Iran to its local partners.

In a few markets, Gillette has developed products exclusively for the Third World. Low-cost shaving cream is one. Another is Black Silk, a hair relaxer developed for sale to blacks in South Africa that is now being introduced in Kenya.

Gillette often sells familiar products in different packages or smaller sizes. Because many Latin American consumers cannot afford a seven-ounce bottle of Silkcience shampoo, for instance, Gillette sells it in half-ounce plastic bubbles. In Brazil, Gillette sells Right Guard deodorant in plastic squeeze bottles instead of metal cans.

But the toughest task for Gillette is convincing Third World men to shave. The company recently began dispatching portable theaters to remote villages—Gillette calls them “mobile propaganda units”—to show movies and commercials that teach daily shaving. In South African and Indonesian versions, a bewildered bearded man enters a locker room where clean-shaven friends show him how to shave. In the Mexican one, a handsome sheriff, tracking bandits who have kidnapped a woman, pauses on the trail to shave every morning. The camera lingers as he snaps a double-edged blade into his razor, lathers his face, and strokes it carefully. In the end, of course, the smooth-faced sheriff gets the woman.

In other commercials, Gillette agents with an oversized shaving brush and a mug of shaving cream lather up and shave a villager while others watch. Plastic razors are then distributed free and blades, which of course must be bought, are left with the local storekeeper.

Such campaigns may not win immediate converts, but in the long run, they should establish the company’s name in the market.

GILLETTE’S OTHER PRODUCTS

The outlook is even dimmer in toiletries, Gillette’s second most important market. The company has lost market share in each of its major product categories since 1981. Consider Right Guard, Gillette’s leading brand. In 1970 it claimed 30 percent of the $1.2 billion deodorant business; now it gets a mere 7 percent. Right Guard’s positioning as a “family deodorant” was undercut when rivals successfully split the market into men’s and women’s products. Gillette’s current $30 million advertising campaign, reasserting the brand as a man’s deodorant, hasn’t stopped the slide.

Because of the limited prospects in blades and toiletries, Gillette is searching for other opportunities in personal health care products. Given Gillette’s track record and cautious nature, that won’t be easy. Sales of writing and office products, such as Paper Mate and Flair pens, peaked at $304 million in 1981. In 1985, profits fell 12 percent, to $10 million. The writing and office products division now accounts for 11 percent of company revenues but just 2 percent of earnings. In another recent attempt to diversify, Gillette bought small
stakes in a half-dozen tiny companies in such diverse fields as hearing aids, biotechnology, and personal computer software. But these “greenhouse projects” have yet to bloom.

Why hasn’t the company done better? Critics say Gillette has become risk-averse, partly because of a civil service mentality among employees. Middle management is considered weak because the company has a history of promoting people who’ve been there the longest. That tendency has kept Gillette from moving aggressively.

Gillette’s plan for creating a new line of branded low-price personal care products is an example. For 18 months it has been testing a line of unisex toiletries under its Good News! label, which now appears only on disposable razors. Gillette plans to sell 12 products, from shaving cream to shampoo, all for the same price in nearly identical packages. It hopes these “branded generics” will rack up $100 million in sales when available nationally.

Unfortunately, that date keeps being postponed. Test marketing took six months longer than planned, and a national rollout was still more than a year off. Part of the delay resulted from a change in advertising. Initial ads, which had a patriotic theme, failed to emphasize quality and low price. Gillette has also cut the wholesale price on the generics from $1.25 to $1.09.

A second new venture also had problems. Gillette’s German subsidiary, Braun, introduced an electric shaver in the United States. Backed by a relatively small $7 million budget, it started running national advertising in the fall of 1985. But success is not easy: Braun has been entering a declining U.S. electric shaver market where rigid consumer loyalties have generated a phenomenal 90 percent repurchase rate for market leaders Norelco and Remington.

**GILLETTE’S STRATEGY**

In the final analysis, Gillette’s strategy is to keep as much pressure as possible on Bic’s profits with the hope that its rival will be forced out of the razor market. To increase that pressure, Gillette has been putting the squeeze on Bic’s other businesses.

The competition between the Boston-based giant and the French-owned upstart has begun to take on the characteristics of a vicious street fight in which price slashing is the main weapon and market share the main prize. In terms of size, the match is uneven. Gillette weighs in at about $24 billion in sales; Bic tips the scales at around $750 million, some $225 million of which comes from its American offshoot, Bic Pen Corporation. Even so, the smaller company has managed to cut up its competitor, first with disposable ballpoint pens, then disposable lighters, and most recently with disposable razors.

