



## Ringer: Overcoming Obstacles in the Path to Success

*Written by Alfred Marcus, Professor of Strategic Management and Organization,  
University of Minnesota. Based on Piper Jaffray's 1992 Prospectus for Ringer  
common stock.*

Udo E. Schulz, the president and CEO of Ringer Corporation, had a problem on his hands. From 1987 to 1991, his company saw sales increase from \$2.4 million to \$21.2 million, but it was still not earning a profit: during the same time period, losses increased from \$1.7 million to \$4.8 million. Schulz had difficult choices ahead of him. A former Senior Auditor with Arthur Andersen, he owned 2.6% of Ringer's stock. How much more patience would the board and other principal stockholders have?

### **Products and Markets**

Ringer's main products were environmentally compatible lawn and garden products, which it offered as alternatives to chemical fertilizers and pesticides. These products included microbially driven fertilizers, biological and botanical pest controls, and composting aids. Ringer's was the largest and most comprehensive selection of these types of products available. It held 25 patents, including 17 in the U.S. (for microbial fertilizers and pest control products based on a range of fatty acid technologies), and it was applying for several patents abroad.

Lawn and garden care had become a major recreational activity for most American consumers: according to a 1990 National Gardening Survey, more than 70% were involved in this activity, and that number was growing rapidly due to demographic trends (i.e., the settling-in of the baby boom generation) and suburban growth. The total lawn and garden market was estimated to be \$2.1 billion. Though less than 4% of that (\$75 million) was currently held by environmentally friendly products, 81% of U.S. consumers said that they were environmentally concerned (Simmons Market Research

Bureau); and Ringer was the biggest player in this alternative market with 28% of the market share. Its prospects for future expansion seemed extremely good, and it was on a very positive sales trajectory, as the nearly tenfold increase in five years indicated.

Ringer's products were distributed nationwide by 14,000 retail outlets including lawn and garden centers, mass merchandisers, home centers, and hardware stores. They were found in Kmart, Target, True Value, Home Depot, and Frank's Nursery and Crafts. Ringer also marketed its products directly to consumers through a mail catalog. It sold to golf courses, lawn service operators, and specialty landscapers through 37 professional turf distributors. Altogether, 68% of its products were sold through retail outlets, 16% by mail order catalog, and 5% through specialty distributors. Twenty of the top 100 U.S. golf courses (as rated by *Golf Digest Magazine*) used Ringer products, as did Yankee Stadium and Procter & Gamble's world headquarters.

The four main product categories Ringer sold were fertilizers, composting equipment, pesticides and herbicides, and lawn and garden equipment.

- The "Restore" fertilizer line was offered in 13 varieties for lawns, roses, tomatoes, flower gardens and other uses. This proprietary product combined naturally occurring soil microorganisms with natural nutrients to aid plant growth and revitalize soil. "Restore" products constituted about 44% of Ringer's sales.
- The "Recycle" and "Bio-Charge" composting products also used a microbial system. They accelerated decomposing yard waste to humus. These products made up about 26% of Ringer's sales.

- “Safer” insecticides were sold in more than 40 varieties. The company also sold herbicides and fungicides under the brand names “Sharpshooter,” “Moss Attack,” and “Garden Fungicide.” Rather than chemical control methods, these products used biological, botanical, and mechanical methods. They made up about 17% of the company’s sales.
- The remaining 13% of the company’s sales were in lawn and garden equipment: items like sprinklers and birdhouses sold through the company’s catalog.

## Environmental Marketing

Each of Ringer’s product lines offered environmental benefits. For instance, the fertilizers did not contaminate groundwater; the insecticides decomposed more rapidly than chemical insecticides and did not hurt beneficial insects or wildlife. Ringer’s goals were to (1) remain the leading marketer of environmentally friendly lawn and garden products and (2) take market share from the traditional chemically driven product providers. Rather than exploring unproven technologies, it concentrated on identifying new ones ripe for commercialization and then either selectively acquiring these products or entering into licensing agreements to commercialize them.

Ringer’s goal of becoming the leading marketer of environmentally friendly lawn and garden products was to be achieved by:

- active promotion and advertising to make the consumer more aware of environmental concerns;
- increasing the number of retail outlets for its products; and
- acquiring more shelf-space and point-of-sale presentation opportunities.

