The Case of Biofoam follows the report in this file.
Case Study

Biofoam: just peanuts?

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1. Outline Biofoam’s current marketing strategy.

“Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives.” [1]

We begin by stating Biofoam’s marketing objectives. It is to say that Biofoam aims at sales targets. Total Biofoam’s sales were 3 million euros in 2000; meanwhile the packaging industry has potential sales of around 200 million euros to 600 million euros per year. Biofoam projects sales of 30 million euros of which 30% is earnings before interest and taxes. Moreover, Biofoam’s current customers are the resellers who want to send environment messages, and the companies who consume a large amount of Styrofoam peanuts, say up to 20 truckloads per day, such as computer reseller MicroAge and Fuller Brush Company. Biofoam aims to expand market beyond these environmental friendly organizations.

A marketing strategy can be considered as a “road” a business constructs then follows to reach its marketing objectives. In order to simply outline Biofoam’s marketing strategy, we answer four questions. Question 1 is about how the loose-fill industry is at the moment; question 2 is as to what is Biofoam’s target segment; question 3 is relating to positioning the product Biofoam peanuts; and in question 4, we write about the marketing mix 4Ps.

1a. How is the loose-fill packaging industry at the moment?

Businesses show demands for more eco-friendly packaging materials, as a growing tendency towards environmental responsibility. Polystyrene peanuts, the most common type of packaging materials, is inducing burden on the environment since it takes more than 500 years to decompose, whereas their volume is growing by above 20 million kg per year. To address this problem, many firms, such as MicroAge, spent more of their sources on finding a suitable alternative to polystyrene. Besides, there are young people who were nurtured environmental awareness as children enter the market, they need green packaging. It is a potential market for Biofoam peanuts here, although it must be mentioned that some industry observers is still not optimistic enough about the depth of environmental concerns.

Biofoam has diverse tough and potential competitors in loose-fill packaging industry. The battle is far more chaotic. The Styrofoam packaging competitors consist of chemical producers, fill
manufacturers along with regional distributors. Several new players also offer organic, water-soluble foams made from natural limestone and potato starch, or corn-starch-based thermoplastics. They have competitive advantages of cost and quality also.

1b. What is Biofoam’s target segment?
Biofoam decides to focus on the niche market, where Biofoam is a supplier of a small set of environmentally sensitive businesses. A niche is a very narrow market where a group seeks unique products or combinations of benefits, and often little competition it has. It is a reasonable explanation that a nicher knows its target customers group full well so it serves them better than other casual business; thereby, a nicher reaches high margins while mass marketers reach high volume. The nicher is safe from other big competitors’ attack by building customer goodwill along with non-stop improving its special products. In Biofoam’s case, other promising applications of Biofoam peanuts were found out, including in oil drilling and medicine industries; however at the moment, Biofoam is not concerned. It wants to concentrate on solutions which keep its current customers with complete satisfaction and convince more potential users.

1c. What is positioning of Biofoam peanuts in loose-fill packaging market?
Product position is the ways how images of a product are in customers’ hearts and minds, and what customers first think and talk about it in comparison with other alternatives. We think that the image Biofoam forms is “to be environmentally responsible without having to pay more or sacrifice convenience”.

1d. What is Biofoam’s marketing mix?
Biofoam’s marketing strategy is, in short, “four Ps“ which are Product, Price, Place and Promotion. The way we coordinate these Ps together to success in marketing is called Marketing mix. Below we go into details of each element P.

Product

Product is any tangible or intangible product or service that can be offered to a market to satisfy a want or need. Biofoam’s marketers determine customers’ core needs that their
peanuts will satisfy, then they find ways to improve the product peanuts and create combined benefits so as to fulfill the needs best.

- **Product Category**

Besides Sorghum peanuts, new forms of biodegradable peanuts are projected to be added, including injectible Biofoam and stiff Biofoam packaging materials.

- **Product Quality and Features**

Product quality is the first and foremost attribute that a business pays attention to while choosing suppliers. A product can have various features. To be the first manufacturer introducing a new valuable feature is one of the best ways to compete.

In this case, Biofoam peanuts have as good qualities as Styrofoam peanuts: lightweight, inexpensiveness and resilience. They fit all shapes, protect amazingly in transit and leave no dust.

