University of California
Berkeley
Haas School of Business

RGA

Digital Camera Bags

EWMBA 299E-1 Competitive Strategy
Professor Meghan Busse
Spring Semester 2004

VANTAGE CONSULTING

Yan Chow
Angela Lee
Glenn McDonald
Hiram Moy

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3
PROBLEM STATEMENT 4
INDUSTRY OVERVIEW 4
Market Segmentation and Potential 5
Customer Definition 5
Supply Chain 6
Manufacturing 6
Shipping 7
Distribution Channels 8
Company and Service Reliability 11
Competitive Pricing and Terms 12
Gross Margin 12
Retailer-Friendly Return Policy 12
Promotion and Advertising 12
Turnover Rate or Revenue per Square Foot 12
Typical Costs and Margins 13
Competitive Analysis 14
Competitor Response to RGA 14
New Opportunities 16
Primary Research 17
COMPANY OVERVIEW 18
Background 18
SWOT Analysis 19
Strengths 19
Weaknesses 19
Opportunities 20
Threats 23
STRATEGIC ANALYSIS 24
Option A: Undifferentiated Lowest-Price Strategy 24
Option B: Differentiated Premium-Price Strategy 25
Utility and Style 25
Distribution Channel 26
Brand Diversification 26
Co-opetition 27
RECOMMENDATIONS 27
REFERENCES 28
EXHIBIT 1: COMPETITOR PROFILES 32
Fellowes, Inc. 32
Targus 32
Case Logic 33
Tamrac 34

EXHIBIT 2: STORE BRAND SURVEY 35

EXHIBIT 3: BREAKDOWN OF SHIPPING COSTS 36

CONTAINER CAPACITY 36
FREIGHT COSTS 36
BREAKDOWN OF SHIPPING COSTS 36

EXHIBIT 4: INTERVIEW WITH GAP BUYER 39

ABOUT NEW FASHION ACCESSORIES IN GENERAL 39
ABOUT DIGITAL CAMERA BAGS IN SPECIFIC 39

EXHIBIT 5: TARGETED CUSTOMER INTERVIEWS 41

EXHIBIT 6: SURVEY RESULTS 43

EXHIBIT 7: TALENE REILLY AD 45

EXHIBIT 8: CHANNEL DEMOGRAPHICS 46

EXECUTIVE SUMMARY

Digital cameras are rapidly becoming a household staple as they make the transition from early adoption to the mass market. This inevitable progression has ushered a flood of new buyers into the marketplace – women, soccer moms, generation X'ers, aging baby boomers, and seniors. Unlike early adopters, typically men enamored with the newest techno-gadgets, these new breeds of customers bring different values and priorities to their buying decisions.

As complementors, digital camera accessories will track digital camera sales closely. Yet the digital camera accessories market is still focused on the prototypical early adopter. Retail shelves remain buried under mountains of black, bulky, nondescript bags. The industry has been slow to realize that just as the profile of the digital camera buyer has changed, so too will the profile of the digital camera accessories buyer.

RGA LLC, a startup venture planning to import electronics accessories from China, is contemplating the possibility of competing in the digital camera bag market. To be successful, RGA must examine the industry, the competition, the customers, potential product configurations, and its own strengths and weaknesses. Which market entry strategies would be optimal? Should RGA pursue a generic price-leadership strategy like many other small players, or do something different? How will competitors respond?

To help RGA answer these questions and gain some useful insights, a team of MBA students from the Haas School of Business, University of California at Berkeley, undertook a 15-week project to study the digital camera bag market, with special emphasis on the evolving nature and needs of the digital camera user.

For the analysis we performed both primary and secondary research and applied standard analytical tools to identify unique challenges and issues for RGA. Two main strategies were fleshed out based on undifferentiated vs. differentiated product design. We then developed specific options for each strategy by matching RGA's profile to the new opportunities in the digital camera accessories market.

After considering product design issues, channel selection, customer targeting, competitor behavior, and threats posed by an ever-changing technology marketplace, our report makes the recommendation that RGA pursue an opportunistic business model based on product differentiation at the earliest possible opportunity. Unlike generic plays, a differentiated approach will be more sustainable and profitable for RGA in the long run.

PROBLEM STATEMENT

RGA LLC is a small private company seeking to import electronics accessories manufactured in China for distribution through typical electronics retail channels. It must choose the accessories with the greatest profit potential, the correct channel approach, and a suitable marketing strategy. For the purposes of this project, our team selected **digital camera bags** as a desirable accessory to investigate based on the current life cycle stage of the digital camera market. The questions to be answered include:

1) What is the current state of the digital camera market?
2) How are digital cameras and their accessories distributed and sold?
3) Who is the customer?
4) What is the competitive landscape?
5) What strategic options are available in introducing a new line of digital camera bags?
6) How well is RGA positioned to take advantage of these options?

INDUSTRY OVERVIEW

The digital camera market adoption life cycle rivals some of the most brisk technology adoptions in U.S. history – VCRs, DVDs, and the Internet. By the end of 2003, U.S. household penetration surpassed 30%, which marks the transition from early-adopter stage to mass-market entry. No longer are digital cameras the sole domain of techno-gadget junkies. Today digital cameras are replacing 35mm film and single-use cameras.

The new mainstream consumers may seek different sets of product benefits (ease of use or functionality rather than just features) and complementary products and services (simple photo sharing, web print services, separate file compression software). One important consequence is the emergence of a new, large, and underserved user segment – women consumers.

The typical black camera bag, constructed of nylon material made famous by the Velcro wallet of the early ‘80s, still dominates valuable retailer shelf space but fails to address the changing demographics of camera shoppers.

During several recent investigative visits to local electronics superstores, we typically noticed at each store no fewer than 15 undifferentiated models of bags and about 200 units available for sale at price points between $10 and $15. These bags were in every shade of black and sported optional left- or right-sided pockets. They ranged in size from big to small to minuscule.

Market Segmentation and Potential

Cellular phones used to be a gadget that only professionals could afford. However, as mass production drove prices down, cellular phones became a popular everyday necessity for all professions and all ages. Likewise, digital cameras have shown the identical trend in recent years. In 1991, only 4% of the populace had digital cameras. In 2001, 6.9 million digital cameras were sold. In 2002, the market penetration for digital cameras was estimated at 22%. As the price tag for digital cameras continues to plummet, driven by production efficiency and manufacturing advances, digital camera ownership is expected to pick up significantly. The digital camera is rapidly becoming a consumer electronic staple.

Historically, men have been the primary buyers and users of consumer electronics. However, a recent survey by the Consumer Electronics Association (CEA)[1] produced surprising findings. More than half (58%) of the women surveyed would choose a high-definition TV over a one-karat diamond ring, while two-thirds (64%) of the women surveyed would prefer a digital camera to a pair of half-karat diamond earrings. Who says diamonds are a woman's best friend? Not us.

Women not only express interest in consumer electronic products but also back it with dollars. About half (49%) of the women said they were the primary decision-makers in their households for consumer electronics purchases, as opposed to 48% of men. Seven in 10 women stated their most recent consumer electronics purchase was made for themselves, not as a gift for someone else.

Customer Definition

In households with digital cameras, 46% of primary users are women.[2] Moreover, in households with regular 35mm point-and-shoot cameras, women represent 70% of the primary users. As digital camera market penetration increases, women users are expected to increase as well. The growing consumer power of women has not gone unnoticed. Major consumer electronic retailers and manufacturers like Circuit City, Sharp, and Best Buy have specifically targeted women consumers this year.[3] Sony designed an exclusive line of electronics for women to be sold in Target stores.[4] The shift in consumer demographics has resulted in a welcome expansion of product benefits from sheer utility to quality, style, and fashion.

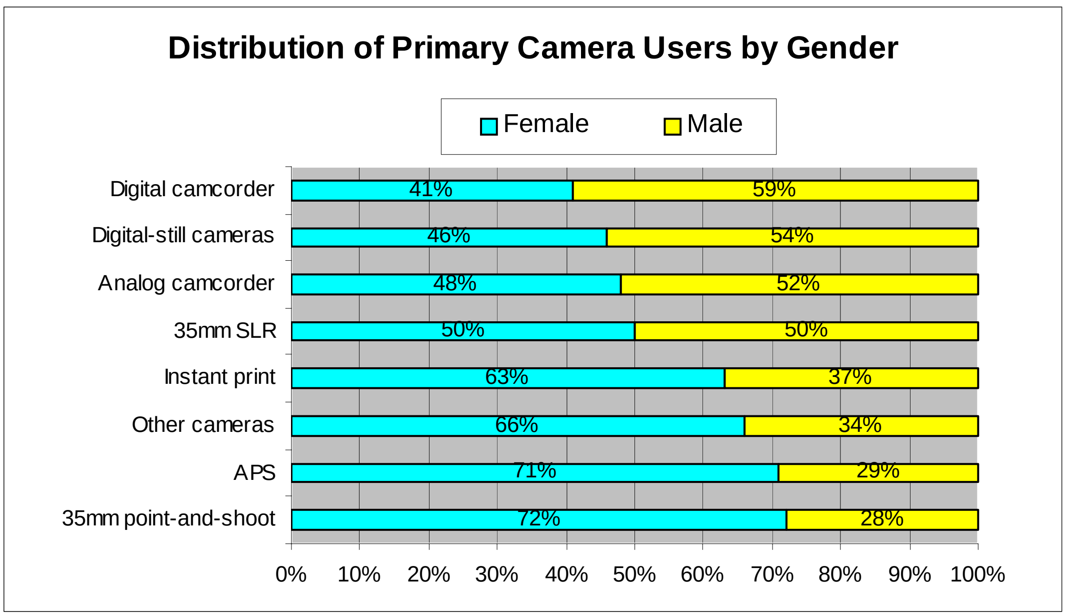
However, digital camera cases available today still target men with the three B's: black, bulky, and boring. The traditional shapeless case with zippers is

[1] Source: "Women, Men, and Consumer Electronics" November 2002 and "Consumer Education Surveys " July and August 2002
[2] Source: 2002 PMA Camera/Camcorder, Digital Imaging Survey
[3] Source: "Consumer electronic companies wooing women" by May Wong, 2004
[4] Source: "Sony designs electronics aimed at women for Target" on March 25, 2002

also less than functional. It is not easy to pull a digital camera out of a case for a quick shot.

