

BANG & OLUFSEN

THE CASE 2008 | FULL VERSION

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On behalf of CBS Case Competition 2008 the case writers wish to thank

Bang & Olufsen A/S

Interviews

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Carsten Sander, Senior Director Scandinavia and Baltic, B&O
Flemming Møller Pedersen, Senior Director, Idea Factory, B&O
Flemming Nielsen, Sales Director, Enterprise, B&O
Henrik Messel, Senior Director, Technology and Platform, B&O
Kasper Eis, Director, Global Marketing, B&O
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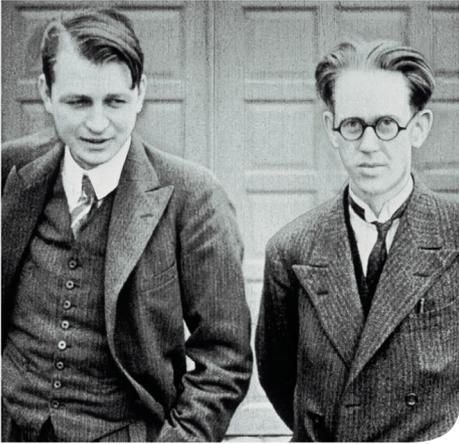
Bang & Olufsen: In a Time of Strategic Change

The members of the Board of Directors and the management team met early one morning as they were entering the headquarters of Bang & Olufsen (hereafter B&O). They were on their way to a series of crucial meetings that would determine the future strategy of B&O. Twelve consulting teams were each to present their views on the company's future.

B&O is one of the most exclusive consumer electronic manufacturers in the world, focusing on audio, video, and telecom products as well as digital media and car-fi.

In the 1990s B&O was near bankruptcy whereas today its value is approximately EUR 550 million (enterprise value). In the last five years much attention has been paid to costs and the company's overall development has been positive. But signals now seem to indicate that a new strategy is needed.

On their way to the meeting room the leaders walked through the lobby of the Farm – as the headquarters is called – and discussed both the company in general and certain ideas and perspectives of their own.



BACKGROUND

B&O was founded on November 17, 1925 by two innovative engineers, Peter Bang and Svend Olufsen. It quickly became well known for its high-quality production of radio receivers, loudspeakers, amplifiers and gramophones. In 1952 B&O marketed its first television set.

When Denmark joined the European Free Trade Association (EFTA) in 1960 B&O began moving seriously into the export markets. In 1960 exports amounted to only 4.5 % of total turnover but thereafter grew rapidly, rising to 62% of total turnover by 1977. Between 1962 and the early 1970s the company grew from 700 to 3000 employees and four new factories were built in the municipality of Struer. During the 1980s B&O continued its expansion abroad, building up a global network of subsidiaries.

Despite substantial growth, B&O did not dedicate sufficient attention to profitability and with intensified competition from Asian low-cost producers the company faced a difficult time. In 1992 it almost came to a halt, but aided with cash from (among others) its supplier Philips, B&O managed to revitalize itself. The new strategy included cuts in capacity and non-core activities and new methods of distribution. In order to

strengthen its image B&O started to sell its products through exclusive retail outlets, so that the company's products would no longer appear side-by-side with mass-market goods. In 2001, Torben Ballegaard Sørensen, the former executive vice president of LEGO, became the CEO of B&O. Since 2001 B&O has shown reasonable growth, improved profitability, and initiated new areas of business. In January 2008 Torben Ballegaard Sørensen left B&O and the company is currently¹ without a CEO. After the announcement of the Interim report for the period 1 June - 30 November 2007 B&O shares dropped by 28% due to lower than expected growth and profitability.

CULTURE

B&O has an open approach to organizational structuring. Though there is little focus on organizational charts the structure of B&O can be described by a matrix-organization with a grid combining functional areas and product areas (see appendix A).

From its Scandinavian roots B&O has developed a culture of low power distance and decentralization. Meetings are seen as instruments for collective problem-solving and there is a natural ability to balance different viewpoints and functions. For B&O "ideas" are critical to survival and the innovative process is taken seriously. Considerable power is given to designers and the company strives to maintain high standards in analysis, thought and action. With its headquarters in a small village in Jutland, B&O lays emphasis on both reflection and memory, duly marking important milestones in the company's history. While employees at B&O are generally proud of the company's heritage, the culture of B&O is influenced by the "Jutland mentality": the idea that it is better to understate and then surprise positively than vice versa. Approximately 90% of the employees at B&O are shareholders and the retention rate is generally high.



PRODUCTS

B&O products are made to fit in at the place where people feel at home. The product range today includes acoustic, audio, video, plasma, telecom, gift items/accessories (see appendix B), as well as the business areas Automotive, Enterprise, ICEpower and Medicom².

In addition to these product groups B&O has developed a concept called BeoLiving, where the very high-end products are displayed in a separate room in approximately 140 selected shops. The overall idea behind BeoLiving is to provide “the total package”, including a broad integrated product range and outstanding service, to wealthy individuals. BeoLiving is not a separate business unit, but is included in the respective product groups.

Common to the manufacture of all B&O products is the philosophy that they should provide:

1. Unique experiences
2. Relaxation
3. Comfort and stability
4. Uncomplicated solutions, ‘make life easy’
5. Tranquility and longevity

To achieve this B&O carefully selects features, uses mature and reliable technologies, and thus

creates a long life-cycle with seamless integration between products. Historically, a typical B&O product stays in the market for a period of ten years³. This approach contrasts sharply with that of most audio/visual manufacturers, who often seek to maximize the number of features in non-integrated products and to use bleeding-edge technologies. All B&O products can be fully integrated (BeoLink) and controlled via the same remote control (Beo4 or Beo5). The difference between B&O and mainstream technology manufacturers can be captured in essence as the difference between the statements “less is more” and “more is better”.

2 : Medicom is not a core business area and 65% of the shares have recently been sold. 10% of ICEpower is owned by the inventor.

3 : The technology, however, is updated regularly.



PRODUCT DEVELOPMENT

Compared to that of most producers of consumer electronics, B&O's approach to product development and design-driven innovation is unconventional. Approximately 20 concepteurs work together with three to four active designers in the division Idea Factory, where concept development takes place. The designers are given a high degree of autonomy and power over product development to ensure that aesthetics, ease of use, and technology go hand in hand. In order to prevent designers from being unduly influenced by other parts of the business they are hired as external consultants, but are not paid royalties (i.e. B&O owns the design). B&O keeps a close relationship with approximately ten designers who have worked for the company for years. David Lewis, who has been working with B&O for more than 40 years, is the lead designer.

