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Colorcare

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Colorcare

The developing and printing market for amateur photo film underwent significant upheaval in Ireland in the early 1980s. The growth of new channels of distribution allied to new technological developments resulted in dramatic changes in business practices and in the management of the marketing function amongst combatants in the industry. Against this background Cahill May Roberts, the country's largest pharmaceutical distributor, entered the developing and printing business for the first time in 1983 in a highly inventive fashion with its Colorcare service.

Issues: Managing the marketing function in regard to product development, pricing, promotion and channel selection; in particular, how distribution channels not only evolve but can change dramatically, and the consequent reconfiguring of the marketing mix.

MARKET BACKGROUND

The developing and printing (D & P) market for amateur photo film involves the processing of films shot for non-professional use, basically photographs taken on holidays, family occasions, special ceremonies or as a hobby. The retail value of this market was over £11 million in 1982, a sizeable market when one considered that the Irish consumer spent less than half that amount on either soap or shampoo. The country's 850,000 households owned 1.2 million cameras in 1982. While this figure was comparable to other European countries, the actual usage of these cameras in terms of film units processed was low at 2.5 million units.

Up to the mid-seventies the standard method for the consumer to get a film developed was to bring it to the local chemist or pharmacist who would in turn relay it to a film processing company for development and printing. This D & P side of his business was a profitable source of revenue to the chemist. There were approximately 1,200 pharmacies in the Republic, most run independently by owner-managers. In 1982 these pharmacists had a turnover of some £120 million, 70 per cent of which was from ethical medicine (i.e. in the form of prescriptions).

During the 1970s there were over a dozen film processing firms providing a D & P service to chemist and specialist photography outlets. Amongst the biggest such companies were the following: Lyall Smith in Dublin; United Photo Finishers, also in Dublin; Spectra Laboratories in Listowel, Co. Kerry; North West Photos in Sligo; and McSweeneys in Cork. These D & P processors tended to be very regionalised in their operations reflecting the logistics of their collection and delivery service to pharmacies. They also tended to vary in the quality of product and service given to the pharmacist.

From the mid-seventies onwards the traditional hegemony of the chemist in the D & P business came increasingly under attack (see Table 1). Mail order was almost non-existent in 1975. Yet it had grown, particularly in the 1980s, to be an important competitor in the D & P business. The chief attraction of mail order to the film consumer was its low price, often up to half that charged by the traditional chemist or photo specialist outlet. The mail order firms were film processing companies which tried to eschew the middleman in all or part of their business and to appeal directly to the consumer. They advertised heavily in the popular newspapers and magazines, e.g. the *Sunday World*, using coupons and promotional devices such as free film to users. Companies such as Express Colour, Bonus Colour, Photo Lab, Perfect Colour, indeed a proliferation of such names, all offered to supply film processing at very low prices. Most of these companies were Northern Ireland/UK based. Spectra Laboratories was the only sizeable Irish competitor in the mail order D & P business.

One Hour Photo Labs were another recent and expanding phenomenon in the Irish D & P market. New technological developments meant that it had become an economic proposition to place processing equipment in an actual retail outlet on the high street and offer a rapid film processing service of one hour. Many consumers liked this quick turnaround service and were prepared to pay for it. One Hour Photo Labs/Express Service outlets generally priced at the top end of the market.

Because of the total market buoyancy between 1975 and 1982 the loss in market share experienced by the pharmacists was relatively painless in absolute volume terms. However, since 1981, the market had gone into decline because of the economic recession and further erosion of market share posed a serious threat to the chemist in a market area in which he had up to now dominated. In 1982 processors who serviced the traditional chemist trade (e.g. Lyall Smith), alarmed at the inroads being made by cheap mail order prices, initiated drastic price cuts and reduced profit margins of chemists in an attempt to become more price competitive. The mail order response was to cut prices even further and a virtual price war ensued. The pharmacist outlet suffered a drastic fall in profitability with no volume recompense being attained. On top of this, the arrival of the One Hour Photo shops at the

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premium-priced end of the spectrum now meant that the chemist was being squeezed at the two ends of a competitive stick—price and service.

Table 1**D & P Market, 1982 v. 1975**

	1982			1975	
	Value £M	Volume M units	% Volume	Volume M units	% Volume
Pharmacists	7.7	1.6	65	1.7	87
Mail Order	2.1	.7	25	.1	5
Express Service	.7	.1	5	—	—
Specialist Shops	.7	.1	5	.2	8
	11.2	2.5	100	2.0	100

Source: Cahill May Roberts.