For unclear reasons, marketers have been slow to recognize that women and men respond to entirely different marketing approaches. Panasonic found that style is the number one priority for women, while men are primarily concerned with brand. For teenagers, if a product is cool and colorful, you have a buyer.[5]

However, the CEA survey also found a third of women dislike products with ‘girly’ colors (as opposed to genuine style). As proof, niche laptop case designer Casauri has been successful at attracting women buyers with its slick, sophisticated designs. Laura Heller, Senior Editor of the trade magazine *DSN Retailing Today*, summarized it nicely with: “There is a fine line between marketing to women and talking down to women.” Women consumers are a huge market that requires a deft touch for the marketing mix.



Supply Chain

Manufacturing

Two Chinese manufacturers responded to our requests for quotes (RFQ) on camera bags. These bags are to be considered comparable to the quality and construction of our proposed bags. We requested these quotes to understand the costs and conditions of producing items of this type.

The first company, Ningbo Sunful Travelling Goods Co. Ltd., specializes in producing a variety of bags made with polyester, nylon, canvas, cotton, and

[5] Source: “Gadget makers target women” by BBC News Online’s Alfred Hermida

PVC. Their products include business bags, backpacks, camera bags, travel bags, sport bags, tote bags, etc. 100% of their products are exported.

For the camera bag SF-03158 as shown, the prices quoted were:

Pcs/order	USD/PC FOB Ningbo
1,000	$3.31
5,000	$3.12
10,000	$2.96

The terms of payment are: Ningbo accepts a banker's letter of credit (L/C) or telegraphic transmittal deposit (T/T) as remittance. For new customers their usual arrangement is 30% payment in advance when the order is confirmed, with the rest (70%) due on receipt of faxed shipping documents.

The second company, Quanzhou Heng Sheng Camera Bags Co. Ltd., produces various camera bags, computer bags, CD bags, and video bags with polyester, nylon, and PVC materials. For the camera bag shown, the company gave us the following quote:

Pcs/order	USD/PC FOB Shenzhen
5,000	$1.74
10,000	$1.69

This company did not give their terms of payment, although it can be assumed the terms would be similar to those of the previous company.

For camera bags with MSRPs from $10 to $40, manufacturing will therefore represent about 10-15% of the price.

Shipping

Transporting bulk materials in shipping containers between China and the U.S. usually means ocean freight. While we could consider air transport, its cost is difficult to justify given the small product margins. UPS service from Ningbo to Oakland for a maximum weight of 70 lbs. runs from $765.19 to $1,195.71.

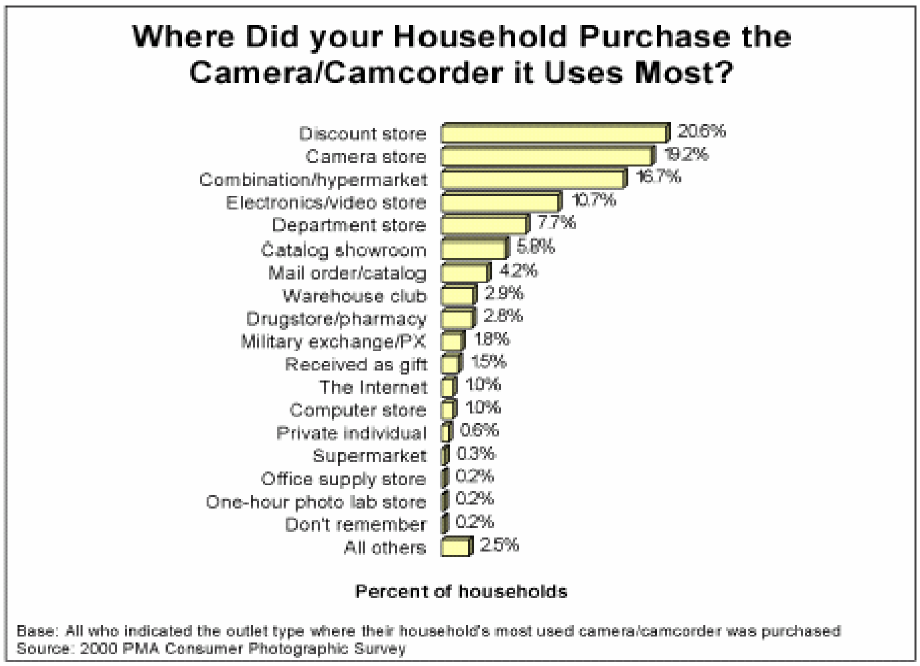
The shipping industry is a commodity industry with inelastic supply and elastic demand. This leads to volatile rates as supply cannot closely match demand. In the current business cycle, the demand for ships exceeds the supply, resulting in high rates. The current going rate in 2004 for a 20 ft.

container from China to the U.S. is around $1,000. This is a $200 or 25% increase over 2003.

Depending on camera bag size and packing density, a full container may hold 20,000 or more pieces. The shipping cost for a single bag would thus be about 5 cents. Shipping costs include a number of associated fees and charges (please see Exhibit 3 for the full breakdown). Total shipping costs typically represent about 2-3% of the manufacturing cost of $2 per unit.

Distribution Channels

The top six channels of distribution account for 81% of primary-use camera and camcorder purchases.



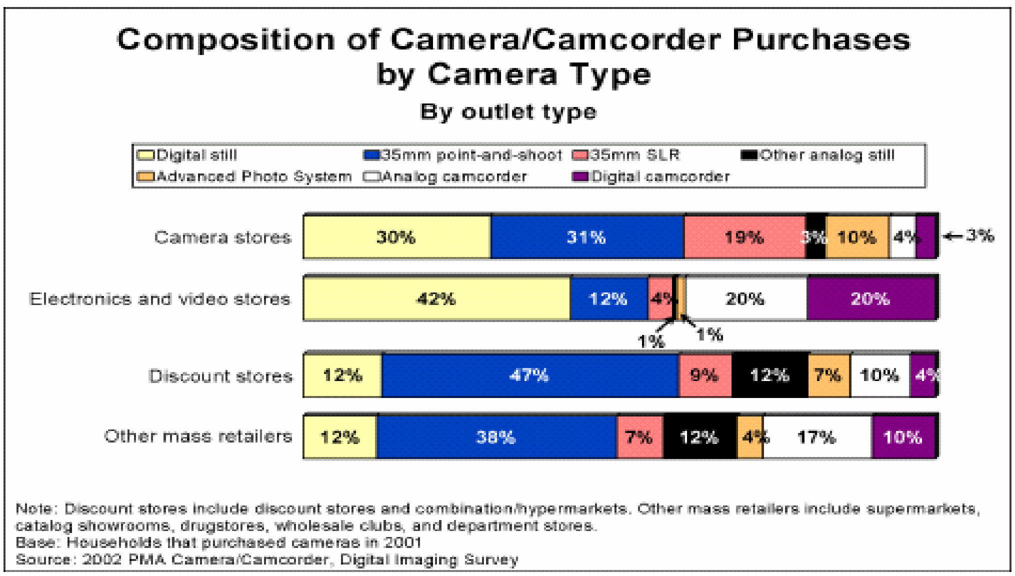
For a traditional retailer of consumer electronics, typical margins for core products like computers and DVD players are slim and range from the high single digits to the low teens. The short product life cycles and commodity characteristics of many technology products favor retailers with scale economies in SG&A, distribution, and advertising. In this industry revenues are derived from luxury or lifestyle purchases that are not only highly substitutable, but nonessential.

To compensate for low gross margins, retailers sell small-ticket accessories and complementary products with much higher profit margins – in the 300-700% range. The core products bring customers into the store and pay the overhead costs while cross-selling and/or impulse purchases pay the dividends. In a typical camera store, for instance, revenues may consist of

75% core sales and 25% accessories, yet each category contributes 50% to the overall profit.

Since our product, a camera bag, is a complementary product, it is important to ensure its availability at the points of sale where consumers shop for cameras, consumer electronics, and computers. On the other hand, our niche segment strategy may also lead us to other unconventional channels like upscale boutiques and handbag and luggage shops.

Today there are over fifteen kinds of retail channel that sell digital cameras. Each serves a specific market niche. For example, discount stores may offer 10-20% off MSRP on a limited selection of models and give little sales support, whereas a specialty camera store would offer helpful advice, a full range of cameras (30-50 digital models alone), and a plethora of accessories and upgrades. The product mix can vary greatly between retailers.



Because so many retailers are vying for the same sales, they must somehow differentiate themselves from each other. Carving out a niche and understanding how to serve it best may be one way to remain a viable player in the short run.