Since Schulz succeeded company founder C. J. Ringer in 1986, the company had increased its advertising and promotion; it had also introduced and acquired new product lines (such as “Safer” pesticides). Half of Ringer’s retailers displayed its products in a “Natural Gardening Center” setting complete with free copies of a 28-page guide called *Biogardening the Ringer Way*. In 1989, the company became heavily invested in television advertising, using both national network ads and spot ads in 14 cities. In 1990, it retained an international advertising agent, who in the past had been successful in raising sales for other emerging companies. Comedian John Cleese became Ringer’s spokesman in national

advertisements starting in 1991. The company had plans to expand advertising to cable television in 1992.

## A Young and Capable Management Team

The new management team that Schulz recruited was young, capable, idealistic, and aggressive.

- *Vice President of Consumer Marketing:* Fred Hundt, 40, had an MBA from Northwestern; he had formerly worked for General Mills.
- *Vice President for Finance & New Business Development:* Mark Robinow, 35, was a University of Rochester MBA, he had been a Senior Auditor at Touche Ross and Company.
- *Vice President for R & D:* Patrick McGinnity, 37, had a University of Minnesota Ph.D in soil sciences and had been a development specialist and research manager at PPG Industries.
- *Chairman of the Board:* Gordon Stofer, 45, a Harvard MBA, was a general partner in Cherry Tree Ventures, a venture capital partnership that owned more than 11% of Ringer’s stock.

In total, the company employed 71 people full-time: 10 in product development, 27 in distribution and marketing, 18 in operations and material control, and 16 in administration. It also had consulting and research relationships with scientists at 18 major universities. Ringer relied on outside manufacturing for flexibility in responding to sales increases and as a way to control fixed costs.

## Reasons the Company Was Not Profitable

With all that it had going for it, why was Ringer still struggling? The management team had determined that there were a number of reasons for its lack of profitability. One was the high costs of developing and expanding its marketing and distribution systems. Another was Ringer’s 75–80% reliance on summer sales, which could be affected by poor weather. However, the five most important factors seemed to be these:

1. *Lack of consumer acceptance of the need to pay a premium for environmentally acceptable alternatives to conventional chemical products.* Though trends were favorable in this regard, it still was unclear how much Ringer could penetrate the traditional lawn-and-garden market with its environmentally advanced products.

2. *Powerful competition.* Scotts controlled 35% of the home lawn-and-garden fertilizer market; S. C. Johnson, Monsanto, and Chevron, which made pesticides, herbicides, and fungicides, were also strong competitors. Indeed, Chevron's "Ortho" brandname and S. C. Johnson's "Raid" were widely known and accepted. All of these companies had substantially greater financial, technical, and operational capabilities than Ringer. To a degree, they too were beginning to enter the environmentally friendly fertilizer and pesticide market. Scotts, for instance, had introduced an organic fertilizer supplemented with urea. With the larger companies' vast marketing clout and distribution network, there always was the threat that they would launch an aggressive marketing campaign to undercut Ringer or, worse yet, underprice it enough to drive it from the market. Ringer was in no position to undertake a costly price war that would eat into its already low margins and depress its market share.
3. *Challenges to claims of environmental responsibility.* The Federal Trade Commission and the Environmental Protection Agency had been carefully scrutinizing Ringer's advertising claims that its products were "biodegradable," "natural," "safe," and "non-toxic." And on April 1, 1992, Scotts filed a complaint in U.S. District Court that the first three claims were false and misleading under applicable law. Scotts was seeking an injunction against further use of the advertising along with actual and punitive damages of \$1 million each.
4. *Potential third-party product manufacturing, formulation, and packaging problems hurting profits.* Ringer's "Grub Attack" product was based on the bacterium *Bacillus Popilliae* (Bp). "Grub Attack" was primarily sold in the Northeast U.S. to control Japanese beetle infestation. In 1991, the company had to voluntarily recall and suspend sales of the product because the master culture of Bp had been contaminated. "Grub Attack" was primarily sold in the Northeast U.S. to control Japanese beetle infestation. The company's estimated loss from this recall was \$1.5 million for inventory write-off, consumer refunds, loss of goodwill (\$365,000), and other expenses.
5. *Regulatory costs.* Government regulations already were making a considerable dent in Ringer's profits. The process of obtaining approvals and licenses for fertilizers, regulated by separate state departments of agriculture, was costly and time-consuming. However, what was more troublesome was the future possibility that Ringer's pesticides, herbicides, and fungicides would no longer be considered non-hazardous by federal environmental officials and would be subject to onerous new requirements.