In the concept development phase, there are typically 15-20 projects in progress of which three to five are in the final stage. B&O tries to anticipate its core customers' way of life four to seven years ahead. Together with a technology radar (overview of expected future technologies) and portfolio planning, this customer understanding provides background information for the creative process. The process is carried out with three important conceptual factors in mind: go the "extra mile" to reach genuine synthesis,

hold on to the core idea of ease and simplicity, and take a long-term customer perspective.

From this intuitive and semi-irrational process a project reaches the first go/no-go gate, "Concept Commitment". If the project gets past this gate, which might take anywhere from three months and up, it enters a semi-structured phase in which a project group, mostly consisting of people from product development, work as a multi-functional team on getting the product specifications correct. The project then reaches the next go/no-go gate, "Specification Commitment". This involves giving detailed, well-documented product specifications which - if accepted - are then "frozen". From this gate the project enters a structured process that addresses the manufacturing paradigm. A firm time estimate is set for the product to be released for production and later sale. The process from "Concept Commitment" to launch typically takes around 15-24 months (see exhibit 1).

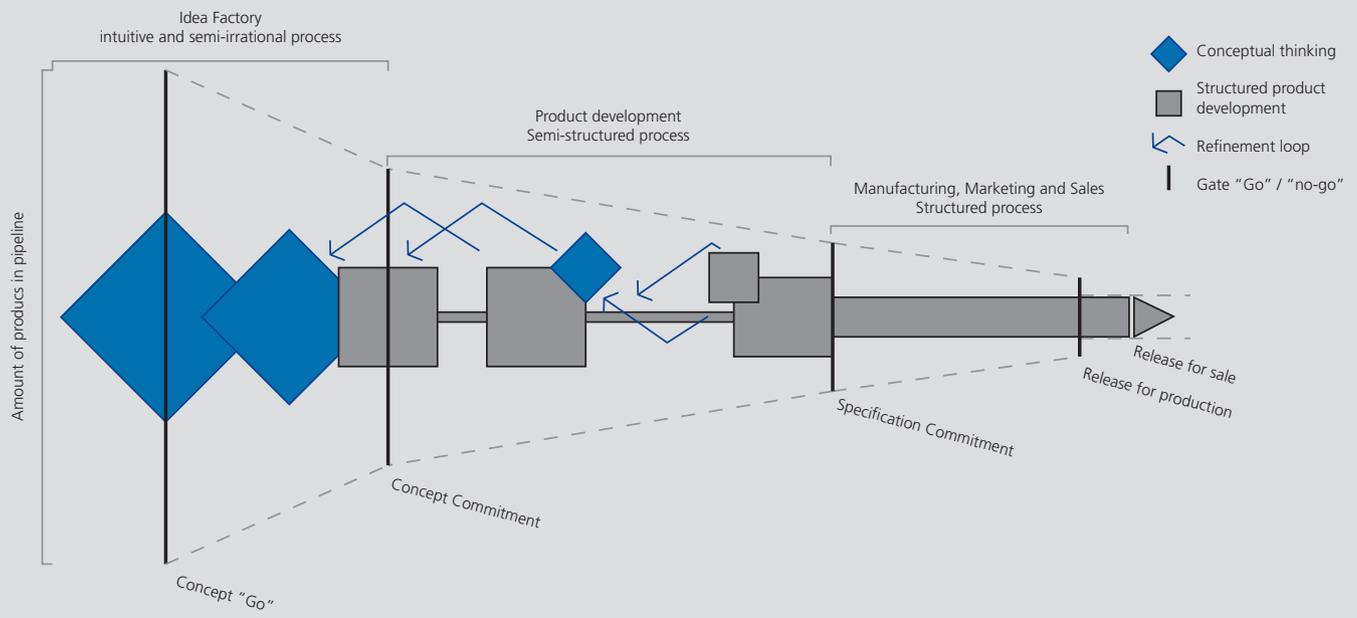
Concept development is mainly carried out at the headquarters; thereafter, detailed technological processes are sourced to partners. In the global consumer electronics industry B&O is a small company and it sometimes joins forces with partners to carry out projects. For example, in the partnership with Samsung B&O focused on its core skills within acoustics, project management

and design whereas Samsung contributed with competencies within for instance Turbo 3G technology.

The ambition is that three-five new products will between them generate over EUR 120 million annually. However, it is difficult to define a new product, since for instance the technology in a TV is changed several times in the lifetime of the design.



Exhibit 1. Product development at B&O



Source: B&O



MARKET

B&O is in a niche market that is difficult to define. It may not be optimal to compare it directly with the traditional consumer electronic manufacturers, since they target different segments and their manufacturing processes also differ from B&O's. B&O regards itself as the only company currently bridging the gap between design and consumer electronics. For this reason B&O and analysts following the company often benchmark its performance against that of luxury manufacturers even though their products are dissimilar. When asked about the Nordic market, Carsten Sander (Senior Director Scandinavia and Baltic) says that "people normally have to decide between taking a vacation to some exotic place abroad, renovating their homes, upgrading their car etc. or buying one or more B&O products". Alberto de Lucio (Head of Bang & Olufsen Southern Europe) confirms that the buying criteria are roughly the same in the southern part of Europe. Kasper Eis (Director, Global Marketing) elaborates that "outside the Danish market B&O is perceived as being even more high-end".

Just as it is difficult to define B&O's market, so its competitors are hard to define - or, to put it another way, the company has a very large peer group. Thus its competitors include not only all the manufacturers of luxury goods

and of consumer electronics, but providers of home improvements products and other manufacturers with a strong brand as well.

The global consumer electronics market is expected to be worth approximately EUR 160 billion in 2011 and the growth until 2011 is expected to be 5% CAGR (compounded annual growth rate) in Europe, 6.8% in North America, and 7.8% in Asia⁴. The overall global split among products is approximately 70% video products, 20% audio products, and 10% games consoles. According to the above survey the European market constitutes 30% of the global market. Another survey estimates that the European consumer electronics market amounts to a total of EUR 26.1 billion, split among televisions (19.7), DVD players (3.3), video recorders (0.2), and stereo systems (2.9)⁵. From 2005 to 2006 the European television market grew by 30% in terms of value and 6% in terms of volume, a growth driven mainly by the large sales of LCD TVs (97% growth to a total value of EUR 12.9 billion). Video recorder sales dropped by 45%, whereas DVD players and stereo systems dropped by 14% and 8% respectively⁵.

Overall there is a tendency in the consumer electronics market towards increasingly rapid product development (including information

technology) leading to shorter lifecycles.

Moreover, the market increasingly focuses on product integration and design, a trend exemplified in Apple's success with designed and easy-to-use products and Samsung's focus on design.