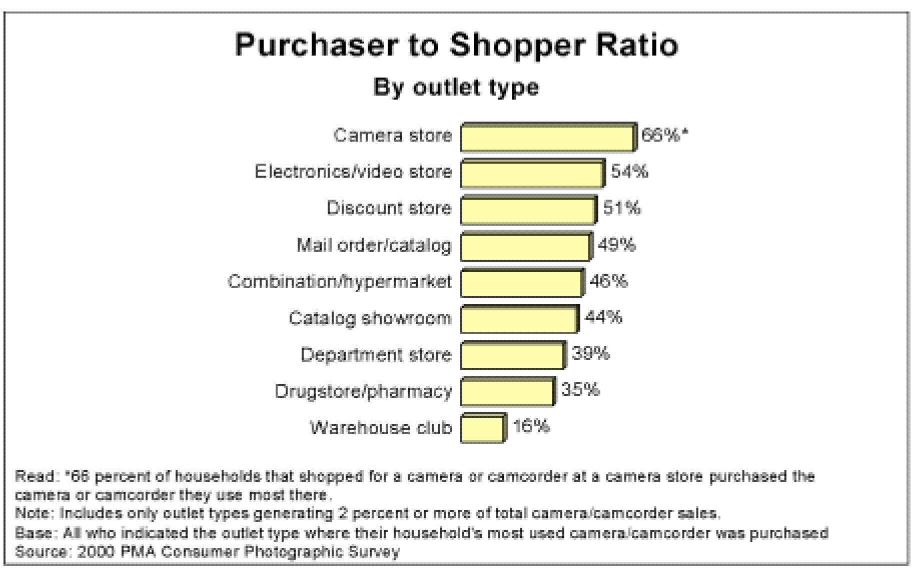
Specialty camera stores cater to hobbyists and professionals. Their target demographic group is older and less price-sensitive due to a higher educational level and more disposable income. 72% of the shoppers in the specialty camera channel are 45 or older and 65% of them hold at least an associate college degree. 38% of shoppers have household incomes of $75,000 or greater, the highest percentage among all channels (please see Exhibit 8).

Customers choose this channel for its local proximity, expert advice, and friendly service. With their laser focus on photography, specialty camera stores can offer greater product depth and more in-depth knowledge than mass retailers. Accessories are purchased either through a brand name marketer like ScanDisk or through a buying association that leverages the buying power of hundreds or thousands of independent stores.

Electronics and video stores are the supercenters of electronics entertainment. Usually this channel offers a one-stop shop for most electronics needs, including home appliances. They typically have substantial buying power and other economies of scale. Over 75% of their consumers are between the ages of 25 and 54, a cross-section of heavy technology consumers, homeowners, and others with disposable income.

Discount stores, mass merchandisers, and department stores have a broader range of customers. For these channels, camera accessories represent a tiny fraction of sales. Accessories are offered as much for shopper convenience as for any other reason. Sales support for accessories is usually minimal or nonexistent.

Emerging online channels generally cater to the same niche customers targeted by their offline affiliate. Whether online or in store, for instance, a specialty camera retailer will try to provide the same benefits its customers always expect. B&H Photo Video, a New York-based specialty camera retailer, successfully extended its business online by leveraging years of solid offline reputation with professional, semi-pro, and serious amateur photographers. In contrast, pure online plays unfamiliar to customers have found a lack of customer trust to be a significant sales issue.



Surprisingly, specialty camera stores have been the most successful at converting camera shoppers into buyers, followed by electronics stores. One possible explanation could be that most consumers who shop for a camera at a camera or electronics store have already decided to buy. Alternatively, the sales staff was better able to answer questions, facilitating the buying decision.

A survey conducted by Photo Marketing Association, an industry organization, suggests that consumers who use these two channels value knowledgeable and friendly sales staff, quality, and brand/variety – more so than shoppers in other channels.

If RGA adopts an undifferentiated lowest-price strategy, it will not be able to leverage these channel characteristics. On the other hand, if RGA decides to differentiate its products, then these channels will become important because their customers prize quality and variety, are likely to buy, and sales staff are willing to explain and advocate RGA's unique benefits.

However, in the long run, as the digital camera industry matures, the industry may become even more concentrated than it is today with six channels capturing over 80% of sales. Ultimately, as camera functions and features became standardized and consumers require less education, online marketers and mass merchandisers will gain market share based on their competitive cost structures. The Dells and Wal-Marts of the world that excel at supply chain efficiency may ultimately emerge as the winners.

Our interviews and study of industry trade journals and analyst reports indicate that discount stores (Big Lots), mass merchandisers (Wal-Mart), warehouse clubs (Sam's Club, Costco), combination/hypermarkets, and electronic stores (Best Buy, Circuit City) require the following from vendors:

1. Company and service reliability.
2. Competitive pricing and terms.
3. At or above hurdle gross profit margins.
4. Retailer-friendly return policies.
5. Promotion and advertising support.
6. At or above minimum turnover, or net revenue per square footage.

Most retailers seek similar arrangements but may be more flexible depending on their supplier and buyer power. Below are examples of the 6 vendor requirements.

Company and Service Reliability

Retailers prefer to deal with as few suppliers as possible as long as they can provide enough variety to customers. A vendor must be able to deliver responsive service, just-in-time delivery, and most of all, a trustworthy contact person for the retailer's buyer. The sales a vendor achieves may depend heavily on the relationship built with a regional VP or buyer who has the power to locate merchandise in high-traffic locations with an attractive price point – or near the fire exit at the back of the store.

Competitive Pricing and Terms

RGA plans to enter the market 20% below rivals' MSRP and offer a more attractive retailer profit margin. They believe this is the threshold retailers expect from an incumbent. Industry standard account credit is 30 days net - 10 days 2% discount. RGA, however, is willing to extend 60 days credit terms to large retailers like Best Buy. Retailers with high bargaining power would expect small vendors to liberalize credit in order to gain placement.

Gross Margin

This is probably one of the metrics most important to retailers. There are explicit hurdle rates for each vendor, but since these can vary from 5-10% (laptops) to 700% (car cell phone chargers) across product and department lines, guidelines for each vendor are usually set per department, store, and region based on sales mix. For a digital camera bag with an MSRP of $10, a vendor will be expected to offer the bag to the retailer at or below $2.70.

Retailer-Friendly Return Policy

Industry standard is that retailer and vendor/manufacturer share the salvage cost of returned or damaged merchandise, even if it was the retailer who damaged the product. This means the retailer would receive 50% credit for each item that is sent back to a central salvage collection station at the retailer's warehouse and eventually returned to the vendor. As a new vendor, RGA may need to offer 100% credit on return. Along with 60 day credit terms, the picture begins to look like consignment. This is the price a new vendor must pay to earn credibility – it must accept nearly all the risk.

Promotion and Advertising

There is also the slotting fee. This is a non-refundable fee a vendor pays for shelf or floor space, for a pre-determined trial period, to prove its product will meet retailer expectations for revenue and gross margin. A vendor can also buy promotional slots in weekly advertisements or run pricing promotions. Whatever is chosen by the vendor, the retailer usually expects a payment upfront to offload economic risk to the vendor. Promotions and advertising can run upwards of 5-10% of a vendor's invoice cost each year.

Turnover Rate or Revenue per Square Foot

With the advent of computerized inventory management systems, a new function has reared its head in retailing and wholesaling: category management. Schematics or Plan-O-Grams (a name coined by Target) were first developed to systematically place merchandise on certain shelves for an easier shopping experience. This has since evolved into a statistical approach to monitor the revenue productivity of different facings of a product. Many companies now systematically prune their shelves on a quarterly basis. Wal-Mart's near real-time inventory tracking system has made policing the shelves a daily ritual.

RGA must manage the risk posed by placement monitoring systems. A misguided sales projection might lead RGA to pay thousands of dollars to get its camera bags on the shelves of 10 stores for 6 months. But if consumers do not respond, the retailer can kick RGA out of the store – saddling RGA with reverse shipment costs, unsold inventory, and a lighter pocketbook.

Typical Costs and Margins

In the accessory value chain, the retailer owns the majority of the market power. Other vertical players in this value chain will claim only normal economic profits. The retailer brings considerable value to the table with its distribution channels, physical stores, marketing, sales, and support. Thus it garners most of the economic surplus, earning up to $8.00 for an item like a camera bag that carries an MSRP of $10.00. Little is left for other value chain players who must cover raw material, manufacturing, and shipping.

Large retailers such as Wal-Mart have even gone directly to contract manufacturers overseas to capture more of the value chain. As a mass discounter, Wal-Mart will pass part of the economic surplus gained from its vertical integration to customers, gaining their loyalty and their dollars.

Table 1. How much of the MSRP does each player capture?

Channel	**Examples**	Manuf-acturer	Import-er	Marketer	Distrib-utor	Whole-saler	Retailer	Customer
Specialty camera stores	Wolfe Camera, Ritz	10%	2%	3%	3%	2%	80%	0%
Electronics & video stores	Best Buy, Radio Shack	10%		5%			85%	0%
Discount stores	Big Lots, Target	10%		5%			75%	10%
Mass retailers	Wal-Mart, Costco	10%					70%	20%
Online retailers	Amazon	10%		5%			75%	10%
Department stores	Macy's, Saks	10%		5%	3%		82%	0%
OEM	Dell, Apple	10%		2%			88%	0%

Economic Value Chain

Competitive Analysis

Digital camera bags are differentiated from film camera bags by their ability to accommodate the unique accessories required by digital rather than film cameras. Both types of bag serve the same purpose, are composed of the same materials, and generally have the same styling. Digital camera bags include form-fitting pouches for memory cards and batteries, and pockets for cables. High-end bags include padded compartments for laptops.