In the light of these threats, what should Ringer's top management team do? As a consultant to the team, you are asked to present your recommendations at their January 2, 1992 meeting.

## Discussion Questions

1. How big is the potential market for Ringer's products?
2. How much market share does it have?
3. Who are its competitors?
4. How powerful are they?
5. How can it improve its position *vis à vis* its competitors?
6. Who are its customers?
7. How can it improve its position *vis à vis* its customers?
8. Who are its suppliers?
9. How can it improve its position *vis à vis* its suppliers?
10. What are its main strengths?
11. What are its main weaknesses?
12. What moves should Ringer make to become profitable?

### Ringer Corporation and Subsidiary Consolidated Statements of Operations; from Annual Report

	<u>Year ended September 30</u>			<u>Three mos. ended Dec. 31</u>	
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>	<u>1991</u>
				(Unaudited)	
Net sales.....	\$8,948,338	\$13,787,477	\$21,206,729	\$1,327,539	\$ 3,007,869
Cost of goods sold.....	4,177,137	6,162,822	10,244,301	700,671	1,518,223
Gross profit .....	4,771,201	7,624,655	10,962,428	626,868	1,489,146
Operating expenses:					
Sales and marketing.....	5,093,634	6,981,474	10,700,531	1,379,822	1,654,803
General & administrative ...	1,029,996	1,035,686	2,247,704	316,215	657,697
Research & development....	476,399	563,868	1,088,296	192,696	346,825
Product recall expenses .....			1,448,000		
Write-off of intangible assets .			365,222		
	<u>6,600,029</u>	<u>8,581,028</u>	<u>15,849,753</u>	<u>1,888,733</u>	<u>2,659,325</u>
Loss before other income (expense) .....	(1,828,828)	(956,373)	(4,887,325)	(1,261,865)	(1,170,179)
Other income (expense):					
Interest income .....	63,528	73,685	149,042	80,424	9,992
Interest expense.....	(88,460)	(91,518)	(81,397)	(7,853)	(19,146)
Royalty income (expense), net	(106,570)	(156,018)	45,907	(16,215)	(4,282)
Other income (expense), net	_____	<u>133,678</u>	<u>(1,297)</u>	_____	<u>610</u>
	<u>(131,502)</u>	<u>(40,173)</u>	<u>112,255</u>	<u>56,356</u>	<u>(12,826)</u>
NET LOSS .....	<u>\$ (1,960,330)</u>	<u>\$ (996,546)</u>	<u>\$ (4,775,070)</u>	<u>\$ (1,205,509)</u>	<u>\$ (1,183,005)</u>
Net loss per common and common equivalent share .....	<u>\$ (.43)</u>	<u>\$ (.21)</u>	<u>\$ (.65)</u>	<u>\$ (.21)</u>	<u>\$ (.14)</u>
Average common and common equivalent shares outstanding	<u>4,575,835</u>	<u>4,668,045</u>	<u>7,307,120</u>	<u>5,627,000</u>	<u>8,661,622</u>



## Ringer Case Teaching Note and Company Update

### *Introduction: Two Ways of Creating Strategic Environmental Advantage*

There are two aspects to creating strategic environmental advantage. One method is to rely on environmental challenges to make a company's operations more efficient. The lower costs thus achieved can contribute to profitability, either through greater sales or higher margins. If competitors cannot achieve the same level of efficiency in the use of resources, if they cannot lower their wastes as effectively, then a sustained competitive advantage can be achieved. It depends on how hard it is to imitate the cost-saving, environmentally improving methods that a company implements as to how enduring the advantage will be.