CUSTOMERS

B&O's customers can be divided into three groups. The first is the "Custom Business" segment, which consists of the most loyal B&O ambassadors who over a lifetime purchase products worth more than EUR 60,000. This segment accounts for 10% of total revenues, but it is the smallest in terms of number of customers. The second segment, known as "Core A&V Experiences", accounts for 80% of the revenues. The customers in this segment spend EUR 2,000 - 60,000 on B&O products in a lifetime. The number of customers in the second segment has declined slightly. The third and last segment is dubbed "Gift & Entry", and consists of customers who spend less than EUR 2,000 in a lifetime. The gift & entry segment is the largest of the three segments in terms of number of customers.

Lars Flyvholm (Director, Product and Business Management) explains the importance of having products in the lower price range in order to attract customers: "However, we face a challenge in converting customers from the gift & entry segment to the higher spending segments as well as cross-selling to existing customers". Elaborating on the different segments, Lars Flyvholm goes on to explain that the goal is to increase the number of customers by 50% in the custom business segment, and by 10-20% in the core A&V experiences and the gift & entry

segments. One initiative taken to reach this goal is the implementation of an extensive CRM system, which is now fully operational. Changes in lifestyle have also affected the sale of B&O products; for instance, the fact that an increasing number of people live as singles results in more square meters per person, and therefore more B&O products per person as well, says Flemming Møller Pedersen (Senior Director, Idea Factory).

A new area of business is Automotive: B&O now supplies audio to Audi, which is expected to produce a total of approximately 500,000 cars per year. B&O audio is available for the Audi A8, S8, R8, Q7, A5, S5 and A4. In December 2007 B&O also entered a creative and strategic partnership with Aston Martin. Aston Martin and a third partner is expected to be announced in 2008.

B&O's products are price inelastic, and this inelasticity is what defines luxury goods. However, B&O prefers to call its products 'high-end products' or 'high value-added products' rather than 'luxury goods'.

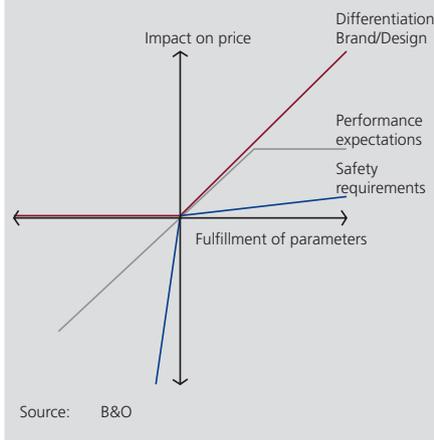


BRAND

“When buying a B&O product you buy an experience” explains Flemming Møller Pedersen, and Lars Flyvholm continues: “We are in the business of creating goose bumps”. But in order to charge a high price the underlying technology of course has to be of high quality and it is not possible to maintain a high brand value by focusing only on design: “If people regard B&O products as mainly design products this may pose a problem, because if you’re spending EUR 10,000 on a TV it’s important that the technology is very good”, says Lars Flyvholm. In general three parameters must be fulfilled if you want to charge a high price: safety, performance, and differentiation (see exhibit 2).

Judging from product reviews in tech-magazines etc., B&O’s technology is among the best in its class. Similarly, in customer surveys design scores high (see appendix C), but the scores for technology are “not as high as one could wish”, says Kasper Eis. Denmark is B&O’s largest market, which is also reflected in both aided and unaided brand awareness. In terms of brand awareness, the other Nordic countries and central Europe follow Denmark. Of the countries included in the survey, the USA and Australia show the lowest brand awareness of B&O (see exhibit 3). B&O spends approximately EUR 50 million on marketing per year.

Exhibit 2. Three parameters must be fulfilled to charge a high price



B&O’s brand plays an important role in connection with partnerships, since the brand improves B&O’s bargaining power. Likewise, when another company approaches B&O its brand value is a key criterion in deciding whether or not to enter collaboration (i.e. whether co-branding will be beneficial to B&O). B&O has worked with Samsung to develop the cell phones Serene and Serenata. In this partnership Samsung undertook most of the product development phase due to its larger capacity. B&O contributed its ICEpower technology, thus creating a phone with a world

class sound experience. B&O also contributed to the design and specifications and provided added brand value. B&O has had other partnerships, working for instance with Louis Vuitton to develop leather cases for BeoSound 2 and Serene, and with NASA to develop touch screens (this technology is currently used in Beo5). Currently it has no partners downstream in the value chain, although shops-in-shops might be categorized as co-branding. But if B&O is to benefit fully from such alliances, the shops in question must be upscale outlets - which not all of them currently are. See appendix D for a simplified value chain.

B&O is also branded through exclusive hotels and a positive future development from the business unit Enterprise is expected. With B&O’s current presence in more than 200 five-star hotels around the world more than 1.3 million hotel guests hold a Beo4 or Beo5 remote control in their hands every year. Flemming Nielsen (Sales Director, Enterprise) says that “this creates an enormous potential for B&O as the guests at exclusive hotels are ‘spot on’ in relation to B&O’s target group. Our surveys show that almost everybody turns on the TV or listens to music when in a hotel – and I cannot think of a better setting to brand and demonstrate our products”. And Flemming Nielsen continues: “In general this is a huge untapped market with good margins”. 75% of Enterprise’s sale is generated from TVs and the rest mainly from audio products. 80% of revenues

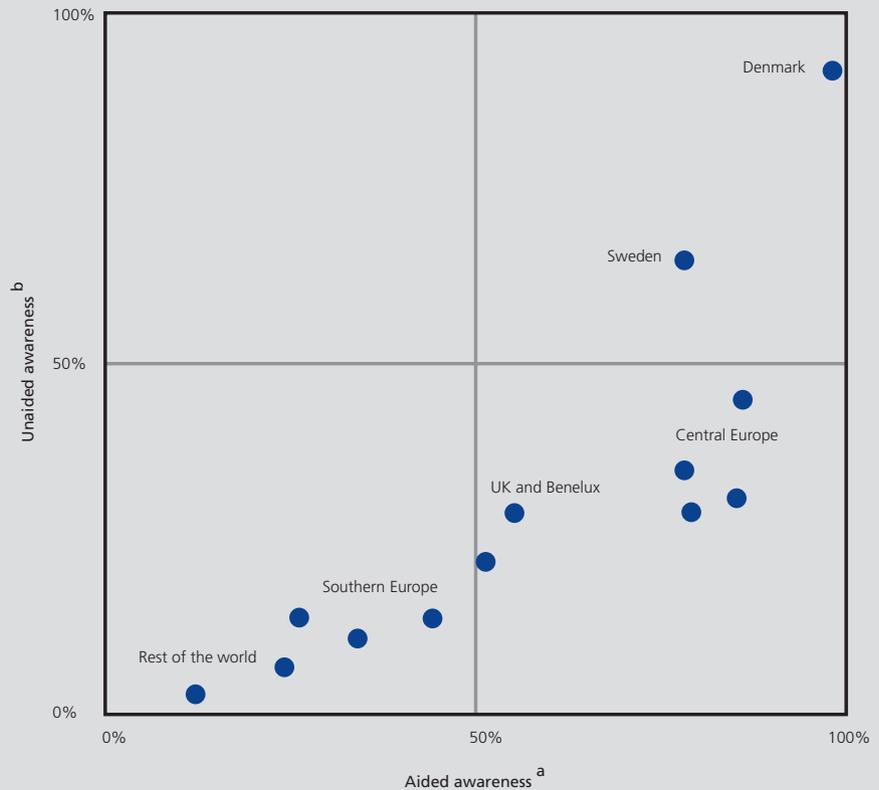


are generated in Europe but the highest growth is currently in the Middle East and Asia Pacific.

