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Growing pains for Alcas Corporation

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Abstract

The unique direct marketing technique of Cutco Cutlery in alliance with Vector Marketing has been very efficient at meeting the demands of the consumer. Unfortunately, in the summer of 2001, the company was unable to satisfy the demand generated by its sales group. As a result, normal customer service suffered as demand became greater than supply. Who is responsible for the faulty sales forecasting? How can Cutco and Vector improve cross-functional communications to be better prepared in the future for the summer rush?

Keywords: Direct selling method; Customer service; Demand

1. Growing pains for Alcas

With its unique marketing strategy, Alcas confirms the adage that seeing is believing. By employing direct selling methods to market its high-quality merchandise, the company reports a recent explosion in sales, totaling US$150 million worldwide in 2000 and climbing rapidly in 2001. The phenomenal growth, however, has not been without frustrations and difficulties. In the summer of 2001, the supply of goods produced by manufacturing was unable to keep up with the tremendous demand generated for the cutlery. Several problems ensued and left the company with many unanswered questions.

2. The Alcas family

Five closely related companies interact to provide both domestic and international consumers with the ‘‘world’s finest cutlery’’. The organization has deep roots in both the production of high-quality cutlery and in direct selling. The first Cutco cutlery was manufactured by Alcas Cutlery, the product of a joint venture in 1948 between ALCOA Aluminum and W.R. Case, and marketed by WearEver, a subsidiary of ALCOA. After buying out Case in 1972, ALCOA became the sole owner of Alcas. With the purchase of Alcas from ALCOA just 10 years later in 1982, Alcas obtained its current status as a privately held company owned by top management and headquartered in Olean, NY. Alcas now serves as the parent company in the Cutco family, overseeing the operations of, and relationships between, each of the subsidiaries—Cutco Cutlery, Ka-Bar Knives, Cutco International, and Vector Marketing. All corporations within Alcas operate as profit centers.

Cutco Cutlery, with the corporate vision to be ‘‘the world’s largest, most respected and widely recognized’’ cutlery firm, is the major subsidiary of Alcas. Cutco produces an assortment of premium knives and cutting utensils with sharp, durable blades and ergonomically designed handles. While kitchen utensils remain at the core of the business, product lines including garden utensils, sporting/hunting knives, and flatware have been successfully introduced. All Cutco products are supported by a ‘‘forever guarantee’’ designed to ensure sharpness and performance for life(www.cutco.com).

Cutco International was established in 1994 as a wholly owned subsidiary of Alcas to coordinate and supervise the sale and distribution of Cutco products in international markets. Ka-Bar Knives was acquired by Alcas in 1996 and specializes in the production of high-end sporting knives.

Beginning in 1982, Vector Marketing has exclusively handled the marketing and sales of Cutco products. The unique and highly successful marketing of Cutco Cutlery has caused many to take notice. The company relies

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solely on direct selling methods to acquire first-time buyers; a detailed catalogue provided by a sales representative is offered as an option to repeat purchasers. An in-home demonstration, in which potential customers witness firsthand the superior features of the products, is the most common direct selling method employed domestically, while party plans have proven successful in several international markets. Approximately 95% of the company's sales force consists of college students who undergo an extensive training program before independently arranging appointments to sell Cutco products in homes.

A mutually beneficial relationship exists between Vector and its sales force. Vector profits from a highly intelligent, trainable, energetic, eager to learn, and dedicated workforce, while student employees gain skills and experience needed for advancement within the company or for future employment in other sectors of the business world. Although Vector fights skepticism regarding its recruitment techniques, awareness of the learning opportunities available within the organization is becoming more prominent on college campuses. With college students as the primary method of customer contact, the summer months traditionally serve as the company's most busy and profitable season. (For more information regarding Vector's recruitment process and employment opportunities available to college students, visit www.workforstudents.com).

3. Summer 2001

Although summer is the peak sales period for the company's cutlery products, Cutco Cutlery runs at full operation year-round. When asked in May of 2001 about the company's seasonal demand fluctuations, Laine (2001), the Chairman of Alcas, expressed his opinion to a CNN reporter. "We don't mind the circumstances really. We don't shut down, by a long shot. In fact, we sell more knives in the off-season than anybody else does in the country for that matter. So it doesn't matter that we're down and out in the off season". Historically, manufacturing at Cutco Cutlery has used the off-peak period for building inventory and routine maintenance. "Doing business as usual" was the expectation in early 2001. Managers expected a fast-paced, rigorous summer season and felt confident that the company was equipped to handle projected demand.

In January of 2001, sales figures were determined and analyzed, 2001 summer sales forecasts were made, and preparations began immediately for an intense summer selling season. Operating near or at maximum capacity was customary during the hectic months leading into the summer. As normal, manufacturing planned to have a large percentage of the total projected sales on hand at the start of the summer season. All equipment, employees, and facilities were utilized by manufacturing in order to produce and stock a level of inventory that was capable of satisfying future sales by Vector representatives. Eighty new employees were hired to work in manufacturing, and 100 college students were brought in to assist in shipping and manufacturing.

As part of the manufacturing planning process, over US$5 million in equipment had been ordered and was scheduled to arrive throughout the summer and fall to accommodate an expected increase in projected sales over the next few years. Additionally, a new facility was purchased that would provide 65,000 ft^2 of space for offices, manufacturing, and warehouse functions.

Even with all of the long-term plans in place, the summer of 2001 did not get off to estimated sales forecasted in Olean, NY. Demand was far exceeding expectations! By June, the manufacturing facility was operating 24 h a day, 7 days a week. Orders were processed from 6 a.m. until midnight.

These efforts, however, could not meet the demand generated by Vector sales representatives. Purchases in the summer of 2001 far surpassed the company's projections. A 25% increase in sales was forecast for the summer of 2001, but sales actually rose by 47%. Cutco Cutlery simply did not have the capacity to fulfill orders in their usual timely fashion. Customer service suffered as delivery dates were gradually pushed back from the normal 2- to 3-week range to eventually a 5- to 6-week estimate. While most consumers expected longer waiting times from similar types of companies, quick delivery time had always been a differentiating feature of Cutco Cutlery.

Both Cutco and Vector executives are challenged by the immediate problems facing the company. While they recognize that the record sales were outstanding for the company and a testament to the company's high-quality product and high-quality sales force, they are concerned about the short-term impact on customer relations. Underlying this was the question of, "How did this happen?"

The company prides itself on its close relations between the manufacturing arm of Cutco Cutlery and the selling arm of Vector Marketing. While two corporations, they had always seen themselves as one big family. Was it a forecasting problem? If so, whose forecasting problem? Was it a lack of communication? Were Cutco and Vector not communicating as well as everyone thought? Were there underlying issues between the two companies that needed to be addressed? Should Alcas be running its businesses in an entirely new manner that might be more conducive to rapid growth in demand? If so, what was that new manner?

Executives recognize that they need to take a hard look at what had led them to the current situation of demand greater than supply. All the while, though, they knew it was important to maintain the company spirit and harmony that had gotten the company through many years of growth. The bottom line is that recent (i.e., 2001) demand for Cutco