Biofoam peanuts have its competitive advantage as no electrostatic charge, so they do not cling to goods with surfaces made from synthetic fibers like plastic.

A characteristic that makes Biofoam peanuts absolutely different from Styrofoam ones is their organic nature. Biofoam peanuts are made from grain sorghum. They are like tan cheese doodles and, in fact, edible. The peanuts are water-soluble.

They have a feature as snake food (its original value) or pet’s food also, since they can be set out with salsa or used to feed birds, cats and dogs. Additionally, they can be compost.

- **Product Improvement**

Biofoam focuses on improving their products rather than spread to other markets as oil or medicine. Actually, one of two Biofoam’s major accounts, Fuller Brush Company, complained that the product crumbles in boxes containing sharp-pointed brushes. Biofoam is working hard towards a solution.
Price

To the narrowest extend, “price is the amount of money charged for a product or service” [2]. Biofoam’s Price strategy is that it offers superior products at equal to or cheaper prices than competitors in order to convince more users.

At the beginning, it supplied Biofoam peanuts to market at the same price as other Polystyrene packaging firms do.

Then, with the option “To be environmentally responsible without having to pay more or sacrifice convenience”, it cuts the delivery cost and lowers the price by 10% to 20% by in-house arrangement.

Place

“Place” includes various activities a company conducts to bring its products to the places where target customers can access and buy them. Customers tend to buy from the supplier who helps they save time and money; therefore, making procurement easier, a company definitely attracts more customers.

Biofoam decides to directly sell peanuts through in-house arrangement. In other words, Biofoam is willing to install machinery inside customers’ factories to produce peanut in-house. Biofoam supplies its business customers with labors to operate machines if needed, on-site service and a five-year price guarantee.

Then, Biofoam sells the excess amount of peanuts to smaller firms in the host’s area because a host usually consumes one third of its peanuts output.

Promotion

Promotion can be understood as a communication policy or customer contact activities, such as: advertising, sales force, promotion, public relations, exhibition, and customer service center and so on with a purpose on persuading customers to buy.
Biofoam targets the right sellers, who want to send environment messages, after that it does advertising by providing the customers with pamphlets explaining the advantages of the Biofoam peanuts.

Furthermore, it communicates with existing customers as Fuller Brush Company, asking for their feedbacks on the products.

Biofoam is on intimate terms with each customer thanks to building a network of regional manufacturing facilities via in-house arrangements.

2. Which elements of the marketing mix are most important for Biofoam to focus on?

We believe Product and Place are the most important for Biofoam to focus on.

As our thoughts in question 1, Biofoam initially provided environmentally friendly packaging materials at a fairly competitive price points compared with the most popular products at the moment, Polystyrene foams. However, the sales goal is not easy for Biofoam to achieve as it seems at first sight. The packaging market seems not to express enough considerable concern about environment issues. Competition is stiff now that there are numerous large traditional Styrofoam firms as well as aggressive new firms entering the niche of biodegradable and water-soluble foams products. Moreover, Biofoam peanuts are still slightly defective when they are filled in boxes together with sharp-pointed goods, which can make it less favorite in some industries. We think that if a firm does not have a really good product that plentiful customers desire, the effective price, promotion and even place strategies do not make any difference. Customer businesses do not decide to buy a wrong product because of its attractive price, everywhere availability and proper promotion. For Biofoam, concentration on product improvement strategy is very vital. How to make it sufficiently distinct from other competitive biodegradable foams, how to make it more superior to satisfy growing demands of existing customers and to meet the needs of the potential customers that Biofoam targets,... are problems needing solutions from Product strategies.
In this specific case, we also think that Place is Biofoam’s second key element. The Marketing mix is called “mix” because the elements connect and impact together. The in-house arrangement has some strong effects:

- Rent-free production sites helps Biofoam cut production cost. It is obvious that a decrease in cost is very important in any firm. A lower cost let a firm set a lower price than any other Styrofoam peanuts; consequently it achieves greater sales and profits.

- Via Biofoam on-site, the firm increases the service quality. More service and guarantee are offered together with an on-site arrangement. Also, delivery time is minimized. Packaging material is available for business customers immediately and reliably. This Just-in-time delivery helps customers not only avoid the stock-out costs but decrease the shipping cost by 10% to 20%.