The fact that B&O is a Danish brand does not matter much in terms of brand value. Peter Thostrup (Executive Vice President) explains that “customers rarely know that B&O is from Denmark. However, ‘made by Bang & Olufsen’ is an important selling point”.

Looking beyond B&O, many companies have tried to diversify their product portfolio – some more successfully than others. B&O is therefore very cautious when it comes to stretching its brand. When looking at opportunities the main criterion is that new products should match B&O’s competencies as well as fulfill the five product characteristics mentioned above. Examples of companies that have successfully extended their brands are Gucci, Cartier, Bulgari, Armani, and Prada, whereas examples of historic failures are Lacoste and Pierre Cardin.

Exhibit 3. B&O brand awareness



Source: Based on an IUM survey
 Note: Percentage of consumers aware of B&O
 a) Question asked: “Which of the following radio/TV brands do you know?”
 b) Question asked: “Which high quality radio/TV brands do you know?”



MANUFACTURING

B&O's products are mostly made to order, i.e. based on customers' specific choices. This limits the inventory both at the factory and at the dealers. Generally, the aim is that products will be delivered within five days in Europe, with up to ten days allowed for more complex products. In the run-up to product launches a certain amount of inventory has to be carried in order efficiently to meet demand. Only smaller items such as phones, ear-sets and other gift-items are regularly manufactured to stock. Since the buying process is normally relatively long for the top products, the fact that customer demand cannot be met instantly is not considered a problem.

B&O manufactures most of its products at its headquarters in Struer, though some (mainly within acoustics) have been transferred to B&O's factory and product development facility in the Czech Republic, which opened in 2006. "We outsourced some of the production due to lower costs. Quality is extremely important to us, and has also of course been a key decision criterion. The factory in the Czech Republic meets all our high standards", Peter Thostrup explains. External suppliers are increasingly used for manufacturing components and a few finished products are also made by external suppliers. B&O focuses on keeping core DNA activities in-house, then outsources standardised and repeated processes.

Peter Thostrup explains that "a company and its values must have a centre of gravity and some DNA that is to be safeguarded – and at the same time one has to globalize as much as possible". He continues: "B&O's DNA is a culture of combining core and process competencies to create breakthrough and excellence beyond expectation."

With increased technology clock-speed over the last decade the requirements in terms of flexibility and level of skill have risen. B&O focuses on meeting these trends by transforming current processes at Struer into global networked sourcing and collaboration processes. "We use sourcing more and more due to capacity constraints, costs and flexibility", says Henrik Messell (Senior Director, Technology and Platform).

Besides the facilities in Struer and the Czech Republic, B&O has development partners/facilities in Estonia, India, South Korea and Taiwan and manufacturing partners/facilities in Romania, Taiwan and Malaysia. The recently-introduced BeoVision 8 is an example of B&O's ability to source, as the TV is produced in collaboration with a partner in Taiwan. In sourcing to lower cost countries B&O selects only a few partners and carries out frequent quality checks to ensure that its high standards are met.



DISTRIBUTION

Distribution has been a much-discussed topic in the history of B&O. Different approaches have been tried, but it seems that the optimal strategy is yet to be found.

In 1992 B&O redefined its distribution strategy to focus on exclusive channels, so that B&O products would no longer appear among mass-market products. Now the set-up is based on two elements: first, fully-dedicated B&O stores (B1 stores) and, second, shop-in-shop solutions, primarily in consumer electronics stores. 79%

of the retail sales are generated through the 809 B1 stores. The majority of the B1 stores are authorized dealers but B&O also owns B1 stores in Australia/New Zealand (15), the USA (5), the UK (5), Spain (5) and France (2). The remaining 21% of the revenue is generated through mainly shops-in-shops in areas where the size of the local market does not yet justify setting up a B1 store and/or a strong multi-brand store has already established a good and loyal customer base. The goal is to open net 50 new B1 stores per year. To service the dealers B&O has approximately 60 regional development managers (RDM) who

are employed in 7 national sales organizations (NSO). Initiatives and marketing campaigns are typically created at the headquarters in Struer and distributed to the NSOs, which commercialize the initiatives and then redistribute them to the RDMs, who in turn pass them on to the dealers (see exhibit 5). Partly due to the many steps in this process, the quality of implementation by authorized dealers varies significantly. This may be one of several reasons for the differences in performance figures among them.

Exhibit 4. B&O stores worldwide with examples of five specific markets

	B1	SIS	Other ^c	Total
Europe	589	489	3	1,081
Hereof Germany ^a	78	111		189
Hereof Denmark ^a	51	117		168
Hereof UK ^a	101	21		122
Hereof Italy	67	29		96
Hereof Switzerland	26	80		106
USA	52	3		55
Asia Pacific	86	3	11	100
Expansion Markets ^b	82	3		85
Total	809	498	14	1,321

Source: B&O

a) Germany, Denmark and the UK are the three largest markets in terms of total number of stores

b) Expanding Markets include Eastern Europe, the Middle East, Africa, South America, Greece and Turkey

c) Other stores are multibrand stores with no dedicated Bang & Olufsen area



The challenge faced within the B1 distribution is to get to the point of sustained, broadly-founded growth (like-for-like)⁶ in a high proportion of the B1 stores, in addition to the growth derived from adding new stores. The growth in the past few years has been scattered, with roughly 50% of the stores stagnating or declining while the other 50% have managed to grow their business. This may also be seen in the fact that like-for-like growth was 4% in the first half of 2007/2008, whereas the total growth was 8% with net 32 new B1 stores opened. According to Torben

