

Teaching Note

SANTÉ AU NATUREL: HEALTHY TO THE CORE

Robert Mackalski and Marc Ducusin wrote this teaching note as an aid to instructors in the classroom use of the case Santé Au Naturel: Healthy to the Core, No. 9B17A069. This teaching note should not be used in any way that would prejudice the future use of the case.

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SYNOPSIS

Santé Au Naturel is a natural health boutique in Montreal's downtown core. The company, fuelled by passionate entrepreneur Lauren Mathers, is off to a strong start in a growing market, but as its best-selling products become more mainstream, large retailers are entering the market, stealing customers, and driving down margins. In early 2017, Mathers reflects on further differentiation of her offering and on target marketing; she wants to improve her marketing mix to grow sales and protect margins.

LEARNING OBJECTIVES

This case focuses on differentiation, segmentation, and the marketing mix. The case has three key learning objectives:

- To better appreciate the marketing challenges facing entrepreneurs and small business owners.
- To better understand the relationship between segmentation, targeting, differentiation, and the marketing mix.
- To create a relevant differentiation strategy in a challenging marketplace.

POSITION IN COURSE

This case is appropriate for use in an introductory marketing class at the undergraduate and MBA levels.

RELEVANT READINGS

- Jonah Berger, “The Goldilocks Theory of Product Success,” *Harvard Business Review*, July 7, 2016.
- Theodore Levitt, “Marketing Success through Differentiation—of Anything,” *Harvard Business Review*, January 1980. Available from Ivey Publishing, product no. 80107.
- Benson P. Shapiro, “Rejuvenating the Marketing Mix,” *Harvard Business Review*, September 1985. Available from Ivey Publishing, product no. 85513.
- Brad Sugars, “Differentiating Your Business,” *Entrepreneur*, February 26, 2008.

ASSIGNMENT QUESTIONS

1. How bright is the future for Santé Au Naturel?
2. Why do customers keep coming back to Santé Au Naturel? Is this enough?
3. What different segments can the boutique target? What does each segment value?
4. Which segment(s) should Mathers target? Why? How could she adjust her offering/marketing mix to better serve her target(s)?

TEACHING PLAN

This case can be taught in 75–90 minutes, based on the time allotments suggested below:

Discussion	Time (Minutes)
Assignment Question 1	20
Assignment Question 2	15
Assignment Question 3	30–45
Wrap-Up	10

ANALYSIS

1. How bright is the future for Santé Au Naturel?

To start the class, instructors can ask students to vote on the following question: Does the future look bright for Santé Au Naturel, or is this an entrepreneurial firm that has no chance against major retailers?

A positive case can be built for Mathers’s business:

- The founder is a passionate entrepreneur who has demonstrated she can find a way to build a profitable business very quickly.
- Santé Au Naturel has expertise that is not easy for major retailers to replicate.
- The company is in a growing market that has shown no signs of slowing down (see case Exhibit 1), and Santé Au Naturel is a leader in natural health space in Montreal.
- Santé Au Naturel’s sales are growing.
- Although margins are shrinking, they are still very strong (see case Exhibit 2). Margins will naturally reduce as a market grows and more competition enters.
- This type of business has a community following, which means that information should spread well via social media, lowering the cost of consumer acquisition.
- The boutique has loyal customers who keep coming back.
- The presence of major retailers will actually help develop the market. Margins may reduce with competition, but the overall market will grow, which may help Santé Au Naturel.

A follow-up question—What are causes for concern?—invites a discussion on the tough realities of the business:

- Santé Au Naturel has shrinking margins due to increased competition (see case Exhibit 2), and this is likely to continue as the major retailers expand their offerings.
- The best-selling products have been usurped by major players. As a small player, Santé Au Naturel cannot compete with the buying power or pricing of major retailers.
- Santé Au Naturel has challenges with retention and cyclicalities. For example, students leave for the summer or may move after completing their degrees. Some consumers lose enthusiasm for the category after an initial period of excitement.
- The current business model seems to have limited basket sizes. For example, supplement consumers do not purchase foods.
- The company has limited resources for marketing. In 2016, it spent only \$4,785¹ on advertising/promotion.
- Competition from e-commerce is growing. For example, Amazon.com Inc. purchased Whole Foods Market Inc.
- Consumers learn about offerings from Santé Au Naturel and then purchase online. In other words, the company incurs costs to educate consumers but may not reap the rewards.
- Does the company have enough profitability (see case Exhibit 4)?

2. Why do customers keep coming back to Santé Au Naturel? Is this enough?

The Instructor can ask students why customers keep coming back. What is it that makes Santé Au Naturel different?

- Intimacy with customers: Mathers and her staff know customers by name.
- Specialization and expertise in natural products: products range from supplements to cosmetics to food.

Students can then be asked how important these aspects are to Santé Au Naturel. Which segment(s) benefits most from this?