- Biofoam builds a rent-free network of regional manufacturing facilities and stays closer to each customer. This also creates differential advantages for Biofoam products.

So, it is clearly seen that the in-house arrangement strategy (Place) immediately affects possibly service quality (Product), cost (Price) and customer relationships (Promotion). However, there are still drawbacks of installing machines on the customers’ premises. Biofoam should still do R&D more to seek solutions and develop other strategies in this element P-Place.

3. What is the nature of demand in the loose-fill packaging industry?

What factors shape that demand?

In business-to-business marketing, business demand is derived demand – “it ultimately derives from the demand for consumer goods” [3]. Raw materials, components and sub-assemblies become part of the customer’s finished product and therefore, the demand for them is directly determined by the demand for the customer’s product.

In the loose-fill packaging industry, the nature demand is derived from the demand for the products to be packed: The packaging must be lightweight and inexpensive and provide added protection through its resilience. They have to conform to any shape, protect superbly, resist shifting in transit, and leave no dusty residue on the goods they protect and are indestructible.
These necessary characteristics come from the main benefits of the loose-fill packaging industry which are: versatile, flexible, lightweight, economical (cost-effective), stabilizes products and prevents migration during shipment, anti-static treated, available in green or white, build shipments available, perfect for void fill and cushioning a variety of products.

The factors shaping that demand are the nature of goods to be packed, customers’ environmental responsibility and the general economic climate.

From the nature of products, it needs to be versatile and flexible to be used anywhere, anytime even in automatic filling systems. Loose fill packaging fills in the space between items and the box they are packed inside so lightweight should be the most important feature to reduce the weight of the total package of the whole products, therefore reduce the transportation costs and save delivery time, increase the cost-efficiency, especially in terms of logistics with long distances. Besides, its resilience also helps prevents the item from moving around and protects it from possible damage during shipping. Furthermore, many companies make recycled, biodegradable or earth-friendly packing peanut alternatives. Consider using peanuts that can be completely decomposed in water, or material made of 100% biodegradable materials so it does no harm to the earth.

In the business-to-business market, when it comes to the environmentalism – an organized movement of concerned citizens and government agencies to protect and improve people’s living environment, not only the final consumers but several other businesses such as hide dealers, tanners, manufacturers, wholesalers, retailers, etc. which participate in the business transactions also raise the questions for green products. Because of government legislation and continued public interest in green issues, firms are required to use biodegradable packaging. Retailers who want to send an environmentally friendly message are targeted by companies such as Biofoam, and they will profit from a global regulatory climate that is increasingly hostile to polluters. Evolving from the first two environmentalism waves (driven by environmental groups, concerned consumers and governments) in which companies are accepting responsibility for doing no harm to the environment, more and more companies are adopting environmental sustainability – developing strategies that both sustain the environment and
produce profits for the company. They are shifting from protest to prevention and from regulation to responsibility. Take StarchTech Inc. for instance, “Protect your product and your environment” has been the slogan of this the company in the loose-fill packaging industry. Besides, from the consumers-oriented viewpoint, “younger people who grew up learning about the environment in school are now entering the consumer market. That’s a very strong trend.” (Ed Alfke, Biofoam’s CEO). Such consumers will demand more responsible packaging.

The Cambridge dictionary defines the term “economic climate” as the general conditions of the economy in a regional economy in a particular country or in the world, which captures the status of the stock market, the perception of the economy by consumers, and the availability of jobs and credits. Business decisions are often strongly influenced by the overall economic climate. The loose-fill packaging industry is becoming much more rough-and-tumble with new competitors enter the playing field. So far, cost, quality and productivity advantages are the most important aspects that every firm always tries to improve.

All in all, understanding the nature demand of the business market is truly crucial to the insights into the business demand as well as the decision making process which then have the great influences on the whole market activities.

4. If you were a buyer of packaging materials, would you agree to Biofoam’s offer of machines inside your plant? If not, how could Biofoam overcome your objections?
This depends greatly on several factors such as: types of product/service and its own qualities such as materials, production process, etc. that we (the buying firm) produce, how much packaging our firm is using and the necessary purchasing quantity, the factory size, place and other organizational as well as operational activities.