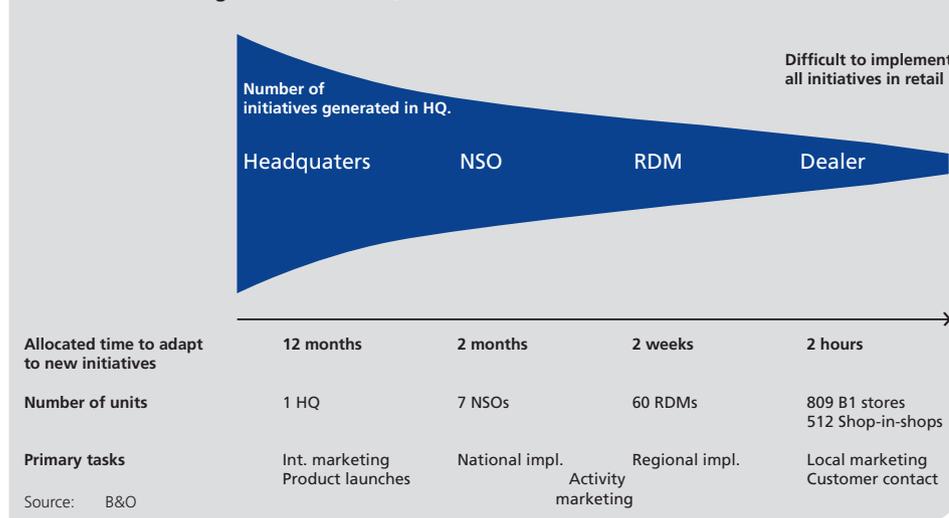
Ballegaard Sørensen, the former CEO, up to 90% of the difference in performance is due to self-induced factors such as enthusiasm at the dealership and the ability of the sales organization to communicate effectively with all parties, from headquarters to end user. The difference in performance has little to do with local macroeconomic differences, though of course the customers' buying power is essential. Geography may pose specific problems, as Carsten Sander explains in relation to Norway: "Many cities in Norway are located between the mountains and

these cities are too small to be serviced by a B1 store. As most people are not willing to drive to a larger city to buy a B&O product we face a huge challenge." See appendix E for a description of an ideal B&O store and appendices F and G for the regional structure in Europe as well as examples of support from HQ and NSO to the dealers.

A well-performing B1 store will usually have retail revenues above EUR 1.5 million. A B1 store has a mark-up of approximately 38% whereas a shop-in-shop has a 30-32% mark-up. In the first year of operating a new shop should preferably generate a wholesale revenue of at least EUR 0.5 million.

Other luxury brands follow a different strategy from B&O in that they own retail stores themselves. Although such a setup would give B&O closer control it requires heavy investment. B&O invests only a small amount in the shops since the system is based on franchises/authorized dealers. "An idea for the future, however, could be to own a few flagship stores to set an example for our dealers to follow", says Peter Thostrup. When it entered the US market B&O set up its own retail organization, but this never became a success because the organization was not geared to the task – or it lacked products tailored to the US market. In Australia B&O now owns all its retail stores as a result of a turn-around plan for the continent. So far this has been a success.

Exhibit 5: Marketing Process from HQ to Retail

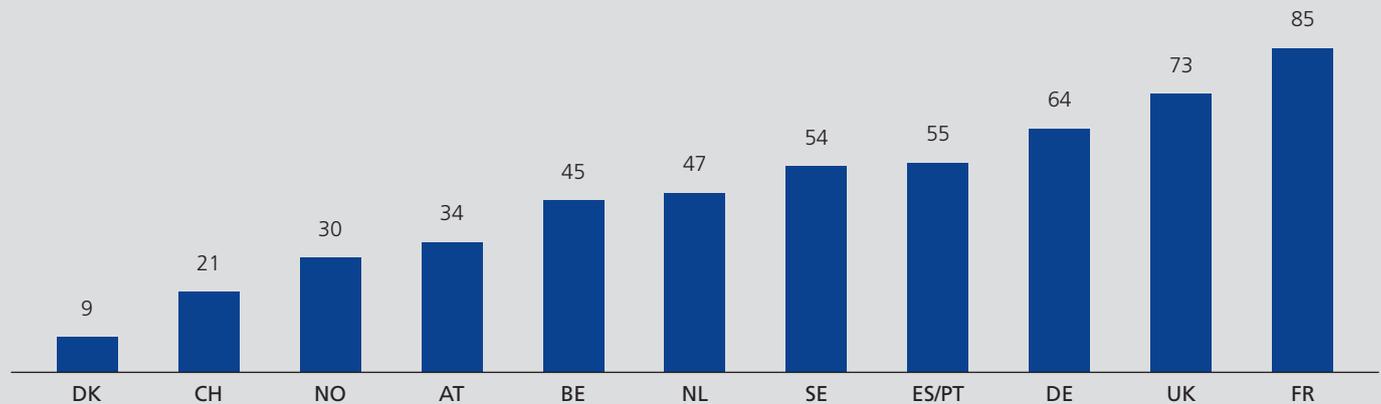




Geographically, the sales of B&O are highly concentrated in the European market, which accounts for more than three fourths of total sales. B&O still focuses on developing its European market due to continuous potential combined with the fact that there is a leverage effect in the European market – a small improvement in sales has a large impact on overall profitability. Today the US accounts for 6% of total sales. Asia accounts for 8% and seven years from now it is estimated that this figure will still be relatively low at around 12%.

For logistical purposes B&O has set up a distribution centre in Herning, Denmark. Calculations show that this location is optimal for the expected future geographical distribution. In general, B&O makes strategic decisions with a seven-year horizon and investments are normally undertaken only if the payback period is less than three years. "In an ideal world it would, of course, be optimal to undertake projects with a longer payback period, but B&O is a publicly traded company with resulting pressures from the market," says Peter Thostrup.

Exhibit 6. Potential customers ('000) per store



Source: Based on an external advisor's survey
 Note: Only indicative



FINANCIALS

In 2006/07 B&O's total revenue was EUR 570 million⁷. Denmark is B&O's largest market with revenues of EUR 88 million. Germany and the UK are the second and third largest markets respectively (see appendix H-J). Denmark is the most profitable market and the UK the second most profitable. In general markets with revenues below EUR 15 million are less profitable, whereas those with revenues of EUR 15-25 million are acceptable, and markets with revenues above EUR 25 million are the most profitable due to advantages of scale.

During the last couple of years B&O has focused on getting profit margins up by cutting costs and improving the business model. The EBIT margin for 2006/07 was 12.1%. There is a significant leverage effect to be capitalised, as Peter Thstrup explains: "In order to improve margins further it is essential to focus on increasing sales - especially like-for-like growth." The general trend towards lower component prices will not have any effect on B&O's margins, since the company upgrades the technology in its products or adds new integrated features rather than reducing prices. B&O's margin is lower than that of many other manufacturers of luxury goods, almost all of which have EBIT margins above 15%.