Students should come to realize, however, that there is another way to create strategic environmental advantage: through business development. It is by means of new product introductions and technological innovations to meet environmental challenges. This method grows a business by creating new opportunities for profits. It distinguishes a company by the products it sells: they have distinct environmental features that, depending on consumers' need and willingness to buy, can command a premium price. Even if people are not willing to pay a premium price, these features distinguish the product and at the same price may lead consumers to favor the product over others. (Note that, although this is the most common method of "green niching," it is also possible to enter with a lower-priced product/service.)

The Ringer case is about achieving strategic environmental advantage through new product development. It is also about entrepreneurship and new business growth: at the time the case is written, Ringer is a relatively small start-up entirely devoted to an array of environmentally sound products as its distinguishing feature. As Ringer has not yet achieved steady profits, the issue it faces is how to turn its environmental product line into a profitable business. This dilemma is the primary one for students reading this case.

### *Eco-Integrated Portfolio Analysis*

Students should imagine a portfolio of possibilities. There are some green businesses ("green stars") that are profitable. Others ("green question marks") are not; Ringer is in this latter category. Businesses that are neither environmentally friendly nor profitable ("black dogs") have little future and should be liquidated if possible. Finally, there are some profitable businesses that are not environmentally friendly ("black question marks"). They should be salvaged, but their long-term future can be guaranteed only if their black features can be reduced or eliminated.

### *A Methodology for Analyzing This Case*

The methodology that can be employed for assessing Ringer's situation is to conceive of it in its context. The big circle surrounding Ringer consists of government, which has introduced environmental laws, and society, where consumers' concern for their health and safety has led them to demand more environmentally friendly products. Within this circle, Ringer can be viewed as a relatively new entrant, challenging existing competitors. It has its suppliers and customers, and there are substitute products in the marketplace that its customers can use. An important issue is mobility barriers between strategic groups. Traditional strategic-group firms can enter Ringer's niche with new product extensions.

**Bare Facts.** The bare facts of the case are that Ringer's sales have grown from \$2.5 million to 21.2 million in five years (1987–1991). It had a loss of about \$1 million in 1990, followed by a loss of nearly \$5 million in 1991.

**Strength of the Management Team.** As a new entrant, one of Ringer's most striking features is the strength and diversity of its management team. It has people with strong business backgrounds, with MBAs from the best schools in the country, and solid business experience in companies like General Mills and Touche

Ross and in venture capitalism. It also has a solid technical foundation in a soil scientist with a University of Minnesota Ph.D. Ringer has 71 employees plus research relationships with 18 universities. The group of people it has put together is clearly a strength. If there is a weakness to the management team, perhaps it is an overemphasis on the marketing sides of the business and inexperience in manufacturing.

**Reaching Out to Customers.** Ringer has done a splendid job of reaching out to customers. In the \$75 million “environmentally friendly lawn and garden industry,” it has a solid 28% market share. It has placed its products in 14,000 major retail outlets and developed wonderful promotional material. Twenty of the nation’s top 100 golf courses were using its products, as was Yankee Stadium and Procter and Gamble. It was paying large sums of money for high-profile TV ads starring actor John Cleese, who was becoming visible as a company spokesperson. Its prospects for growth seemed limitless. In the \$2.1 billion total lawn and garden market, 80 percent of the customers professed a concern about the environment, and yet the environmentally friendly portion of this market still had a very small market share. The issue in attracting consumers who care about the environment is that other product attributes, such as price and convenience, usually rank higher than the product’s green features: for a green attribute to have a decisive effect on buying behavior, all other product attributes have to be equal.

**Trouble with Suppliers.** However, Ringer was having trouble with its suppliers (recall the weakness in its management team with regard to manufacturing). It relied entirely on outside manufacturers and had experienced a costly \$1.5 million recall where a master culture had been contaminated.

**Substantial Competition.** Moreover, in each market category in which Ringer competed, it faced tough competition from large national producers who each had substantial market experience, name recognition, and clout. In the fertilizer market (44% of its sales), it faced Scott and a host of regional producers. In the pesticide market (17% of its sales), it faced Chevron, Johnson (with its strong brand of “Raid” products), and Monsanto. In the composting market (26% of its sales), it faced Barclay. And in the gardening market (13% of its sales), it was up against Target, True Value, and a host of catalogues.