For a relatively small amount of purchased packaging materials of the buying firm, Biofoam’s offer of machines inside the plant might be accepted due to many marks and points. Otherwise, if the buying firm has a high need for packaging foam, then the convenience and
environmentally friendly aspects would probably be the main obstacles for Biofoam when it comes to siting the machines inside the host firm.

However, disadvantages of this in-house production arrangement are noticeable which might held back the acceptance of this offer. From the host’s perspective, the machinery takes up a large space of 140 m² of floor space that could be used to produce something else. Furthermore, some of the output of that 140 m² goes to other firms, benefiting Biofoam but do nothing for the host. Because the host company will only consume about one-third of the output, Biofoam plans to sell the excess to smaller firms in the host’s area. Admittedly, there are no points in producing more than the actual demand and estimated quantity without receiving any considerable benefits; it goes against the sole purpose of any business.

Moreover, the host has a non-employee working in its plant. The peanut-making machinery is also intrusive. It consists of three machines – an extruder, a conditioning chamber and a deduster – joined by ducts and conveyor belts. The machines make lots of noise like a giant air conditioner, making conversation in the vicinity impossible. The process creates a smell, rather like the inside of an old barn, and produces heat, a potential problem. Thus, on closer inspection, the in-house arrangement is not entirely desirable.

It might not be an easy job for Biofoam to overcome these objections but there are possible solutions to eliminate them.

Apart from the disadvantages, Biofoam could point out many great advantages of the in-house production arrangement for the customers. Users can receive immediate, reliable, just-in-time delivery combined with on-site service and a five-year price guarantee with no intermediaries involved. With Biofoam on-site, users never run out of packaging, and they avoid the expense of stockpiling materials. This rent-free network of regional manufacturing facilities also helps create an intimacy between customer and Biofoam.

If actual actions should be conducted, for instance, negotiations about benefit share of the installation or operation costs can be made between Biofoam and the buying firm: renting the site, allowing the firm a percentage of the sales, etc.
About factors like available space and kind of smell, noise and heat the machinery produces, Biofoam should have well planned financial schemes in the long-run to invest more money in market research and use more advanced technology to improve the machines’s designed functions which can be effectively and efficiently adaptable to the actual needs. Furthermore, Biofoam could offer educational training course for the buying firm’s employee about how to operate these machines so that wasteful non-working workforce could be eliminated to the minimum.

Another option is that Biofoam could consider building parent farms between some small firms within a specific regional group which have the demand towards the in-house production arrangement instead of having this in-house arrangement in every single firm separately. This may help reduce the operation cost, distance, transportation costs, etc. However, several problems also related to the site, operating and managing system are the obstacles that Biofoam might face. Even though without this arrangement, costs rise considerably (because it had to ship the peanuts to users, which causes Biofoam to raise the price 10% to 20%), for the long-term benefits and customer relationship building as well as the environmental issues, these actions should be intensively considered.

5. What environmental and organizational factors are likely to affect the loose-fill packaging industry? How will these factors affect Biofoam?

The loose-fill packaging industry is influenced by different kinds of environmental and organizational factors. They are extremely important because their influences affect the firms buying behavior and the sales of firms like Biofoam. Therefore, suppliers should be able to understand these factors and to transform them in opportunities.

One environmental factor affecting the industry is the political and regulatory system. In the last decade, the political system has put a lot of attention toward environment since the level of pollution created by human beings and their activities has created huge and permanent damages. So, the Governments have decided to put some limits to the use of raw materials as well as the pollution created by firms and to oblige them to adapt their plants to the green
standards decided both at national and international levels. The regulation system influences the industry also in the materials that should be used for packaging the products according to the characteristics of the products themselves. Biofoam can gain a lot from the Government actions because the regulations give it more space to act and maybe also some governmental incentives for continuing its work.

Another environmental factor is the increasing customers’ awareness about the environmental problems. Nowadays customers are more and more concerned about the future of the Earth. This awareness comes from national and international educational programs focused on increasing the sensibility about the problems. The programs are showing their results, especially thanks to the young generations who, according to the text, are growing up with these values. Many people have started putting attention on what they are buying and how the firms produce their products and services. Customers ask for more green products and packaging, so firms are conditioned to satisfy these requests or they are going to lose their market shares. All that is only positive for Biofoam because it is translated in a high demand for its packaging products which meet the expectations of the final customers.