Exhibit 7. Revenue and profitability split on products

	Percentage of revenue ^a	Trend ^b	Gross margin compared to average	EBIT margin compared to average
Average			46% ^c	12%
Audio	16%	↘	Higher (60%)	Higher
Acoustic	28%	→	Higher (70%)	Higher
Video and Plasma	42%	↘	Lower (40%)	Lower
Telecom	6%	↗	Average (n/a)	Lower
Automotive ^d	2%	↗	Lower (n/a)	Lower
Enterprise	2%	↗	Lower (n/a)	Higher
ICEpower	3%	↗	Higher (n/a)	Higher
Gift and accessories	2%	→	Lower (n/a)	Lower

Source: B&O

Note: Fiscal year 2006/07

Note: Some products include components from more than one segment. TVs for instance are represented in both acoustic and video.

a) Rounding error

b) Expected future share of revenue. See also appendix I

c) Including depreciation (excl. depreciation: 55%). The comparison is made on an after-depreciation basis.

d) Numbers in parentheses are approximate numbers

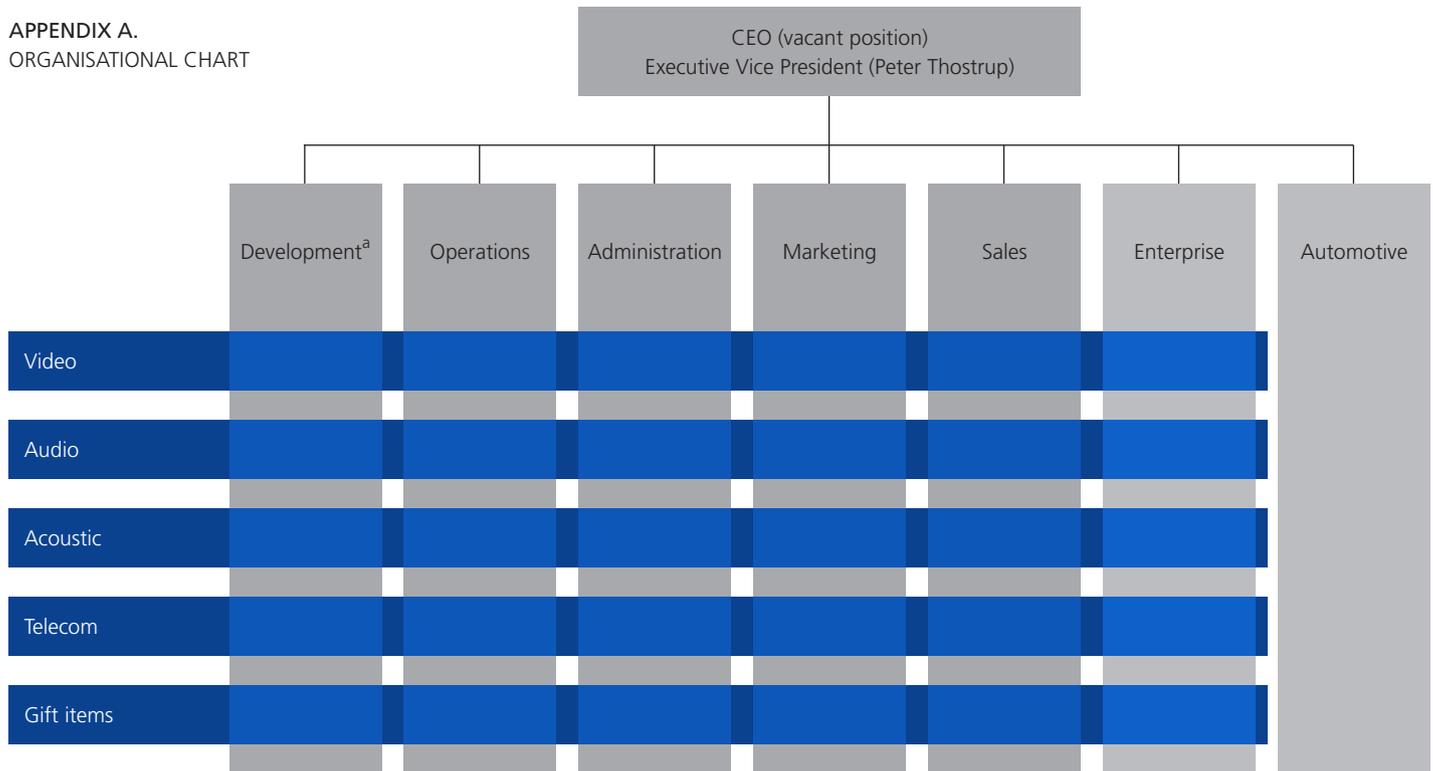
d) New business area and profitability is expected to improve significantly after heavy up-front investments

The product mix has a significant effect on the margins. The video products which make up most of B&O's revenue have margins lower than the B&O average (see Exhibit 7). Furthermore, it seems to be more difficult to generate profits in the accessories segment than in really high-end

products. But accessories constitute an important entry point for attracting new B&O customers, and Peter Thstrup says: "We must not end up in a 'Rolls Royce situation' where we only sell very high-end products with low sales volume and high dependence of a few sales".

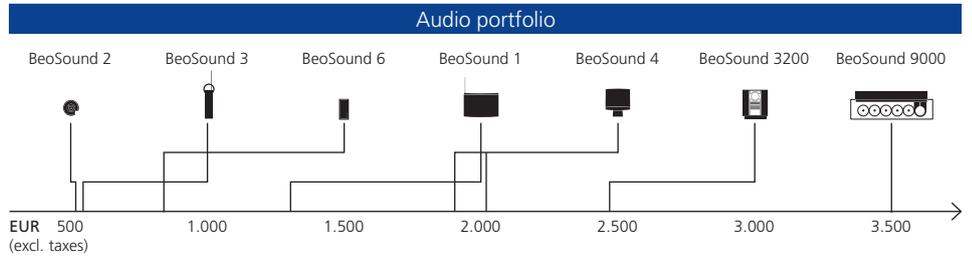
As they approached the boardroom where the twelve meetings were to take place the members of the Board of Directors and the management team wrapped up their discussion. In a short period of time they had discussed the entire business, covering the whole value chain from idea to customer. Many different views and angles emerged and they could have gone on for hours discussing the current situation and various potential future strategies. But now the time for external input had come in order to ensure that the optimal strategic direction for the future of B&O was set. As they entered the room everybody in the group of leaders was excited and really looked forward to getting valuable insights and novel ideas for taking B&O from what they believed to be an excellent platform to excellence².