Ultra Compact

Compact

Mid-sized

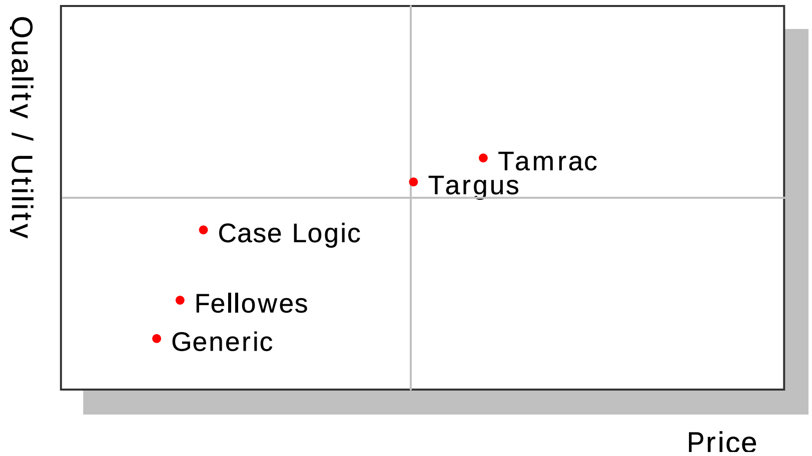
Large

Competitors in the digital camera bag market include a host of unbranded Asian manufacturers that work with nylon. Branded competitors include Tamrac, Fellowes, Targus, and Case Logic (please see Exhibit 1). Major digital camera manufacturers such as Canon, Sony, Olympus, Nikon, and Kodak also sell camera bags and bundled kits under their own names. Digital camera bags are sold wherever digital cameras are sold, which includes the Internet, big box retail (Wal-Mart, Target), electronics retail (Good Guys, Best Buy), and chain photographic stores (Ritz, Wolfe Camera). Some brand and pricing data came from our survey of local stores (please see Exhibit 2).

Competitor Response to RGA

The conventional digital camera bag competitive space is quite crowded. Fellowes brands bags with the Body Glove™ brand. Targus, originally a computer case manufacturer/marketer, has its own line of digital camera bags. Case Logic, initially focused on music CD-oriented cases, has started marketing camera bags. Also selling digital camera bags are Victorinox and Samsonite, each focusing on the traits their brands are known for. With so many vendors, generic brands pervade the market.

Since RGA currently plans to pursue a strategy of low-cost price leadership in generic digital camera bags, it is important to know which firms will be impacted by RGA's entrance and how they will react. In the Quality/Utility vs. Price chart below, Fellowes and Case Logic occupy the space that RGA plans to enter. Case Logic (Body Glove™) differentiates itself through unique materials (neoprene) and brand awareness. This leaves Fellowes as the primary branded/undifferentiated competitor along with generics.

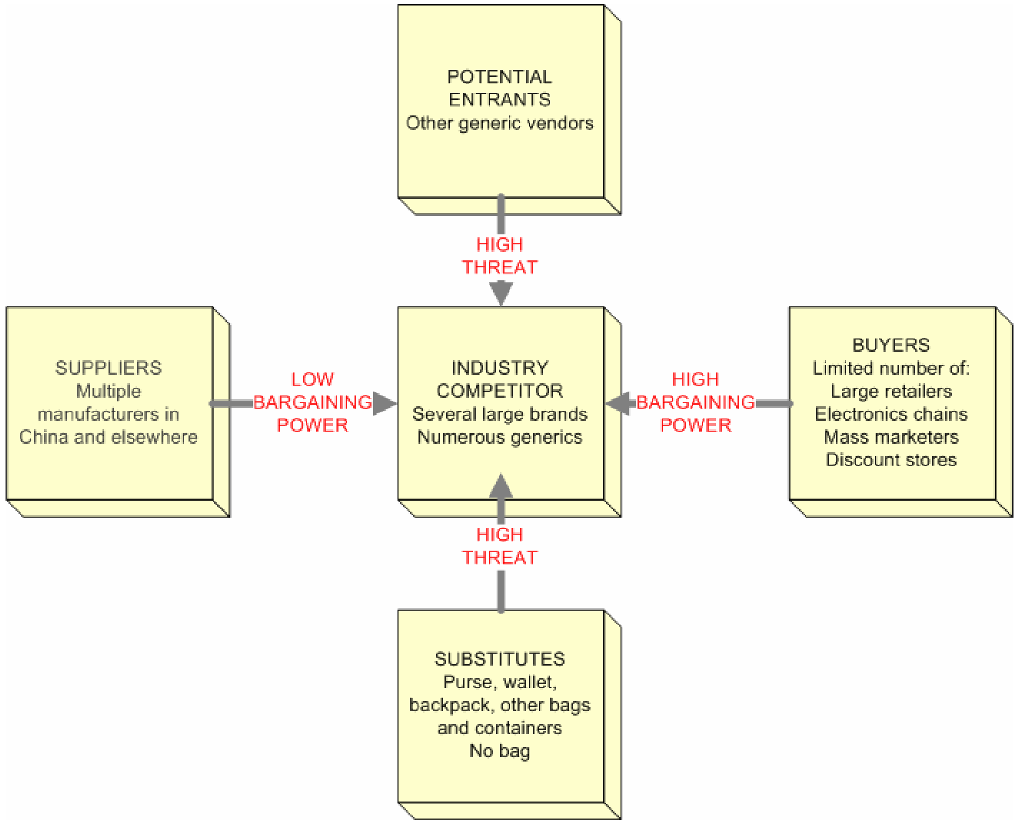


Fellowes currently competes with many other generics, so RGA's entry will not pose a new threat. The primary battle zone will be the large retailers such as Best Buy, Circuit City, and Target. Vendors vie for the attention of these retailers' centralized corporate buyers who determine if the stores will carry their product. If a buyer were put in charge of only a few stores or a region, RGA might have a stronger competitive position. However, corporate buyers like to work with as few vendors as possible. This places a single product line vendor like RGA at a distinct disadvantage.

If RGA delivers a convincing pitch to a buyer that it can sustainably offer the lowest price and deliver to the retailer the highest margin in digital camera bags, rival Fellowes can accommodate or retaliate. For Fellowes to accommodate RGA, they will have to perceive accommodation as less costly than a price war. Fellowes may believe that RGA, a small player, will not be able to deliver on volume or deadline, and will encounter other supply chain problems at the prices it is charging. Given this perception, Fellowes will maintain their pricing, possibly ceding a small part of their market share to RGA for a limited time. But their pricing power will not be eroded.

Fellowes can also retaliate against RGA. Fellowes has many options based on its diverse product line and larger financial resources. Fellowes can engage in a destructive price war to force RGA out of the market, subsidizing the cost with revenues from its other product lines as well as its stronger financial position. Even if Fellowes' costs are initially above RGA's, Fellowes should be able to match RGA's costs in short order through aggressive sourcing.

A Five Forces analysis shows why it will be difficult for RGA to dislodge incumbents in this industry.



In the generic camera bag space, RGA is only one of numerous generic vendors. Competition is fierce for the limited number of generic slots available from large retailers and other mass market stores, who wield tremendous bargaining power as a result. RGA's only advantage would be a lower COGS, but because suppliers or manufacturers have very little bargaining power, manufacturing costs have likely already been cut to the bone. This mitigates against further cost cuts unless RGA can develop cheaper sources in other countries besides China, an avenue it has not pursued. With a low entry barrier, RGA also faces the constant threat of new generic entrants as well as the easy availability of substitutes.

New Opportunities

In recent years the three primary reasons for buying a digital camera had been to play with new technology, to add a second camera, and to give as a gift. As the product adoption life cycle approached the mass market stage with over 30% penetration rate in U.S. households by the end of 2003, new customers emerged with different buying motives. Falling prices encouraged these customers to look at replacing older worn-out equipment with the latest digital models boasting upgraded features and better quality. The upsurge in both repeat buyers and mainstream customers presents an opportunity to further segment the market for each group.

Primary Research

RGA would normally conduct a focus group study to understand RGA's value proposition to various consumer segments. What the company would learn from the focus group is the profile of the ideal RGA camera bag buyer. Due to time and resource constraints, however, we chose instead to conduct a survey of 25-40 year-old professionals and two focus interviews with our hypothetical target market: 25-40 year-old female consumers.

The survey gave us a general perspective on who buys a camera bag and how a typical user perceives value in a camera bag (please see Exhibit 6). The customer interviews were the next step in further understanding how our target consumer makes buying decisions, where she shops, what she looks for in a camera bag, and her price sensitivity given the current homogeneous product environment (please see Exhibit 5).

From these studies we then modeled how consumers might respond to our market entry and how we can more efficiently market our offerings. By directly appealing to buyers and end-users, RGA will improve its chance of success in this commodity industry.

Survey

To better understand the new consumers entering the digital camera case market, we developed a survey targeting people who already owned a digital camera. There were 66 respondents, 36 of them women and 30 men. The majority were under 35 years in age.

We found that only 60% of digital camera owners had cases. Of the people without cases, more were women than men. We asked these digital camera owners why they chose not to own a digital camera case. 56% of the respondents indicated they put their digital cameras in their purses, backpacks, or other bags. Among the people who used alternative bags for their cameras, women outnumbered men 2 to 1.

The second major reason digital camera owners chose not to own a digital camera bag was the bulky, boring, and style-less nature of typical camera bags. Other reasons included price, poor fit, and the difficulty in taking a quick shot if the camera is packed inside a bag.

If our respondents were to buy a digital camera case, they would choose utility over price and style/appearance. The preference ranking was the same for both men and women. We were surprised to find that men were more style conscious than we would have thought. The survey shows there is a style-oriented digital camera case market for not only women, but men.

In terms of digital camera usage, the majority of respondents cited vacation travel or special occasions with friends and family, such as birthday parties, followed by children's sports activities. The popularity of digital camera usage in vacation travel and children's sports validates our focus on utility as a differentiator.