Take the seesaw battle over lighters. Gillette was the first of the two companies to go after the U.S. market. In 1972 it brought out its Cricket brand. By the time Bic introduced its own lighter the following year, Gillette had cornered 40 percent of the market. Demand was growing so rapidly, however, that at first Bic had no trouble gaining on Gillette. But when supply began to catch up with demand, Bic recognized it had a problem. Despite what it claimed was a better product and despite its flashy “Flick My Bic” ad campaign, sales of the two lighters ran neck to neck.

At the time Bic had to decide what it wanted to achieve. As a company executive recalls: “We had to decide whether we wanted to just sit back and enjoy substantial short-term profits or go after market share.” Bic opted for market share and in mid-1977 slashed the wholesale price of its lighter by 32 percent.

Gillette did not follow suit immediately, largely because its per unit manufacturing costs were higher than Bic’s and its management was reluctant to accept such a low return. When Gillette finally did retaliate with a price cut, Bic reduced its price still further and a ferocious price war ensued. By the end of 1978, it was apparent that Bic’s “big play” was successful. Bic had taken over nearly 50 percent of the market; Gillette’s share had slumped to 30 percent. Moreover, in 1978 Bic reported $9.2 million on pre-tax profits for its lighter division,
while Gillette suffered an estimated loss of almost the same amount.

In 1981, despite continuing losses, Gillette turned the tables and started selling its Cricket lighters at a 10 percent discount off the Bic price. The counterattack hasn’t substantially hurt Bic’s market share, but it has effectively limited profits and thus the amount of money Bic can keep pouring into razors.

The big question is whether such pressure on profits will force Bic to abandon the razor market before Gillette’s own business is radically altered or even irreparably harmed. According to one observer, the competition between the rivals is no longer just a matter of one pen or one lighter or one razor against another. It is a war on all fronts.
In April 1998, Gillette unveiled a revolutionary advance in shaving: the Mach3. Gillette had spent 15 years and $750 million in developing this product. The Mach3 was the company’s biggest and most important new product since Sensor, and the company hoped it would have a similar effect. Eight years ago, Gillette was losing its grip on the razor market to cheap throwaways and facing the fourth in a succession of hostile takeover bids. Sensor saved the company on both counts. Today, Gillette is vastly stronger. Its market capitalization jumped from $3 billion in 1986 to $66.1 billion in 1998, putting it among America’s 30 biggest companies. The company, however, was concerned about the higher price tag of the Mach3 and the impact it might have in its foreign markets.

Gillette’s future might not exactly be on a razor’s edge—it had 71 percent of the North American and European market for razors and blades. The company, whose consumer brands included Duracell batteries, Oral-B toothbrushes and Parker and Waterman pens, was beloved by management consultants. However, investors had begun to fret about slowing growth, lackluster sales and an imminent change in top management. Growth had slowed in the hugely profitable razors division, partly because Schick, its smaller rival, had recently launched a new razor of its own. In August 1997, the mildest of profit warnings was enough to send the shares tumbling nearly 20 percent, although they had since recovered.

Gillette had an unusual approach to innovation in the consumer-products business. Most such companies tweaked their offerings in response to competition or demand. Gillette launched a new product only when it had made a genuine technical advance. To make the Mach3, Gillette had found a way to bond diamond-hard carbon to slivers of steel. Michael Hawley, the company’s chief operating officer, boasted that it “will blow the doors off other technology.”

Razors, however, were not the only products where the company’s researchers beavered away at innovation. Duracell Ultra, due to be launched in May 1998, was an alkaline battery designed to last 50 percent longer than its rivals in devices that needed a lot of power, such as palmtop computers and personal CD-players. The company also promised in late 1998 a “universally new, remarkable” toothbrush, which abandoned the usual practice of stapling the filaments through the brush head.

At heart, Gillette liked to think of itself as a giant research laboratory. It spent 2.2 percent of sales on R&D, twice as much as the average consumer-products company. “We manage ourselves like a pharmaceutical company,” remarked Mr. Zeien, the chairman of the company. “The people working on our toothbrushes are PhDs in polymer chemicals.” Like a drug company, Gillette had a product pipeline: the successor to the Mach3 was already being developed. It does better than the pharmaceutical industry on another measure: almost half of its $10 billion sales in 1997 came from products introduced in the past five years, more than SmithKline Beecham or Johnson & Johnson could boast. Mr. Zeien expected to maintain that, helped by more than 20 big products launched in 1998 alone.

MARKETING STRATEGY
Gillette’s marketing strategy was equally unique. The slower growth that scared Wall Street in 1997 was caused partly by Gillette’s decision to run down stocks of its Sensor and Atra shavers ahead of the week’s launch. While most rivals would consider this suicidal, Gillette used the strategy to ramp
up prices of new products. Mach3 would sell for around 35 percent more than SensorExcel, which itself was 60 percent more expensive than Atra, its predecessor. Duracell Ultra cost 20 percent more than a conventional battery. Mr. Zeien insisted that premium prices did not matter: “People never remember what they used to pay, but they do want to feel they are getting value for money.” Perhaps, but shavers might nick themselves at the thought of paying a hefty $1.60 a blade for the Mach3.