APPENDIX A.
ORGANISATIONAL CHART

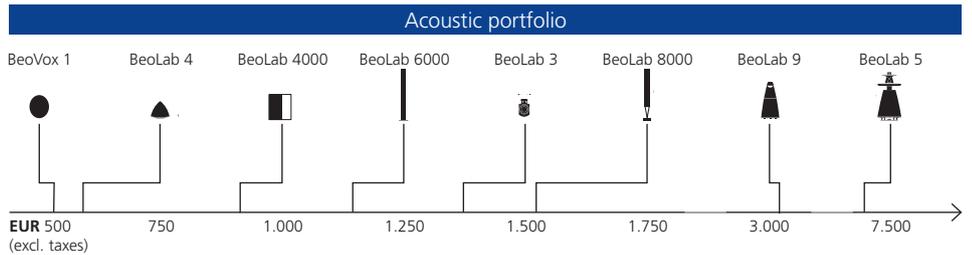


Note: This is a simplified organisational chart, i.e. not the official organisational chart
 Note: In addition to the above chart B&O owns 35% of Medicom
 a) Product and Business development

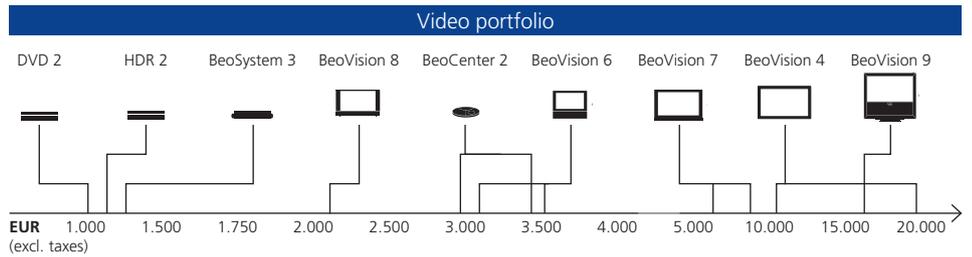
APPENDIX B.
PRODUCTS AND PRICE RANGE



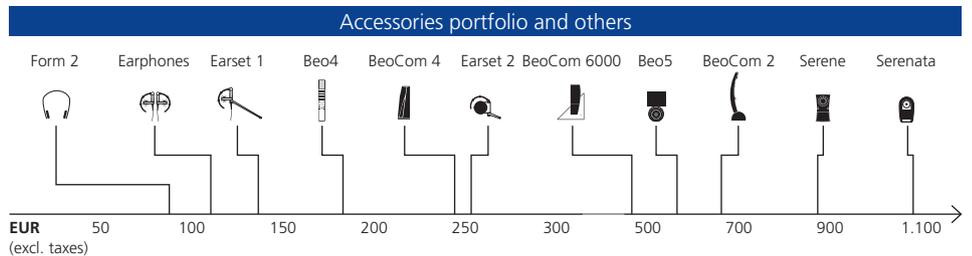
BeoSound 4 is the product with the highest turnover in the audio segment