As the text underlines the competition is extremely strong in this industry, especially thanks to the new technology that lets the firms be innovative combining the necessity of being green. New materials for packaging have been created and this pushes the firms to be more and more careful about the competitors and their technology to avoid losing customers and profits. Firms like Biofoam should be able to react to the competition with investments in their R&D departments to save and increase their market shares. Even if Biofoam is one of the pioneers of the industry, it should analyze constantly the market to find new opportunities and to defend its product from the aggressive competition.

Another environmental factor is the economic outlook. Economic difficulties and crises make people less sensitive toward the green values because they imply an increase in costs of doing things. Let us think about the duty of firms to use filters not to pollute the air. The installation and the filters cost the firm and when the economic situation is not good, like nowadays, firms are less interested in spending money on doing such environmental friendly things. They prefer
to use their limited financial source in activities more related to their final production.

However, the economic difficulties affect the customer decisions, too. People are going to spend less money and they try to find cheaper products. Naturally, the final price of the product is affecting by the price of the packaging. All the previous observations show how it is difficult for Biofoam to continue to act in the industry. It should try to keep costs and so, prices, lower. In that way, its customers should be always ready to use Biofoam’s products.

According to the book, the organizational factors are the rules, the policy, the structure and the system that each buying organization has. These factors are able to influence the activities of Biofoam because the organizational characteristics of its buyers or potential buyers define their demand for packaging products.

The company policy is given by the mission and the beliefs of people that work inside it. Some firms put more efforts in being green because respecting environment is a part of their policy, while other firms do simply not care about it despite the Governments obliging them to respect the green regulations. Therefore, the larger the number of firms with a positive policy toward the environment is, the larger the number of buyers of Biofoam’s products will be.

Another important organizational factor is the buying decision process in the industry, especially the participants to this process. These participants include the users that are going to use the product in the organization. The influencers are the people with particular experiences and knowledge that can help in arriving to the final decision. In this case, they are the engineers and product designers of the goods that will be packaged. They determine the materials and the shape of the products, so they know which packaging materials is better to protect the goods. Then, there are the buyers, who are going to do the actual purchase. In this situation, they are the sale managers and the people who work in the procurement department. The deciders of the situation are those who work in the firm department focusing on selecting suppliers. Finally, the gatekeepers are the purchasing agents. All these people influence the buying decision process of Biofoam’s customers and the profits of Biofoam. To keep the sales higher, Biofoam should improve the communication programs and the relationships toward all
these people. It should keep them informed about the developments and collaborate with them for finding new solutions about packaging.

6. Is Alfke right? Is this a good deal? Would you have bought into the firm? Why or why not?

We think that Alfke is right in considering Biofoam a good deal and we would have bought into the firm.

The first reason behind our choice is the increasing interest in having more eco-friendly products, services and packaging. It is true that when the firm started its activity as a snake food supplier, people and firms were not so involved in concepts like green-economy and green values. Nevertheless, nowadays everyone is increasingly worried about the environment and polystyrene peanuts are used less and less among customers and firms. Firms are looking for new packaging solutions that should be ecofriendly without losing the important characteristics of protecting the products.

Moreover, Governments sustain the R&D for producing greener products also with incentives to those firms that decide to invest in this R&D projects.

All the previous reasons should be considered in combination with the increasing amount of import and exports. From the 80-90’s, countries from all over the world have started to exchange products in a very huge way thanks to the development of communication systems. This fact has increased the transports and the needs for packaging solutions. So, firms like Biofoam can benefit from both the society point of view about the environmental conditions and an increase in products movements.

Everything that we have said before shows that Alfke is a good businessman that focuses his attention around him, analyzing the market in a careful way for finding the best opportunity as possible. These characteristics are fundamental to start a business that will be successful not only in the present but also especially in the future. As we read in the case, at the beginning, Biofoam had difficulties because the segment in which it operates was relatively new and no so
many people were interested in it. Nevertheless, Alfke’s belief has been proved by all the improvements from the 90’s until now.