Focus Interviews

Our focus interviews targeted two 25-40 year-old female digital camera users and confirmed the findings of the survey (please see Exhibit 5).

The first interview was with a 31 year-old professional with two children. She owned a camera bag but did not use it. Two reasons given were a lack of functionality and a lack of style. She valued quality and would pay a premium of $25-40 above the typical $10-15 price if a bag were to offer more functionality, protection, and style.

The second interviewee was a professional photographer in her mid twenties, an early adopter and heavy technology user. She would also pay a premium for higher quality and functionality, but not for brand since a camera bag's quality was tangible and overt. She too felt that next-generation bags would lead with style and color.

Based on our demographic analyses, the optimal customer segment to address is the underserved and resource-rich women with children segment. In general, most technology products (and their marketers) fail miserably at appealing to female consumers. We can't recall the last time we heard a woman say "Gee-golly, this smart-phone fits perfectly in my hand (or purse)" or "the streaming stock quotes sure make me a better day trader." The much anticipated, or at least much hyped, convergence of technology and lifestyle is the practical route into the female consumer's checkbook. Yet few marketers have had the courage or conviction to go this route.

COMPANY OVERVIEW

Background

RGA was founded by two Chinese-American entrepreneurs, Roger Zhao and Greg Ye. They had previously created SVA Group USA, a $50 million joint venture subsidiary of SVA Electron Co. Ltd, a large public Chinese electronics manufacturer whose annual sales of RMB 4.6B (US$550M) make it one of the top five in China. SVA Group USA imports and distributes SVA flat screen TVs and monitors through major electronics retailers such as Circuit City and Best Buy. With SVA Electron's blessing, the two started RGA to explore moving electronics accessories through the same channels. High margin accessories include PDA and cell phone cases, laptop computer cases, plasma screen wall mounts, camera bags, AC adapters, and even tubing for washers and dryers.

The firm's initial plan is to identify the right accessories to import, target the same customers who would buy SVA products at current retail outlets, and market the accessories with a generic low-price strategy to boost early revenues. This approach was thought to best suit RGA's limited resources.

SWOT Analysis

Strengths

RGA's primary strengths are its ability to source low-cost camera accessories from a number of manufacturers in China, its flexibility to get a new product designed and delivered from China within 30 days, minimal incremental costs for the use of novel materials in camera cases, and its access to low-cost warehouse space in Los Angeles shared with SVA Group USA. Unfortunately none of these strengths are proprietary.

RGA also enjoys a friendly relationship with SVA Electron Co. Ltd. This relationship may give RGA some access to buyers for SVA flat screen products, which include Circuit City, Best Buy, Target, and other large retailers. But compared with better known brands like Sony and Panasonic, SVA Electron holds less channel power. It is unclear whether SVA would be able or willing to help RGA secure retailer shelf space.

Weaknesses

As a small startup, RGA cannot invest large amounts in sales and support staff, marketing, and business development. It currently shares employees with SVA Group USA. RGA lacks credibility with retailers and may find it difficult to access conventional retail channels for digital camera accessories despite a relationship with SVA Electron. The lack of a tested, scalable distribution infrastructure may hamper RGA's credibility. Low capitalization makes it difficult to pay slotting and other fees demanded by retailers. In the accessory market, the value a retailer brings to the table allows it to exercise substantial power over a small unbranded supplier.

RGA also has no marketing or sales experience in the camera accessory market, and little familiarity with typical margins, packaging, promotions, replenishment, and retailer support. Compounding this, specific industry data are difficult to come by. Data are typically not broken out for accessories since camera cases are often just one of many product lines sold by a manufacturer. Offering the lowest price alone will probably not allow RGA to penetrate and displace incumbent generic vendors who can arrange cheaper sourcing fairly easily if a price war ensues.

Due to its small size RGA will not enjoy economies of scale for shipping costs and inventory storage. In a commodity market like camera accessories, the shipping and inventory holding costs may represent a substantial part of COGS. Larger players thus have an advantage. Furthermore, the camera accessory market is limited. The U.S. Department of Commerce estimates 9.36M “business bags” (computer bags, briefcases, sample cases, and camera bags) will be sold in 2005. Of these, approximately 500,000 will be camera cases. In order to have sufficient market share to make full container loads feasible, we believe RGA would have to capture more than 10% of the market – an unlikely prospect in the near term.

The generic camera case market unfortunately poses few entry barriers to new competitors. Sourcing from China is a well-known and well-played card, and larger companies with overseas connections will not find it hard to emulate RGA. Most retailers offer at the most 1-2 generic camera cases that are priced only slightly below branded cases to maximize profits. Retailers would most likely not see any benefit in carrying more generics to anchor the low end of their price range.

A new entrant such as RGA might possibly elicit initial interest due to its rock-bottom prices, but instead of switching to RGA a large retailer can simply leverage those prices to force its incumbent generic vendor to drop its prices. The vendor would likely comply to maintain its position, and the retailer would avoid the headache of switching. Once the RGA threat is gone, the incumbent would raise its prices again.

A generic lowest-price strategy unfortunately does not offer any intrinsic or proprietary advantage to RGA. Gains will be short-lived as competitors match prices. Without deep pockets it may be impossible to sustain a price war.

Opportunities

Option A: Undifferentiated product

If RGA pursues traditional camera case customers with generic black digital camera cases, it must use every opportunity it can to cut costs. It can limit the product variety to three sizes (S, M, L) that fit most digital cameras on the market, squeeze shipping costs by increasing packing density, and use its SVA connection to share container space and lower shipping costs.

RGA could explore the OEM market. The digital camera market is fairly concentrated with only 7 major manufacturers (Sony, Olympus, Kodak, Canon, Fuji, with Nikon and HP moving up). Large companies like Sony and Canon are unlikely to use a small vendor for their branded accessories, instead sourcing directly from overseas. However, a smaller camera manufacturer might consider RGA as an OEM supplier of camera cases. RGA may make less profit per unit as an OEM, but benefits from the manufacturer's distribution channels, marketing, and customer base. Smaller players include Pentax, Kyocera, Konica Minolta, and Leica.

RGA could also use special promotions such as coupons, bundling, and all-in-one kits for digital camera buyers. Accessory kits typically include a lens cleaner, tripod, batteries, and other items that increase perceived value. Specialty kits might even contain items for unconventional niche markets. A kit aimed at scuba divers could offer a clear waterproof case with storage for keys and eyeglasses, an anti-fog cleaner, and long-life batteries. In assembling kits and bundles, RGA should seek partnerships with the makers and resellers of complementary products. Alliances between small resellers could even lead to the same scale economies enjoyed by larger vendors.

Currently RGA's objective is to distribute accessories to retailers through SVA's existing channels. However, opportunities may exist in alternative channels. RGA could sell directly to consumers online. Online shopping is a steadily growing trend that has survived the dotcom bust of 2000. Two alternatives are to either establish an independent website (implying marketing costs) or sell through eBay with its 34 million potential customers. Selling to end users, however, negates the savings gained from bulk sales to retailers, since RGA must pay for shipping on individual items.

A more nuanced approach would be to resell in bulk quantities to the merchants selling through eBay. In 2003 eBay's B2B transactions accounted for more than $1B worth of sales that included excess inventory, returned or closeout products, and idle assets. Channel conflict with bricks-and-mortar retailers would likely be a non-issue, since RGA's products are unbranded.

Another potentially profitable approach would be to sell cases to consumers via photo kiosks and quick-photo booths, where consumers can purchase film/digital media, print photos, and pick up cheap camera cases on impulse. In this scenario RGA would be reselling to kiosk and quick-photo vendors.

Option B: Differentiated product

If RGA were to differentiate its digital camera cases, a much wider horizon of opportunities would open up. Higher profit margins from the value added by differentiation make this strategy feasible and attractive. There are many ways to differentiate the typical black digital camera case. RGA could pick one, or combine several.

According to RGA, there is little cost difference to make cases from neoprene and other unconventional materials. One obvious differentiation or value-add would be **style**. A uniquely designed case with colors besides black, a different shape, and interesting materials would target a customer segment very different than the traditional male gadget shopper. Other channels may become viable, such as the upscale or youth-oriented apparel retailer, travel or adventure stores, sporting goods retailers, and specialty outlets like Sharper Image and Brookstone that don't usually sell camera cases.

Related to style is **quality**. RGA could design in materials that are perceived by consumers to be of high quality, yet are without precedent in camera cases. This category would include exotic leathers, woven fabrics, unusual plastics, and synthetics like carbon fiber. These cases would target the upscale, quality-conscious, price-insensitive consumer in stores like Nordstrom and Macy's.

The disadvantage is these channels are not familiar or currently accessible to RGA, so that marketing costs will be substantial. RGA would also have to acquire design competence, either in-house or through subcontracting. Branding activities could include media advertising, celebrity endorsements, and design coordination and co-marketing with fashion-oriented makers of other stylish products (purses, wallets, eyeglass cases, iPod/PDA cases, etc.).

Another way to differentiate the digital camera case would be by **durability**. RGA could design its cases for rugged environments (rock-climbing, hot, cold, or sandy climates, water exposure), targeting different groups of customers altogether. Niche segments could include adventure travel fans, hikers and other outdoor enthusiasts, swimmers, mountain climbers and mountain bikers, construction workers, emergency workers, police, military personnel, and so on. Suitable channels include general and specialty sporting goods stores, uniform outlets, and military/government agencies.