**Legal Problems.** Though Ringer was still a small company, its competitors were not sitting still and allowing it to make inroads on their business: They were fighting Ringer tooth and nail for space in national lawn and garden outlets. However, of greater significance was their use of the legal process to sully Ringer’s reputation and prevent it from growing. Scott had initiated a very aggressive suit against Ringer for false and misleading advertising about the use of the terms “biodegradable,” “natural,” and “safe.”

**The Financial Statement.** All of these points can be found in the case, and students should bring them out in the course of a discussion. Ringer’s financial statement then should be analyzed so that students can understand more clearly what is the source of Ringer’s lack of profitability. What becomes immediately clear upon looking at its financial statement is that gross profits are quite high and have more than doubled from \$4.7 million in 1989 to \$10.9 million in 1991. The company’s net loss in the same period also has increased from \$1.9 million in 1989 to \$4.7 million in 1991.

Something is awry here. The key is to be found in the operating expenses. Sales and marketing expenses have gone up from \$5 million to \$10.9 million, which means Ringer is paying an awful lot of money to bring in new customers and grow the business. One immediately suspects that the national advertising campaign and the wonderful promotional material have been inordinately expensive.

The second item that comes to one’s attention is the \$1.5 million write-off for the recall in 1991. General, administrative, and R&D costs also seem to be out of hand. Legal costs would be hidden in the general and administrative category, which suggests that the suit by Scott has been costly in many ways. As much as it hurts the company’s image with consumers, it also is a costly nuisance that a small, young, struggling company can ill afford to bear.

**What Can Be Done.** These considerations may lead students to look back at Ringer’s portfolio of products and reconsider whether its aim was too broad and whether this portfolio should be adjusted in any way to less frequently come up against strong and aggressive competitors (like S.C. Johnson and Scotts) in consumer marketing. Could it form alliances and partnerships with these entrenched firms, relying on them for distribution in exchange for a share of the profits and its expertise in alternative lawn and garden products?

With Ringer's 28% market share of a \$75 million niche, other companies might not be interested unless they think this niche market could grow rapidly. Scotts' legal action shows that Ringer is considered to be a threat. Another way of forming an alliance with the larger companies would be to develop complements to larger firms' products.

Its patents and research might be valuable insurance policies for these old-line chemical companies in the long run, and it might be in their interest to work with Ringer rather than to fight a costly war against it. As a small competitor in this market, Ringer would have a difficult time defeating these companies in the long run, as they could introduce their own versions of environmentally friendly products if the threat became severe — with their command of shelf space and distribution channels, they could put Ringer's very survival (as other than a very fringe player) at stake.

Ringer might think about boosting its composting sales (provided these were profitable) as the competition in this market was less severe. It might also switch to a less intense advertising and promotion strategy in order to cut costs. Finally, it might consider focusing more on the catalog market and concentrating on being a specialty producer before choosing to go head-to-head with the big national chemical companies. This tactic would be a retreat, but it might be necessary. It would grow the business more slowly but on a surer footing and show some patience before taking on these national chemical manufacturers.

**The Short-Term Issue: Jobs.** In the short term, it was apparent that the jobs of workers were at stake and that its management team, however strong, would have only a short time to act before anxious investors applied pressure for substantial changes. The jobs of the management team, however talented, were on the line.

## ***Update on Current Business and Problems***

After completing your assignment, students would probably appreciate learning what happened to Ringer after the timeframe covered in this case.

### **HAS THE NATURE OF THE BUSINESS CHANGED?**

In 1991, Ringer's sales of environmentally friendly products were just reaching their peak: about \$21 million. Since then, it has strategically acquired conventional pesticide companies, whose products constitute \$15 million a year in annual sales. Its total sales today are about \$30 million. These are equally split between environmentally friendly products and conventional ones, but it is still not a profitable business; the growth rate for its environmentally friendly products is flat.

Ringer intends to grow into a company of \$150 million in sales through acquisition of conventional companies and products in a market in which the suppliers are rapidly consolidating. Ringer is counting on the sales from these conventional products to provide it with the profits to keep it in the business of selling environmentally friendly products, which it still believes have good long-term potential.