THE CAHILL MAY ROBERTS RESPONSE

Cahill May Roberts was Ireland's largest distributor and agent through pharmacy with some eighty years' involvement in the trade. With headquarters at Chapelizod, Co. Dublin, CMR had branches at Harmonstown, Co. Dublin, Carlow, Cavan, Cork, Limerick and Sligo. Its distribution network was capable of servicing pharmacists on a daily basis, meeting their requirements on a wide range of ethical and 'over-the-counter' (non-prescribed) drugs, personal care, baby and film products. CMR was also at the forefront in the development and exploitation of computer technology and systems which had provided pharmacists with significant benefits in stock control, ordering, invoicing and pricing.

The company monitored developments in the D & P market during the early eighties with much interest and not a little apprehension. There was concern that the firm's customers, the pharmacists, were losing out in the D & P business. There was concern that CMR was losing sales of film roll product through chemists. The idea began to take root that the company's distribution network might provide an opportunity for direct involvement in the business. During 1982 the sales and marketing director carried out extensive research on the structure of the market, on the success of mail order and potential processor/pharmacist responses, as well as examining how the company itself might enter the D & P business.

MAIL ORDER

Amateur film developing and printing lent itself ideally to mail order. The processor dealt directly with the customer and so could afford to offer lower prices. In the UK mail order was an important channel of distribution in the D & P business (see Table 2), as indeed was the case with many other products.

Table 2**D & P Market 1982, UK v. Ireland**

	UK	Ireland
	% Volume	
Pharmacists	49	65
Mail Order	39	25
Express Service	6	5
Specialist Shops	6	5
	<hr/>	<hr/>
	100	100

Source: CMR.

In Ireland mail order had not grown to any notable extent. Conservatism in purchasing habits as well as fear of delay and, more importantly, of loss of product in the postal service hindered expansion. Indeed the D & P market was possibly the only market sector where mail order had achieved a measure of success in Ireland. The government had recently announced plans to restructure the Irish postal service during 1983 as a semi-state body to be known as An Post. The aim was to make the service more efficient and to give it a greater level of customer orientation.

Cahill May Roberts' sales and marketing director felt that mail order had only one significant advantage—low prices. Customers disliked the lack of personal contact endemic in mail order, something which the pharmacist could offer, and they also feared the risk involved in sending films through the post. The company commissioned more thorough research on the attitudes of customers who regularly used chemists compared to those who regularly used mail order. A summary of the results is presented in Exhibit 1.

The initial reaction of the chemists and the processors who traditionally serviced them towards the new mail order competition was a promotional one: higher-profiled window advertisements, free film and so on. These actions appeared to have limited effect. Free film might marginally expand the total D & P market but it provided no guarantee that the recipient would

Exhibit 1**Consumer Attitudes in the D & P Market***Regular Chemist User ...*

- Likes:* Convenience/Accessibility. Personal contact. Security.
- Expects:* Quality. Reasonable speed of turnaround—3/4 days. Reasonable pricing.
- Dislikes:* Too high pricing.

Regular Mail Order User ...

- Likes:* Low pricing.
- Expects:* Reasonable quality. Turnaround no more than 7/10 days.
- Dislikes:* Inconvenience. Insecurity. No personal contact.

continue to use the pharmacist. Inevitably the pharmacist had to offer the consumer a lower price, through both pharmacist and processor taking a reduction in profit margins. Table 3 illustrates typical D & P prices through pharmacies in 1981 and the level of reduced prices many pharmacists were offering during 1982.

There was little doubt that before pharmacists started to reduce their prices the price differential between themselves and mail order companies was so large that consumers in increasing numbers were prepared to accept the negative aspects of mail order. At the same time the consumer was prepared to pay a premium for personal service and security—attributes the pharmacies were perceived to have. The question was: how much of a premium?

To assess the price elasticity of the D & P chemist user was difficult given the shifting nature of market forces. One view in the trade was that if the pharmacist could capitalise on his unique assets and promote these to the consumer, he could command a very sizeable price premium over mail order. Others in the D & P business felt that the price sensitivity of the D & P consumer should not be underestimated. Whichever view was correct the price reduction tactics of the pharmacists during 1982 seemed to have limited success. They merely precipitated further reductions in mail order prices. The pharmacists saw no increase in their D & P business but merely a drastic reduction in the profit margins of existing business.