Yet another approach would be to differentiate by **utility**. RGA could design cases to serve specific customer segments that want more utility in a camera case. For instance, a soccer mom may need a camera case that also holds a water bottle, notepad, stopwatch, first-aid kit, and cash. A tourist might want a camera case that allows the camera to be pulled out quickly for spontaneous shots, a difficult proposition with conventional designs. A contractor who uses a digital camera to track his construction project might want a case that also holds a measuring tape, marking pen, and safety glasses. Also in this category would be camera cases built into or clipping onto backpacks, briefcases, belts, and jackets. Again, as with style differentiation, RGA may be able to go into new channels such as children's stores, sporting goods stores, and home remodeling centers.

RGA could also differentiate by **mass customization**, similar to Dell. It might focus on only 1-2 very popular digital camera product lines and make cases specially fitted to those models. This allows the firm to make "custom" cases for the owners of those cameras. The cases would be more functional than generic cases, therefore creating value and higher margins. Digital cameras come with idiosyncratically located jacks and ports that a custom case can address. In addition the paraphernalia that often arrives with the camera such as AC adapters, cables, batteries, memory cards, etc. can be accommodated in a case designed and sized specifically for those accessories.

The other route to mass customization is to design cases in a **modular** manner for a “build to order” business model. RGA could create a line of interchangeable case modules in a variety of colors, materials, and styles. For instance, a customer could order (online perhaps) a beige nylon case (matching her purse) with two extra modules, a detachable gold canvas case to hold her eyeglasses, and a dark brown waterproof case to hold her PDA. These modules could be connected with zippers. The advantage is RGA could continue to produce new styles and modules, inspiring customers to update their bags and remain loyal for years to come. The other option is to take a ‘hard-wired’ approach and sew modules together for a permanently integrated bag. This must address any customer concern over the longer delivery timeframe, and the risk of unsalable product returns.

Threats

In the generic or undifferentiated product arena, existing competitors such as Belkin are often large companies for whom camera cases are a small part of their product offerings. They may be actual camera manufacturers, or luggage makers, or resellers of many kinds of accessory. As major suppliers of many items to retailers, they hold some market power. This makes retailers reluctant to displace their camera cases with RGA products. In some cases contracts may even be in place that discourage new entrants via switching penalties. Incumbent vendors like Belkin also have the capital resources and sourcing power to outlast RGA in a price war.

In the differentiated product arena, RGA will enjoy at least a temporary first mover advantage with novel designs that are stylish, high-quality, durable, functional, or mass-customized. These benefits may cost more to design and promote, but material costs will be the same and profit margins will be much higher. A small black generic camera case can be sold for $19.99 at the most, whereas the same case in maroon crocodile skin with a trendy shape and designer label could go for $100.00 or more. The threat is that style-oriented consumers are fickle. RGA’s design team would need to be highly responsive in matching designs to changing trends. One thing in RGA’s favor, however, is the company’s fast-turnaround manufacturing capability (one of its core strengths).

Another threat is the unknown potential of the new markets RGA would enter with its differentiated camera cases. How large are these markets? What kinds of camera case would sell best? Careful market research will determine the most promising segments as well as optimal product configurations.

Although RGA would be a first mover in many of these new areas, the entry barrier is low. Knock-offs and copycats are common in the fashion world. Establishing a reputable and bankable brand would be critical to success.

RGA also has little familiarity with the new channels suitable for these new products. A threat arises if a competitor who is familiar with these channels decides to emulate RGA. In the fashion industry Gucci might decide after seeing RGA's successful line of cases that stylish digital camera cases could indeed be profitable. If so, Gucci would immediately have an enormous advantage in design capability, market research, sourcing of exotic materials, and advertising budget. On the other hand, if RGA pursues utility-based differentiation, it may have several niche markets to itself for a number of years.

Despite these threats, larger competitors have several weaknesses RGA can exploit. They are inflexible, usually unimaginative, and not particularly focused on camera cases (since camera cases have always been considered a commodity). The only differentiator historically has been brand name. Our store pricing survey indicates, however, that brand name alone does not sustain a significantly higher product price.

With design capability and differentiated products that can be redesigned quickly, RGA could adopt an opportunistic business model of being the first mover into unconventional markets, channels, and customer segments. It would change directions depending on how larger players respond, and be intimately familiar with the changing needs and wants of its customers. Over time RGA will also develop competitive advantages based on synergies between the niches it has entered. A waterproof material designed for scuba divers could be integrated into a water bottle-camera bag for soccer moms.

STRATEGIC ANALYSIS

Option A: Undifferentiated Lowest-Price Strategy

Sustainable competitive strategy is often characterized by three traits: heterogeneity, inimitability, and appropriability. It is our determination that RGA's strategy of competing solely on price falls short with respect to all three traits. Foremost is heterogeneity. Here RGA wants to pursue a strategy that is similar to others in a market where price range and quality differentiators are very limited. It is thought that Case Logic outsources its bags from Asia. It currently has the lowest price point yet delivers a slightly higher quality product than Fellowes. It does not appear that delivering more quality in a generic bag will justify a much higher price point.

RGA has not taken, and probably cannot take, any steps to prevent its competition from imitating its business model. It holds no intellectual property rights on products or processes. It does not have exclusive rights to the source of the product or the channels it wants to utilize. There is no first mover advantage as the digital camera bag market is already populated by multiple firms with established brands and existing revenues, most of whom simply lateralized their positions from the film camera bag market.

As middleman, RGA adds little value to the processes of designing, manufacturing, marketing, and distribution of the product. Therefore it will be difficult for RGA to appropriate substantial profits from this endeavor. The key player in the value chain is the retailer, who adds the most value by putting the product in front of the customer. The remaining parts of the value chain are commodity-driven, undifferentiated, and in excess supply. Thus RGA will command a minimal premium above the cost to operate.

However, one advantage of a generic strategy is its low cost (though margins are low as well). There is no need to invest in design, branding, marketing, or customer loyalty programs. RGA's extremely limited resources may be the one reason the company will pursue this strategy at first.

Option B: Differentiated Premium-Price Strategy

As RGA establishes its distribution channels and relationships with major retailers and builds its financial strength, we strongly recommend that RGA transform itself from a generic digital camera case manufacturer (Phase 1) to a niche designer-manufacturer offering utility and style (Phase 2).

Utility and Style

Our primary and secondary research confirms that women are a growing segment in digital camera users. Female digital camera owners value utility and style above other characteristics when they shop for digital camera cases. Some of our female interviewees expressed a strong interest in and willingness to pay more for stylish and high-utility digital camera cases.

We can look at laptop computer cases for additional insight. While the majority of laptop cases sold in retail markets are black and bulky (like their contents), several niche players have succeeded in introducing stylish and practical laptop cases. Casauri, the niche laptop case manufacturer mentioned earlier, was founded by one Columbia MBA and one design student. One founder showcased her stylish laptop case by simply carrying it around New York, which generated many inquiries from strangers. Today Casauri sells successfully in boutique stores and online.

Besides Casauri, Talene Reilly, Acme Made, Chrome, and Timbuk2[6] are other niche players in the same league (please see Exhibit 7). As digital cameras

[6] Talene Reilly website: http://www.talenereilly.com/the_collection.html
Acme Made website: http://www.acmemade.com/bags.html
Casauri website: http://www.casauri.com/

become ubiquitous in our lives, we believe the demand for stylish digital camera cases will also grow, similar to laptop cases.

In terms of style and design, we suggest RGA incorporate the latest fashion trends into its digital camera case designs. From our interview with a GAP/Banana Republic buyer (please see Exhibit 4), we find that in-store fashion apparel and accessories are changed every season to capture the latest fashion trends.

To create a style-oriented look, RGA should introduce digital camera cases not only in different colors, but also in different patterns and fabrics to meet the particular demands of the retailer. Target, the second largest retail chain, would likely be interested specifically in colorful and fun products that fit its corporate image. Multiple product lines may increase RGA's product costs, but we have been assured by RGA's founder that with outsourcing in China those incremental costs would be minimal.

Distribution Channel

In Phase 1, RGA would target major retailers as its primary distribution channel. We suggest RGA continue these retailer relationships in Phase 2, but begin to explore other unconventional channels. While we are heartened by the success of stylish laptop cases, we note that the majority of these products continue to be sold either online or through boutique stores.

The online channel allows customers to select their laptop case's design and color, for which they pay a premium price that yields a higher margin. As new devices are introduced, like cellular phones and iPods, customers can upgrade their laptop bags to accommodate them. The ability to continually upgrade and augment their existing bags is a strong incentive to return to the site, producing repeat sales and cementing customer loyalty.

But are niche vendors compelled to sacrifice the mass market? Are there inherent reasons why stylish laptop cases do not sell more widely? Timbuk2 started in San Francisco through word-of-mouth promotion by bicycle messengers. Despite its success, most people have not heard of the brand. We suggest RGA conduct further research on why these niche players sell online rather than through mass outlets that offer much greater reach.

Brand Diversification

As RGA transitions itself from a generic manufacturer to a premium designer-manufacturer with stylish products, brand diversification becomes a viable and advantageous option. By introducing high-end products under different brands, RGA will distance its new products from the company's RGA-labeled

---

Chrome website: http://www.chromebags.com/
Timbuk2 website: http://www.timbuk2.com/

generic products. We found that generic digital camera cases have little to no brand loyalty. Even branded cases do not command substantial premiums – if they look and feel the same as the generic products. With style-oriented bags, however, branding will be important. High brand equity will allow RGA to charge significantly higher prices and thus reap higher margins.