However, what Biofoam should have done was to invest more money and effort in offering a better product and better machinery to produce peanuts in-house. The in-house concept works extremely well with Biofoam’s product because it underlines the importance to protect the environment and to avoid all the polluting activities (like transportation) that a firm is able to avoid. So, for obtaining new customers and improving the relationships with the oldest ones, Biofoam should improve the characteristics of the machinery such as eliminating the noise, the production of heat and dimension. About the products, some of the customers are happy with it but still others complain. Biofoam is active in answer to the unhappy customers and eliminating the negative characteristic of the products. Moreover, it should be able to be reactive to the market stimuli, trying to foresee the user’s needs. So, the firm should improve the relationships with its customers and collaborate more with them to create better final products.
Reference


http://www.businessdictionary.com/definition/economic-climate.html#ixzz2KVkJ8LKP

Biodegradable Packing Peanut Void Fill Packaging by StarchTech

http://www.youtube.com/watch?v=MzmTdeSSOpY:

Case - Biofoam: just peanuts?

Like diamonds, polystyrene peanuts are forever – their volume is growing at a rate of at least 20 million kg annually. Since their introduction in 1970, they have become one of the most popular forms of packaging material. They are lightweight, inexpensive and resilient. They conform to any shape, protect superbly, resist shifting in transit, leave no dusty residue on the goods they protect and are indestructible. That’s the problem. Nearly every one of those peanuts used since 1970 is still with us – blowing in the wind or taking up space in a landfill. Worse yet, they will be with us for another 500 years. They’re wonderful but not environmentally sound.

The small firm Biofoam thinks it has solved this problem. It sells a peanut made from grain sorghum, a grain now used for animal feed. To make these sorghum peanuts, the company strips the grain of its nutritional value, presses it into pellets, and conveys it through a giant popper. The process creates a product that looks like tan cheese doodles, not so surprising given that the inventors started out to make a snack food. But no one wanted to eat these objects, so the inventors had to find other uses for them. According to Ed Alfke, Biofoam’s CEO, the sorghum peanuts do just as good a job as the best foam peanuts and they don’t cost any more. Moreover, they hold no electrostatic charge, so they won’t cling to nylons or other synthetic fibres (such as your carpet or clothes). Better yet, they are ‘absolutely, frighteningly natural’, says Tom Schmiegel, a veteran of the plastics industry.

To dispose of a Biofoam peanut, you can: (a) put it in your trash can, (b) throw it on your front lawn as bird food, (c) compost it, (d) put it in your dog’s or cat’s bowl, (e) set it out with salsa at your next party, or (f) wash it down your drain. The peanut dissolves in water and has some – although limited – nutritional value. Alfke bought into the company because of its environmentally positive stance. He is convinced that green companies will profit from a global regulatory climate that’s increasingly hostile to polluters. ‘The writing is on the wall for companies that are not environmentally friendly’, he says.

Biofoam initially targeted retailers who wanted to send an environmentally friendly message, helped along by the inclusion of a Biofoam pamphlet explaining the advantages of the Biofoam peanut. It targeted the heaviest users of Styrofoam peanuts who consume up to 20 truckloads...
of loose fill a day. To date, Biofoam has signed two major accounts – the Fuller Brush Company and computer reseller MicroAge.

Eventually, Biofoam will have to expand beyond environmentally sensitive firms into a broader market. To convince potential users to use Biofoam peanuts, Alfke has come up with a seemingly no-brainer option: to be environmentally responsible without having to pay more or sacrifice convenience. He is willing to install machines on the customer’s premises to produce peanuts in-house – an arrangement that would give Biofoam rent-free production sites. He’ll even provide an employee to operate the machinery. Although this strategy might sound unusual, it has been used by other companies such as Xerox to sell copiers and Tetra Pak to sell juice boxes and milk cartons.

The in-house arrangement has benefits for the customer as well as for Biofoam. Users receive immediate, reliable, just-in-time delivery combined with on-site service and a five-year price guarantee with no intermediaries involved. With Biofoam on-site, users never run out of packaging, and they avoid the expense of stockpiling materials. Lower production costs make Biofoam’s product price competitive with that of polystyrene. For Biofoam, the arrangement provides a rent-free network of regional manufacturing facilities and an intimacy with each customer. Because the host company will only consume about one-third of the output, Biofoam plans to sell the excess to smaller firms in the host’s area.