The other dramatic change has been a complete shift in management. Pat McGinnity, vice president of research and development, is the only person from the original management team to have survived. And some staff left because Ringer decided to enter the conventional pesticide market. In 1997, Ringer had only 27 full-time employees. The new CEO, who came from another industry, was attracted by the challenge of applying his turnaround skills. His commitment to the environment is perceived to be less strong than that found in the original management team.

Ringer discovered that 1990 was the peak of environmental awareness. After that, consumers became more concerned with cost and namebrand. Surveys of its customers have shown that efficacy and price are the most important product attributes, followed by safety. The environment is only an important feature if efficacy and price are the same.

The acquired companies have the same distribution channels as Ringer's environmentally friendly products, but Ringer still has to have a separate sales force for the two lines of products, as the expertise needed to

sell them is different. Now, Ringer has a broader line of offerings, which buffer it against changes in consumer tastes. The most significant acquisition was Dexall, a well-known pesticide brand in the West. Ringer also acquired Oxygen Plus, which makes a liquid fertilizer similar to Miracle Gro.

Dexall has manufacturing capability, but Ringer still outsources its manufacturing of environmentally friendly products, believing this ultimately decreases its liability. As the industry concentrates and there are more specialized and fewer manufacturers, Ringer plans to acquire its own state-of-the-art manufacturing plant.

### HOW HAS THE INDUSTRY CHANGED?

There has been vast consolidation. The large competitors have become bigger and their brands stronger (e.g., Monsanto's "Ortho" and Scotts' "MiracleGro"); another company, Spectrum, is vertically integrated and very large. The small companies also are consolidating. They are looking to the stock market and venture capital to finance their growth. However, the number of gardeners has declined. The industry needs to attract more people. It is a mature industry with annual growth rates of 3% or less. The key to success is packaging and product placement in large discount outlets like Home Depot, Target, Kmart, and Lowes.

### WHAT ARE THE MOST IMPORTANT PROBLEMS THE BUSINESS NOW FACES?

Point-of-sale, dedicated shelf space gets taken. Other vendors have more salespeople, who come into stores and advise the managers to move the Ringer products to less prominent positions. Ringer does not have enough staff to go to the stores. Some of the retailers require slotting allowances — for example, at Menard's, it is the only way to get space.

Advertising by the national brands is still intense, and television advertising costs at least \$3–5 million. Ringer

has to concentrate on less expensive advertising in upscale publications and appeal to people who know more about gardening. With sales down, there is not much money for advertising, but the acquisition of Dexall should help

The market has changed enormously since 1992. The premium pricing strategy Ringer used for its environmentally friendly products was not sustainable. All products now are cheaper, and Ringer continues to sell its environmentally friendly products at a price above the norm. However, in real terms, the prices it and all its competitors charge today are much lower than what they charged in 1992 — this is due to today's intense competition. Scott entered and then exited the natural fertilizer business because it was not profitable.

### HOW DOES GOVERNMENT AFFECT THE BUSINESS?

Composting legislation never came. State registration costs have increased and thus require a larger volume of business to justify the expenditure. Hazardous waste disposal of returned materials from distributors is very costly: transportation regulations increase the cost of shipping because the material is flammable.

Ringer cannot afford to be as politically active lobbying in Washington as it was in 1992. Now, it must rely on industry trade associations, which are dominated by its competitors. Regulations should be restructured to take into account the size of a company, but given how large companies dominate the trade associations, this outcome is not likely. To register products, even those as benign as Ringer's, is very costly and time consuming; regardless of how large or small the company, the same costs prevail. The high cost of regulations prevent entry by competitors with innovative products.

**Prediction.** This case provides a good "stick-to-your-knitting" story. It is possible that Ringer would try to sell off its green division and that the newly sold green division could go back to its niche.



National Pollution Prevention Center for Higher Education  
430 East University Ave., Ann Arbor, MI 48109-1115  
734/764-1412 • fax 647-5841 • e-mail [nppc@umich.edu](mailto:nppc@umich.edu)

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