Co-opetition

If luxury luggage or handbag manufacturers enter the digital camera case market, they will bring both opportunity and threat for RGA. Major luxury handbag manufacturers have large marketing budgets and can expand the overall digital camera case market. RGA products will benefit as the digital camera case becomes a hot accessory item. Recently Coach, a prestigious luggage maker, partnered with Canon to introduce leather digital camera cases tailored to Canon digital cameras. It is understandable that a Coach luggage owner might want a Coach camera bag. Gucci also introduced Gucci-designed iPod cases to capitalize on the fast-growing popularity of iPods.

The threat comes if customers switch from RGA's brands to better known luxury brands for their cachet and prestige. However, we believe RGA will manage to hold onto a significant number of middle-ground customers who seek digital camera cases that are stylish, yet affordable.

RECOMMENDATIONS

With its resources constrained, RGA may have to enter the digital camera case market with a generic low-cost low-price strategy. However, our analysis shows this path to be fraught with long-term risk.

Our recommendation to RGA is to pursue an aggressive product differentiation strategy at the earliest opportunity. RGA must develop or acquire the additional design and marketing competence required to be an opportunistic first mover and fast responder in new niche markets and channels. Increasing brand equity and customer loyalty over time will sustain premium prices, and RGA will retain more of the profits in the value chain.

We believe the 25-40 year-old women and soccer mom segments with their high disposable incomes should be early targets. RGA's digital camera bags should be colorful, stylish, highly functional, and sold at premium prices through both traditional outlets and unconventional channels. Other niches should be developed using separate distinctive brands as resources permit.

We believe the time is right for style, utility, and quality to overtake the digital camera accessories market. We have found those benefits to be what new mainstream customers demand today.

REFERENCES

Armstrong, L. 2002. Smaller carry-ons that still carry it all: Smart new bags and organizers can help take the sting out of tighter airline restrictions. *Business Week*, September 23, 2002. New York: McGraw-Hill.

Berman, D.K. 2003. Will camera-phones be used to humiliate us ordinary people? *Wall Street Journal*, June 2, 2003. New York: Wall Street Journal.

Boss, S.J. 2002. Women step up hunt for financial advice. *Christian Science Monitor*, March 8, 2002. New York: Christian Science Monitor.

Brown, R., and R. Washton. 2001. The U.S. college market. *Packaged Facts*, April 2001. New York: Kalorama Information. http://www.marketresearch.com/

Brown, R., and R. Washton. 2000. The Asian American market. *Packaged Facts*, March 2000. New York: Kalorama Information. http://www.marketresearch.com/

DarConte, L.A. 2004. Camera cases for all occasions. *PTN* 64(6): 28ff. Westport, CT: Cygnus Publishing.

DarConte, L.A. 1998. Photo distributors. *PTN*, 62(6): 12ff, June 1998. Westport, CT: Cygnus Publishing.

Dritsas, D. 2002. The case for Case Logic: Building a brand name around accessories. *Www.Dealerscope.com*, July 2002. http://www.caselogic.com/

Fairchild Publications. 2004. Repacking the bags: Buoyed by a rebound, luggage makers are redesigning their wares to comply with new weight restrictions and security concerns. *HFN*, 10, February 16, 2004. New York: Fairchild Publications.

Fairchild Publications. 2004. Industry explores ways to get in touch with its feminine side. *HFN*, 30, January 19, 2004. New York: Fairchild Publications.

Find/SVP. 1997. Mobile computing products – International market 1997. *Find/SVP*, January 1997. New York: Find/SVP.

Find/SVP. 1996. Baby Boomers turning 50 (1996). *Find/SVP*, July 1996. New York: Find/SVP.

Find/SVP. 1996. New American family market 1996. *Find/SVP*, April 1996. New York: Find/SVP.

Freedonia Group. 2003. Freedonia focus on still cameras. *Freedonia Focus*, October 2003. Cleveland: The Freedonia Group. http://www.freedoniagroup.com/

Gale Group. 2003. Lowepro debuts camera/computer backpack. *TWICE*, 18(18): 58, September 1, 2003. New York: Reed Business Information.

Gale Group. 2003. Case Logic offers sporty portable storage line (accessories). *TWICE*, 18(5): 52, February 24, 2003. New York: Reed Business Information.

Gale Group. 2003. Canon promotes camera as fashion item. *Marketing to Women*, 16(2): 5, February 2003. New York: EPM Communications.

Gale Group. 2002. Storage bags breaking new ground. *TWICE*, 17(24): 36, October 28, 2002. New York: Reed Business Information.

Gale Group. 2001. Candie's connection. *Women's Wear Daily*, 18(25): 28, August 6, 2001. New York: Fairchild Publications.

Gale Group. 2001. Tuning in to electronics. Catalog Age, 18(8): 46, July 2001. New York: Intertec Publishing.

Gale Group. 2001. Fellowes buys 'Body Glove' case marketer. *TWICE*, 16(16): 22, July 9, 2001. New York: Reed Business Information.

Gale Group. 2000. Targus introduces digital camera, camcorder cases. *TWICE*, 15(28): 43, December 4, 2000. New York: Reed Business Information.

Gale Group. 2000. Portable storage wired for the road. *TWICE*, 15(20): 61, September 4, 2000. New York: Reed Business Information.

Gale Group. 1999. GoNeo. *RCR Radio Communications Report*, 96, February 8, 1999. Detroit: Crain Communications.

Gale Group. 1998. Business smarts: Today's business cases make room for tomorrow's gizmos & gadgets. *Showcase*, 23(5): 47ff, October 1998. New York: Luggage & Leather Goods Manufacturers of America.

Gale Group. 1998. Accessories suppliers at CES displayed abundant variety. *TWICE*, 13(2): 41ff, January 19, 1998. New York: Reed Business Information.

Hample, H. 2004. Welcome to the machine. *Brandmarketing*, VIII(1): 24ff, January 2001. New York: Fairchild Publications.

Jones, C. 2003. Electronics experts tout power of women consumers. *Las Vegas Review-Journal*, January 11, 2003. Las Vegas: Las Vegas Review-Journal.

Kane, M. 2003. Corporations find bargains in basements of eBay. *CNET News*, August 18, 2003. http://news.com.com/2009-1017_3-5064040.html

Kendall, J. 2001. eBay goes retail. *CNEWS TechNews*, June 19, 2001. Quebec: Canoe-NetGraphe. http://www.canoe.com/CNEWSTechNews0106/19_kendall-can.html

Keppler, H. 2004. And behind the scenes at PMA... *Photo Industry Reporter*, 12(4), February 23, 2004. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Lopez, E. 1999. Haute couture for new E-lifestyles. *Wireless Week*, 14, July 26, 1999. New York: Chilton Company.

Marigny Research Group. 2002. The U.S. Baby Boomer market: From the Beatles to Botox (3rd Ed.). *Packaged Facts*, November 2002. New York: Kalorama Information. http://www.marketresearch.com/

Marigny Research Group. 2001. The U.S. market for solo female consumers. *Packaged Facts*, November 2001. New York: Kalorama Information. http://www.marketresearch.com/

Marigny Research Group. 2001. The women's athletic apparel market. *Packaged Facts*, January 2001. New York: Kalorama Information. http://www.marketresearch.com/

Marigny Research Group. 2000. American lifestyles in the early 21st century. *Packaged Facts*, March 2000. New York: Kalorama Information. http://www.marketresearch.com/

Maschke, R., and E. Wagner. 2004. Customer-friendliness came in many forms at CES 2004. *Photo Industry Reporter*, 12(2), January 19, 2004. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Maschke, R., and E. Wagner. 2004. Industry trends for 2004 considered at I3A annual meeting. *Photo Industry Reporter*, 12(1), January 5, 2004. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Maschke, R., and E. Wagner. 2002. Analyst discusses marketing digital imaging at DIMA meeting. *Photo Industry Reporter*, 10(11), June 3, 2002. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Maschke, R., and E. Wagner. 2002. Accessories: Selling parts of the total imaging process. *Photo Industry Reporter*, 10(8), April 22, 2002. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Maschke, R., and E. Wagner. 2001. Digital peripherals: Variety is key to profits. *Photo Industry Reporter*, 9(10), May 21, 2001. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Maschke, R., and E. Wagner. 2001. A tale of two counters. *Photo Industry Reporter*, 9(10), May 21, 2001. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Maschke, R., and E. Wagner. 2001. Up against the Internet. *Photo Industry Reporter*, 9(5), March 12, 2001. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Packaged Facts. 2001. Packaged Facts market profile: The young adult market. *Packaged Facts*, July 2001. New York: Kalorama Information. http://www.marketresearch.com/

Packaged Facts. 1996. Generation X market 1996. *Packaged Facts*, August 1996. New York: Kalorama Information. http://www.marketresearch.com/

Packaged Facts. 1996. Value-retailing market. *Packaged Facts*, January 1996. New York: Kalorama Information. http://www.marketresearch.com/

Packaged Facts. 1994. Electronic retailing in the United States. *Packaged Facts*, July 1994. New York: Kalorama Information. http://www.marketresearch.com/

PMA Marketing Research. 2004. Photo industry 2004: Review and forecast. *Photo Marketing Association International*, February 2004. Jackson, MI: Photo Marketing Association International.

PMA Marketing Research. 2003. Photo industry 2003: Review and forecast. *Photo Marketing Association International*, February 2003. Jackson, MI: Photo Marketing Association International.

PMA Marketing Research. 2003. Marketing camera stores in the discount era. *Photo Marketing Association International*, January 2003. Jackson, MI: Photo Marketing Association International.

PMA Marketing Research. 2002. Marketing to Mom: Profile of the new digital camera user. *Photo Marketing Association International*, July 2002. Jackson, MI: Photo Marketing Association International.