Table 3

Pharmacist's D & P Prices

	1982 £ Retail	1981 £ Retail
12 Exposures	2.75	4.00
24 Exposures	3.75	6.20
36 Exposures	4.75	8.00

COLORCARE

The decision to take an active participation in the D & P market was made by Cahill May Roberts only after much deliberation and planning. The objective was to develop a new business opportunity within the company's existing commercial framework and also to provide much-needed support to the customer that was CMR's lifeblood, the pharmacist. The intention was to stem, if not turn around, the drift towards mail order, reconsolidate the position of the pharmacist in the D & P business and re-establish attractive profit margins for the chemist on this business following the recent price discounting. The plan was to use the company's national distribution network—vans calling on a daily basis to pharmacists throughout the country—to provide a new national film processing service through pharmacy.

Given the large investment involved in setting up a film processing plant, and the excess capacity already present in the market, CMR decided it would market, organise and distribute the new service but that an existing processor would provide the processing facility. Lyall Smith Laboratories, the country's oldest and one of the largest processors, was selected. A product manager, reporting to the sales and marketing director, was appointed with specific responsibility to develop and nurture the project.

The new service would be designed to stress the key benefits pharmacy was seen to enjoy over mail order: convenience/accessibility; security/reliability; quality; and a comprehensive personal D & P service. The name Colorcare was selected as the brand name, the concept of security and quality being embodied in the name. (Interestingly, a short time afterwards the largest UK film processing company registered the name Colourcare.) The Colorcare national film processing service would be efficient, secure, value-for-money with high-quality photos and all-round ancillary service support. A 48-hour service time would be provided to the consumer.

Colorcare was priced mid-way between existing price structures (see Table 4). It was hoped that this price level would receive the support of both consumer and pharmacist.

order. The Colorcare price philosophy could be stated as a quality branded D & P service through pharmacy at a fair, value-for-money price (see Table 5).

Table 4

Colorcare Price Positioning
(based on 24 exposures)

Mail Order (Mainstream)	Colorcare	Express or Full Price
£3.00–£3.50	£4.95	£6.20–£6.80

An advertising campaign using primarily radio and television was devised with a planned expenditure of over £60,000. The theme was that important memories such as weddings, holidays, special days and so on, needed the security and attention available only from Colorcare through pharmacies. Silver had been selected as the brand colour for point-of-sale and packaging materials. A full range of colourful high-quality back-up display material, e.g. window and counter signs, 'floppies' and so on, were provided to identify Colorcare pharmacies. A distinctive Colorcare photo wallet was also used. See Exhibit 2.

The Colorcare national film processing service was formally launched at a reception on 1st February, 1983. As a new product launch by a major company it received coverage in all national and trade publications. A company 'roadshow' travelled to major centres throughout the country to present the new service to pharmacists, using audio-visual methods and presentations by senior company executives. Pharmacists from the surrounding region were invited to attend, and food and drink were served afterwards. Following the presentations the CMR salesforce then visited individual pharmacies to sign up dealers for the new service. This was aided by the fact that Lyall Smith had agreed to convert all of its existing pharmacy dealers to the new brand. This latter dealer base numbered some 300 pharmacies.

Table 5

Colorcare Prices

12/15 Disc Exposures	£3.85
20/24 Exposures	£4.95
36 Exposures	£5.75

THE CAMPAIGN

The initial months of the campaign were very encouraging. The concept was well received by pharmacist and consumer alike. A steadily growing chemist dealer base augured well for the campaign. However, before long a number of new factors began to emerge that put serious obstacles in front of the development of Colorcare.

Exhibit 2

Example of Colorcare Merchandising



Some months after the launch of Colorcare the country's other main pharmaceutical wholesaler/distributor, United Drug, entered the market with a similar type of film processing service. This service offered a lower price to the consumer and had the added benefit of providing larger than normal, so-called Jumbo, prints. This led to divided loyalties amongst pharmacists and tended to fragment the market. In addition to this a phenomenon that had first emerged a year earlier began to gain rapid momentum. This was the entry into the market of newsagents and other non-traditional outlets, which used low prices and free films as their main marketing tools. The combined effect of these two factors resulted in the campaign's falling short of its projected targets during the first six months.