However, this in-house production arrangement has disadvantages. From the host’s perspective, the machinery takes up 140 m² of floor space that could be used to produce something else. Furthermore, some of the output of that 140 m² goes to other firms, benefiting Biofoam but doing nothing for the host. Furthermore, the host has a non-employee working in its plant. The peanut-making machinery is also intrusive. It consists of three machines – an extruder, a conditioning chamber and a deduster – joined by ducts and conveyor belts. The machines make lots of noise (like a giant air conditioner), making conversation in the vicinity impossible. The process creates a smell, rather like the inside of an old barn, and produces heat, a potential problem. Thus, on closer inspection, the in-house arrangement is not entirely
desirable. Without this arrangement, however, costs rise considerably. If it had to ship the peanuts to users, Biofoam would have to raise the price 10 to 20 per cent.

Biofoam’s competition, the polystyrene loose-fill industry, is a fragmented patchwork of diverse companies. It includes oil companies, chemical producers, fill manufacturers and regional distributors – all of which would suffer from Biofoam’s success. The industry is much more rough-and-tumble than CEO Alfke anticipated. So far, Biofoam has a microscopic market share. The company’s 1995 sales totalled only €3 million – not much in an industry with potential sales of €200 to €600 million a year. But the €3 million represented a five-fold increase over the previous year. Alfke now projects sales of €90 million in 2000, with 30 per cent pre-tax profits. These projections include sales of products other than sorghum peanuts. Alfke plans to add injectible Biofoam and stiff Biofoam packaging materials. Other promising applications have been suggested, such as using Biofoam to absorb oil spills or in medicinal applications, but Alfke doesn’t want to talk about those. For now, ‘It’s important that we try to stay focused’, he claims.

Can Alfke reach his ambitious goals? Many industry observers say no. Environmental claims, say these observers, don’t have the impact that they used to have. ‘That was something we worried about three years ago’, said a purchasing agent. Biofoam’s sales representatives are finding the market less environmentally concerned. Others, however, are more optimistic. For example, although she agrees that the novelty of environmentally responsible packaging has worn off, Nancy Pfund, general partner of Hambrecht and Quist’s Environmental Technology Fund, thinks that many firms are still interested in environmentally friendly packaging. She notes that companies have ‘internalised a lot of environmental procedures without making a lot of noise about it. You also have younger people who grew up learning about the environment in school now entering the consumer market. That’s a very strong trend.’ Such consumers will demand more responsible packaging.

Are companies that use Biofoam happy with it? Well, some yes, some no. On the positive side is MicroAge Computer. According to Mark Iaquinto, facilities manager, MicroAge had been searching for an acceptable alternative to polystyrene. Now that it’s found Biofoam, he’s
convinced it can stop searching. On the negative side, Norbert Schneider, president of Fuller Brush Company, has concerns about the way the product crumbles in boxes filled with sharp-pointed brushes. Alfke says that Biofoam is working on a solution, but if it doesn’t find one soon, Fuller Brush may change packaging suppliers.

Other firms have entered the market with biodegradable, water-soluble foams. Made from corn-starch-based thermoplastics, the products can be rinsed down the drain after use. They can be used in loose-fill packaging applications or moulded in place into shaped packaging. They compare favourably with traditional packaging materials for cost and performance.

So, facing a stiffly competitive industry, new competitors and a softening of environmental concerns, Biofoam will find the going hard. But none of this dents Alfke’s enthusiasm. Alfke was a multimillionaire before age 40. ‘I’ve seen a lot of deals’, he claims, ‘and I’ve never, ever seen a deal as good as this one.’ As an experienced businessman, no doubt he has seen a lot of deals. He really believes in this one, but is he right?


Assignment Questions
1. Outline Biofoam’s current marketing strategy.
2. Which elements of the marketing mix are most important for Biofoam to focus on?
3. What is the nature of demand in the loose-fill packaging industry? What factors shape that demand?
4. If you were a buyer of packaging materials, would you agree to Biofoam’s offer of machines inside your plant? If not, how could Biofoam overcome your objections?
5. What environmental and organizational factors are likely to affect the loose-fill packaging industry? How will these factors affect Biofoam?
6. Is Alfke right? Is this a good deal? Would you have bought into the firm? Why or why not?