BeoLab 3 is the product with the highest turnover in the acoustic segment

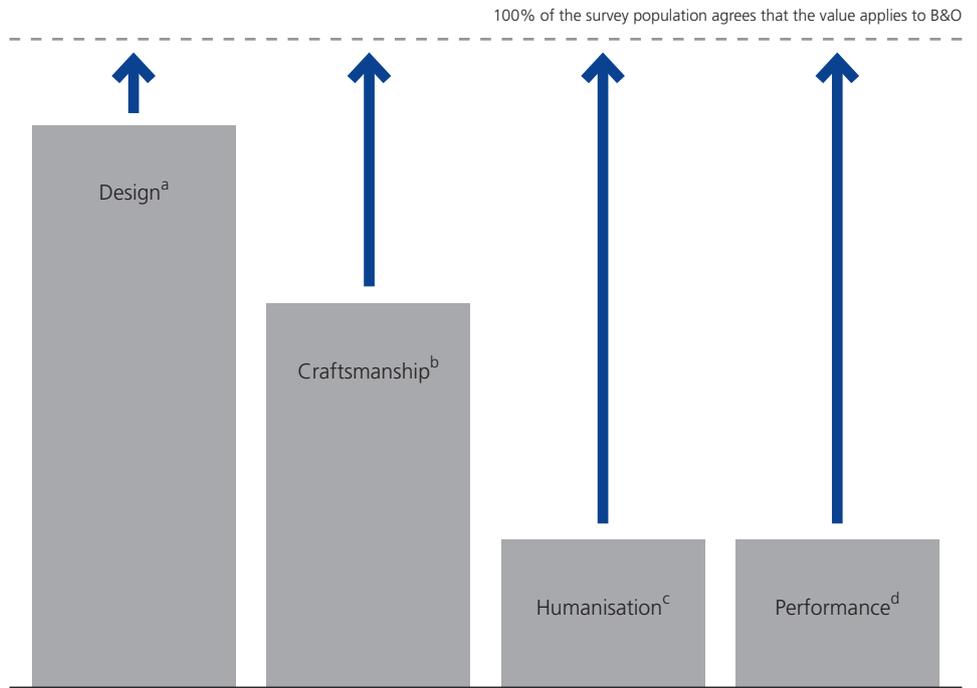


BeoVision 7 is the product with the highest turnover in the video segment



BeoCom 6000 is the product with the highest turnover in the this segment

APPENDIX C.
CONSUMERS' PERCEPTION OF B&O
IN TERMS OF THE FOUR VALUES

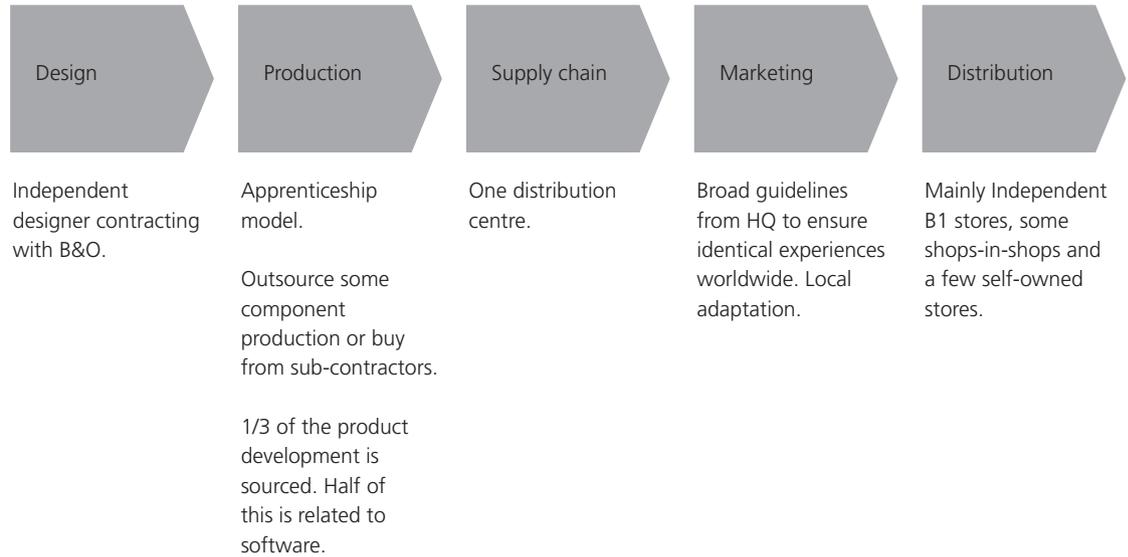


Source: Based on an IUM survey

Note: Representative for all markets

- a) For B&O, design is far more than mere styling of existing products; rather, it is the expression of an idea, the concept made conscious. In this sense, design unites aesthetics and function, creating unique, highly differentiated products that are not limited by the time of their creation or the space in which they are placed
- b) Viewing and listening experiences that continue to surprise and delight every time you watch television or listen to music, and technology that works for you, not the other way around; that is why B&O is all you ever will need or want for your home entertainment
- c) Designed to be a part of the home and give pleasure, B&O's audio and video products offer the opportunity for you to personalise your viewing and listening spaces. Our products speak one language, offering home integration on your terms, where you interact close up by touch, or sit back pleasurably with the Beo4 remote control.
- d) The quality of finish and craftsmanship of a B&O product encourages you to approach and touch. Our uncompromising attitude to quality is the reason we create products and experiences of real and lasting value, with a quality that is much more than is expected

APPENDIX D.
SIMPLE VALUE CHAIN



Source: B&O

APPENDIX E.
THE 'IDEAL' B1 STORE

B1 stores are usually owned by financially independent retailers. However, a small proportion are owned by Bang & Olufsen

Physical aspects of the ' ideal' B1 store

- High street location
- More than 100 m2 sales area
- Min. 3 sales staff/store manager
- BeoLiving area/room
- Most recent store design – including focus panel walls
- Window + in-store campaign materials implemented

Turnover/profit of the ' ideal' B1 store

- Above EUR 1.5 million retail value turnover – enabling a minimum profit ratio of 5% (having already paid the participating owner's salary).

Skills of the ' ideal' B1 store owner

- Preferably participating in daily business.
- Good understanding of business fundamentals: budgets, cash flow.
- Business drive/ambition to move forward.
- Networking skills within a variety of communities – acknowledging the fact that business also has to be sought outside the store itself, and within both "normal" consumer sales, the field of large installation sales and in the B-2-B area.
- Capabilities as salesperson, coach, operations manager, sales manager

Skills of the ' ideal' B1 store staff

- Well trained in the art of selling, understanding the phases of the sale.
- Conversant with the strong suits of the Bang & Olufsen brand and products, able to build trust to create a lasting relationship + encourage positive word-of-mouth extension of customer base.
- Able to adjust to different kinds of customers.

Source: B&O

APPENDIX F.
REGIONAL STRUCTURE IN EUROPE

The commercial responsibility for almost all markets in Europe is concentrated in 4 regional areas as specified below.

Region Scandinavia: **Denmark**, Norway, Sweden, Poland, Estonia, Latvia, Lithuania

Region Central Europe: **Germany**, Switzerland, Austria

Region South: **Spain**, Portugal, France

Region West: **U.K.**, Netherlands, Belgium

Note: The regions are organized from the country written in bold.

Note: Italy is the only European market that is not currently part of a regional structure

Source: B&O

APPENDIX G.
EXAMPLES OF SUPPORT FROM HQ
AND NSO TO THE DEALERS

- Retail elements, products, merchandising standards, windows, and in-store graphics.
- Catalogues, product brochures, generic mailers, dealer ads etc.
- Training, e.g. introduction to B&O, selling skills, store management, marketing/CRM, and specific product/systems training. The majority of the product training is offered in the form of e-learning courses.
- Specialist help as needed, e.g. on-site training, help in recruitment, specific marketing advice, and financial advice.
- Building of the brand through primarily ads and PR activities.

Source: B&O

APPENDIX H.
FINANCIALS

Profit and loss account - Group (EUR million)	2006/07	2005/06	2004/05	2003/04	2002/03
Net turnover	583	563	499	481	530
Of which in foreign markets as a % of above	85	82	82	83	81
Operating profit	71	59	50	45	39
Net financials	-2	-1	1	0	-1
Result before tax	70	57	51	45	39
Result for the year	50	39	35	35	25
Balance sheet - Group (EUR million)	2006/07	2005/06	2004/05	2003/04	2002/03
Total assets, end of year	395	389	371	363	343
Share capital	16	17	17	17	18
Equity, end of year	224	232	229	220	207
Investment in tangible non-current assets	-21	-25	-16	-18	-18
Key figures – Group	2006/07	2005/06	2004/05	2003/04	2002/03
Number of employees at year-end	2,520	2,422	2,331	2,339	2,636
EBITDA, EUR million	105	89	82	83	75
EBITDA-margin, %	18	16	16	17	14
Profit ratio, %	12	10	10	9	7
Return on assets, %	21	20	18	16	13
Return on invested capital, excl. goodwill, %	51	52	48	42	36
Return on equity, %	22	17	16	16	13
Current ratio	1.9	2.4	2.5	2.7	2.6
Equity ratio, %	57	60	62	61	60
Financial gearing	0.0	(0.1)	(0.3)	(0.1)	0.0
Net turnover/Invested capital, excl. goodwill	2.8	3.3	2.9	2.5	3.5
Quotation as of 31 May	698	684	389	355	159
Price/earnings	22	27	18	16	10
Quotation/equity value	5.0	4.9	2.8	2.7	1.4

Note: Exchange rate 1 EUR = 7.5 DKK

Source: B&O

APPENDIX I.

NET TURNOVER SPLIT AMONG COUNTRIES

(EUR million)	2006/07	2005/06
Denmark	88	99
Germany	79	67
The UK	76	73
Switzerland	37	37
Spain/Portugal	37	34
Holland	36	39
USA	36	40
Italy	30	29
France	28	27
Sweden	17	15
Belgium	14	13
Norway	10	9
Japan	9	9
Austria	9	10
Singapore	9	7
Middle East	8	5
Finland	3	2
Rest of Asia	32	28
Rest of Europe	20	6
Rest of the world	3	14
Total	583	563

Note: Rounding errors
 Note: Exchange rate 1 EUR = 7.5 DKK

Source: B&O

APPENDIX J.
ECONOMIC AMBITIONS FOR 2010/11

Revenue split on product groups (EUR million)	2006/07	2010/11	CAGR ^a
Audio/Visual/Communication	533	667	8%
Enterprise	13	33	38%
Automotive	12	40-67	51-79%
ICEpower	16	27	20%
Medicom		Sale of the remaining 35% share	

a) CAGR: Compounded annual growth rate

Source: B&O

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