A company review of progress to date resulted in a modest reduction in prices of the service and in discontinuing further radio and television advertising. These actions had limited effect and by autumn, at the end of the summer

holiday season, the project was appreciably behind schedule. As a result of a number of years of poor trading performance, Lyall Smith, the laboratory contracted to handle Colorcare processing, ceased trading. In the time taken to arrange alternative processing facilities, a considerable number of customers transferred to other laboratories. The service continued to operate throughout the winter of 1983/84 in a diminished form. However, the level of market confidence in the service, the size of dealer base, and CMR's nurturing of potential pharmacist outlets had eroded compared to the initial stages of the campaign.

REAPPRAISAL

Despite these setbacks CMR's sales and marketing director remained convinced of the essential validity of the Colorcare concept. He felt that a revamping of the campaign to reflect the new competitive circumstances would see the project achieving its original objectives. A new product manager, Jim Quinn, was appointed in early spring 1984 to help execute this task. Quinn had considerable experience in the Irish D & P market, initially in production and then in administration and marketing. This experience extended through the traditional processor/pharmacist D & P service, to mail order and the newer areas of D & P retailing such as newsagents.

Indeed it was Quinn who had pioneered this latter channel of distribution. A couple of years before joining CMR, he had identified the suitability of prominently situated newsagents as D & P retailers. The advantages that these outlets had to offer included: prominent locations; high customer throughput; long opening hours; and a willingness to engage in promotions, such as free film, competitions and so on. These newsagents were able to provide the D & P consumer's need for personal service at very competitive prices. Immediately prior to undertaking the Colorcare role Quinn was engaged almost totally in identifying and recruiting newsagents as dealers for another film processing laboratory.

Quinn joined CMR in the belief that Colorcare could work successfully and that the company could expand its D & P business. He knew he faced key decisions about price, promotion and developing the dealer base of the service. Colorcare stressed the national nature of its service and that its pricing and promotional arrangements were the same countrywide. Quinn wondered if the campaign should not adopt a more regionalised approach in aspects of its operation to accommodate the local sensitivities of consumer, pharmacist and processor. The new product manager felt the key to success lay with the pharmacist, in motivating him and getting his full support in all aspects of the campaign.

He had also to ensure that any new film processor used by CMR in its Colorcare D & P service would be able to provide a continuing high level of service and print quality. There was at present highly intensive competition

between film processors. In early 1984 there were eight Irish-based processing companies left in the business following the market upheaval of the previous few years. It was rumoured that more might 'go to the wall' during the coming year. One processor, Spectra Laboratories, had established a clear market dominance (see Exhibit 3). In addition, the structure of the D & P market had changed over the last couple of years (Table 6).

Exhibit 3

Spectra Laboratories' Profile

This company was the brainchild of its present dynamic managing director, Xavier McAuliffe. Founded from a shed behind his Listowel, Co. Kerry, home to develop black-and-white films in 1970, it grew rapidly during the seventies to become Ireland's largest and most modern film processing company and biggest mail order colour processing firm. In 1983 Spectra processed for its mail order and pharmacist customers over three quarters of a million film rolls and enjoyed a turnover of £4.8 million, 30 per cent of it generated from Northern Ireland and Britain. In an industry currently characterised by cut-throat pricing and at times below production cost selling, McAuliffe had demonstrated a single-mindedness of purpose. 'My competitors still say I'm mad to operate from Listowel, yet I'm the biggest in the country and the most successful so I must be doing something right. If you give a consistently good service to customers, it really makes no difference where you are.'

Source: *The Irish Times*, 2nd October, 1984.

Table 6

Irish D & P Market, 1982-1984

	1984 % Volume	1982 % Volume
Pharmacists	45	65
Mail Order	30	25
Express Service	10	5
Specialist Shops	5	5
Newsagents	10	—
	<u>100</u>	<u>100</u>

Source: CMR.

Questions

1. Assess the salient features of the launch of Colorcare.
2. Do you share the belief of the new product manager, appointed in spring 1984, that Colorcare could work successfully? What key decisions does he have to make?
3. Do you see evidence from the case of a marketing manager analysing, deciding, implementing and sustaining?
4. What do you think about the growth of mail order as a channel of distribution in the D & P industry?