Other possible differentiating factors are listed below:

- It acts as a one-stop shop for natural foods, with a broader and deeper selection of specialty items.
- It offers a non-intimidating environment.
- It has a convenient location downtown.
- It offers same-day delivery service.

The million-dollar question for Santé Au Naturel is, Are these differentiators enough? This naturally leads to a discussion of how Mathers can improve her offering and marketing mix to grow her business.

3. What different segments can the boutique target? What does each segment value?

The instructor can develop a table on the board to guide students through the segments, what each segment values, and the pros and cons of serving each segment.

¹ All currency amounts are in Canadian dollars.

Segment: The Casual StudentTends to Value:

- Low prices
- Convenience snacks
- Being on trend

Pros:

- Location (near universities) is accessible to a large customer base
- Location (near universities) should make the geographical targeting of customers easier
- Store stays on top of trends/is often the first to introduce new products
- Social media use contributes to a lower cost of consumer acquisition
- Santé Au Naturel brand may resonate more with this segment
- Students make frequent purchases

Cons:

- Highest churn rate
- Seasonal purchases
- Smallest basket sizes
- Lowest-margin products purchased

Segment: The Health-Conscious Young ProfessionalTends to Value:

- One-stop shopping for all natural product needs
- Being healthy and having natural remedies for temporary/seasonal health deficiencies
- High-quality products
- Expertise

Pros:

- Santé Au Naturel has naturopaths (experts) on site who stay on top of trends and new products
- Santé Au Naturel is a one-stop shop with a wide and deep offering
- This segment is less price sensitive, purchasing larger baskets of higher-margin products
- This segment has (potentially) the largest lifetime value
- There is potential to grow basket sizes by incorporating other product categories (e.g., vitamins)

Cons:

- As young professionals mature, they may move to the suburbs and do more shopping at major retailers

- This segment has fewer opportunities to shop because of work hours; therefore, these consumers are more likely to make online orders

Segment: The Supplement Enthusiast

Tends to Value:

- Health improvement (chronic)
- Simplification of a complex supplement industry
- Being known by staff

Pros:

- Santé Au Naturel has naturopaths who provide customized information for clients
- Staff are familiar with individual customers' health needs
- Supplement enthusiasts tend to be older and less reliant on the Internet for information
- Santé Au Naturel has expertise in the supplement category and a broad and deep product line
- Santé Au Naturel can do same-day delivery, which is helpful to the elderly and those with chronic pain and is helpful on bad-weather days
- This segment has the largest basket size
- This segment purchases the highest-margin products
- This is the most loyal segment

Cons:

- Infrequent purchases
- Possible difficulty in crossing over to other categories
- Most expensive segment to acquire (e.g., naturopaths' time)

4. Which segment(s) should Mathers target? Why? How could she adjust her offering/marketing mix to better serve her target(s)?

At this point, the class can discuss how to differentiate and position Santé Au Naturel and how the marketing mix will change based on the differentiation. Many approaches are likely to be presented and debated. Some examples are presented below.

One-Stop Shop

This approach targets multiple segments and casts the widest customer net. To do this, Santé Au Naturel requires broad and deep product lines. Students will point out that not all segments seek a one-stop shop. Astute students may also point out that a one-stop shop may not provide sustainable differentiation. As major retailers expand their offerings in the space, they too may become one-stop shops.

Customer Service

It would be difficult for a major retailer to have specialists who can provide the level of care and expertise offered by Santé Au Naturel's staff. Under this scenario, Santé Au Naturel could improve delivery and offer events, healthy classes, in-store taste-testing, or other value-added services to further leverage the store's expertise. The downside, of course, is that this approach is expensive.

Friendly/Non-Threatening Atmosphere

The atmosphere of Santé Au Naturel runs counter to the potentially intimidating atmosphere of traditional natural health stores, and the store's ambience is different from the generic ambience at most major retailers. The good news for Santé Au Naturel is that its atmosphere is a reflection of its founder, so by definition, it should be unique. Some students may argue that Santé Au Naturel needs to attract more customers to grow (Exhibit 4) and that the bulk of Santé Au Naturel's customers probably value other things more than the atmosphere (see Assignment Question 1).

Other Options

The class can be invited to explore other options and may offer many creative alternatives. For example, one student argued that Santé Au Naturel has an opportunity to serve mothers and expectant mothers. This audience tends to have a heightened awareness of healthy and natural products (e.g., non-carcinogenic sunscreen and products to augment breast milk production).

To wrap up the case, instructors can remind students about the intimate connections between target marketing, differentiation, product mix, and positioning. Students can also be asked what makes marketing so challenging for entrepreneurs.

WHAT HAPPENED

Mathers was approached by a similar retailer in a nearby neighbourhood to discuss cooperative buying and possibly merging. Mathers is exploring options.