Gillette’s emphasis on refining the manufacturing process was much admired by management gurus. Few companies were as good at combining new products with new ways of making them. It gave the company a huge advantage over the competition. Three-quarters of the $1 billion spent on the Mach3 paid for 200 new pieces of dedicated machinery, designed in-house, which would chum out 600 blade cartridges a minute, tripling the current speed of production. This meant, according to Gillette calculations, the investment would pay for itself within two years. The fact that the company spent more on new production equipment than on new products was one reason why Gillette regularly hit its target of reducing manufacturing costs by 4 percent a year.

Another difference between Gillette and most other consumer-product companies was that it did not tailor its products to local tastes. That gave it vast economies of scale in manufacturing. Those were mirrored on the distribution side, where it usually broke into new markets with razors and then pumped its batteries, pens, and toiletries through the established sales channels. The impact

EXHIBIT A

Skinned Alive with Mach3 Gillette Company

Most men spend a few precious morning minutes reluctantly dragging a razor across their skin. Cuts and razor bum are all part of the raw deal as they scrape their faces up to 700 times per shave, chopping away 27 feet (8.2 meters) of hair over a lifetime. Scientists at Gillette’s “world shaving headquarters” in Boston had spent 15 years and $750m developing their latest response. Unveiled in New York on April 8, 1998, in a presentation worthy of a NASA space launch, complete with images of jet engines shattering sound barriers, the new razor had a name to match: Mach3.

Such high-tech allusions were appropriate. The Mach3 was covered by 35 patents, astonishing for something as commonplace as a razor. Its three spring-mounted blades were some 10 percent thinner at the tip than the two blades of its predecessor, Sensor-Excel. They were toughened with diamond-like carbon from the semiconductor industry and this was bonded on to the steel with niobium, a rare tin alloy normally used in superconducting magnets. John Bush, vice-president of Gillette’s research and development, likened the reduced drag to cutting down a tree with an ax rather than a wedge. Since irritated skin was the shaver’s main complaint and most men blamed their razors rather than themselves for cuts and rashes, this looked like a genuine improvement.

There was, boasted Gillette folk, another bonus: productivity. Each stroke with the new razor took off around 40 percent more stubble than before. Imagine 40 million working American males saving one minute a day this way. That could add up to 7 million working days a year—assuming they did not dawdle over breakfast instead.

Of course, all this innovation came with a catch. Gillette expected customers to pay almost $7 for a Mach3 with two spare blade cartridges—a 35 percent premium to SensorExcel, currently the priciest razor on the market. The company had a successful history of persuading shoppers to trade up. However, it risked arousing the same complaints as Microsoft, whose customers grumbled about the relentless cycle of software upgrades they had to make. Shavers could slice through stubble just as easily if they only soaked their chins in hot water for two minutes first. That changes whiskers from inflexible copper wire to the pliability of aluminum. The Mach3 offered a state-of-the-art shave, but for the cost-conscious a hot shower and a plastic disposable might be just the thing.
on margins was dramatic: the company’s operating margin, currently a fat 23 percent was rising by a percentage point a year.

Gillette’s products obviously had global appeal. In 1997, 70 percent of the company’s sales were outside America. More than 1.2 billion people now used at least one of its products every day, compared with 800 million in 1990. The company had sliced into developing markets: it had 91 percent of the market for blades in Latin America and 69 percent in India, measured by value. It would love to shave China, too, but the trouble there was the Chinese beard, or lack of it. “If they shake their heads, they don’t need to shave,” commented a Gillette executive. Gillette might, therefore, rely on the Chinese passion for gadgets such as pagers, and lead its push into that market with Duracell.

FUTURE PERSPECTIVES

The biggest question concerning Gillette’s future was not technical but human. Much of the company’s recent success must be put down to Mr. Zeien. When he took over, Gillette’s name was on everything from sunglasses to watches to calculators. He forced a focus on a few world-leading products. However, he was now past normal retirement age, and had been persuaded to stay on the board for another year with the lure of new stock options. Investors worried about his heir-apparent, Mr. Hawley, who was 60 and had a very different management style. Compared with the clear-thinking, strategic Mr. Zeien, whose ability to communicate had been a hit on both Wall Street and in the company, Mr. Hawley came across rather as a strong operational manager.

Mr. Hawley acknowledged their different styles. “Al is an architect first, then a builder; he has a new concept, and then worries about how to make it work. I would flip it for me. My experience has been building and expanding. I see myself as a catalyst, helping to make something new from what we have.”

But Gillette’s global sensibilities were ingrained in the culture. This was not a cult of personality, but the new shaving system, with so much invested in it, had to prove a success.