Schaub, G. 2001. Digital demographics – The shifting tides. *Photo Industry Reporter*, 9(10), May 21, 2001. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Specialists in Business Information. 2000. Market profile: Luggage. *Specialists in Business Information*, August 2000. New York: Kalorama Information. http://www.marketresearch.com/

Sternman, M. 1988. Photo add-on sales add up. *Retail Merchandiser*, 28(4): 86, April 1988. New York: VNU Business Publications.

Stevens, P.C. 2002. The difference between men and women. *Photo Industry Reporter*, 10(17), October 7, 2002. Woodbury, NY: IRM Publications. http://www.photoreporter.com/

Exhibit 1: Competitor Profiles

Fellowes, Inc.

Overview	Fellowes, Inc., a privately held company, manufactures and markets a wide range of technology accessories for today's workspaces. Employs more than 1,700 people throughout the world, with global sales in excess of $700 million.
Products	Developed to offer quality, usefulness, and value, Fellowes' products range from business machines (paper shredders, binders, laminators) to mobile accessory products, media labeling and storage, and desktop and lifestyle solutions. Fellowes sells a comprehensive line of portable device accessories like PDA cases, hands-free headsets, cellular phone cases, digital camera cases, CD/DVD accessories, PC tablet accessories, and laptop accessories. Fellowes' mobile solution products includes the licensed Body Glove™ brand, appealing to a young, trendy, active market. Fellowes offers 12 digital camera cases, all branded by Body Glove.
Subsidiaries	Owns and operates subsidiaries in Australia, Benelux, Canada, France, Germany, Italy, Japan, Korea, Poland, Singapore, and the United Kingdom.
Manufacturing	Located in Itasca, Illinois, Fellowes, Inc. has more than one million square feet of manufacturing and warehousing space.

Targus

Overview	A privately held company, Targus is the leading provider of products for the mobile lifestyle. Targus focuses on protection, craftsmanship, and functionality of cases and accessories for mobile devices. Employs over 400 workers worldwide, and profitable with sales of $350 million annually. Retailers such as Wal-Mart, Target, Best Buy, and Staples make up over 50% of the company's sales. The rest come from corporate buyers and computer makers such as Dell and Sony, which sell Targus products under their names. Targus has 45 offices worldwide and direct distribution in over 145 countries.
Products	Besides electronic and mechanical computer accessories, Targus offers hard and soft cases and accessories for PDAs, CD/DVD cases, notebook/tablet cases, and camera cases. "With more people purchasing expensive cameras, both

amateur and professional photographers are searching for high-quality, lightweight cases to protect their investments," said Jay Gonzalez, Targus product manager. "Our new line of camera cases satisfies this demand with affordable, stylish designs that have both portability and functionality in mind." The cases are available through major retailers, including Best Buy, Circuit City, CompUSA, and online at www.targus.com. To find the right solution for a specific type of camera, Targus provides a compatibility wizard on its website. Retail pricing for Targus camera cases ranges between $5.99 and $34.99. The following lines are available: (1) Trademark II – affordability; (2) Lifestyle – durable twill nylon, 8 designs to accommodate any film or digital camera; and (3) Leather – premium durability, material, and style.

Subsidiaries Targus has subsidiaries in Anaheim, CA, Singapore, Hong Kong, Australia, Canada, Europe, Japan, Korea, Latin America, and Mexico.

Manufacturing Based on various news sources, Targus outsources manufacturing and does some assembly at its 200,000 sf facility in Anaheim, CA.

Case Logic

Overview A privately held company, Case Logic is a worldwide marketer of lifestyle-oriented accessories. The company's products include storage and organization solutions for the audio, computer, photo/video, DVD, and automotive markets. Employs 200 people worldwide, with yearly sales estimated to be $300 million. Sold through consumer electronic stores, music/book/video specialty chains, mass merchants, office supply/computer superstores, and automotive retailers, including Best Buy, Wal-Mart, Target, Circuit City, and CompUSA. OEM customers include computer and consumer electronics manufacturers such as Sony, Panasonic, Maxell, Honda, General Motors, and Compaq.

Products Product are hard and soft cases and accessories for audio, automotive, computer, action sports, DVD, and photo-video applications. Case Logic features 16 digital camera bags. "The whole premise around the bags is customizing digital storage," said Michelle Kranz, Case Logic's product manager for photo/video/DVD bags. "Think about all the digital accessories that come along with cameras that people carry. We want to be able to make the bag user-friendly, customize the storage, and make it easier to carry those multiple electronics.” The bags range in price from $5.99 to $29.99. “Along with their digital cameras, a lot of people are carrying their camcorder and maybe a disposable,” she added. “The disposable cameras are booming.” One of the main selling points for four of the bags (three camcorder models and the largest camera bag) is that they come with a memory- and battery-card case. “Basically, it’s a small case that has its own special spot inside the bag that you can take with you,” Kranz explained. “You might take your camera or camcorder and this case, which holds the digital memory cards and batteries.”

Subsidiaries Sales offices, operations, and distribution centers are worldwide, including U.S. headquarters and distribution center in Longmont, CO, a regional office and sourcing operation in Hong Kong, a sales office in Toronto, a regional office and distribution center in Brussels, and sales offices in Paris, Berlin, and Utrecht.

Manufacturing Information is unavailable.

Tamrac

Overview Privately held, Tamrac is a leading manufacturer of name brand camera cases. The company focuses on products for professional and amateur photographers requiring feature-rich camera cases. Backed by 38 patents covering dividers, belts, flaps, and case design, products are made from a range of utilitarian materials such as Cordura® and ballistic nylon. Employs approximately 146 people worldwide. Yearly sales are estimated to be $36.5 million. Primary sales channels are photographic catalogs and specialty and chain photographic stores.

Products Product are hard and soft cases and accessories for photo and video applications. Tamrac features 12 digital camera bags. These products are marketed with the following qualities: protection, design, materials, and perfect fit. Tamrac’s digital camera cases range from $9 to $40.

Subsidiaries Headquarters are located in Chatsworth, CA, with distribution throughout the U.S., Canada, Europe, and Japan.

Manufacturing Primary manufacturing is located in Chatsworth, CA.

EXHIBIT 2: STORE BRAND SURVEY

This table shows findings from our high-level survey of the brands sold in major electronics retailers and Target, a discount chain.

Store	Brand	Price	Warranty	Size	Width (in.)	Depth (in.)	Height (in.)	Material
CompUSA	Lowepro	$ 9.99	lifetime	small	3	1.25	4.25	plastic
CompUSA	Lowepro	$ 9.99	lifetime	small	3	1.75	5.5	plastic
CompUSA	Lowepro	$ 10.99	lifetime	medium	3.75	2	6.25	plastic
CompUSA	Targus	$ 9.99	lifetime	small	4	1.75	5.75	plastic
CompUSA	Targus	$ 9.99	lifetime	small	2.88	1.13	4.25	leather
CompUSA	Targus	$ 14.99	lifetime	medium	3.75	2	5.75	leather
CompUSA	Case Logic	$ 9.99	NA	medium				plastic
CompUSA	Case Logic	$ 8.99		small				plastic
CompUSA	Body Glove (Fellowes)	$ 14.99		small				plastic
CompUSA	Tonino Lamborghini	$ 24.99		large				plastic
CompUSA	Tonino Lamborghini	$ 34.99		large				plastic
Target	SamSung							plastic
Fry's Electronics	Targus		lifetime					plastic
Fry's Electronics	Case Logic							plastic
Fry's Electronics	Hakuba		5 Years					plastic
Fry's Electronics	Lowepro		lifetime					plastic
Circuit City	Lowepro							plastic
Circuit City	Case Logic							plastic
Circuit City	Tamrac							plastic
Circuit City	Targus							plastic
Circuit City	Olympus kit							plastic
Circuit City	TEC Digital							plastic
Circuit City	Motion Systems							plastic
Circuit City	Kodak EasyShare kit							plastic
Circuit City	Nikon Coolpix							plastic
Circuit City	Icon Image Lab							plastic
Circuit City	Sony kit							plastic
Circuit City	Fujifilm kit							plastic
Circuit City	Samsonite							plastic
Circuit City	Canon kit							plastic
Circuit City	Merkury Innovations kit							plastic

EXHIBIT 3: BREAKDOWN OF SHIPPING COSTS

Container Capacity

Container, 20 ft.		
Usable volume		1,000 cu.ft.
Carton		
Height	1.50 ft.	
Width	1.50 ft.	
Length	1.67 ft.	
Volume		3.76 cu.ft.
Number of cartons/container		266
Number of units/cartons	x	80
Number of units/container		**21,280**

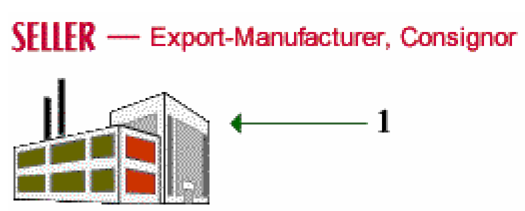
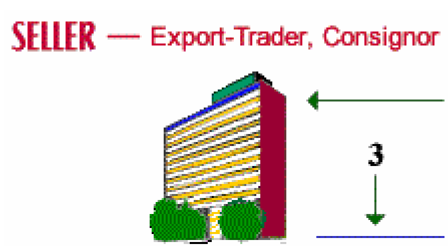
Costs		
Mfg cost/unit	$	2.00
Total unit cost/container	$	42,560.00
Price of 20 ft. container	$	1,000.00
Total cost	**$**	**43,560.00**
Shipping per unit	**$**	**0.05**

Note: shipping is by volume, not by weight, due to the low cargo density.

Freight Costs

Shipping involves costs over and above the actual container costs. These costs are split out below. To simplify the process, the industry has consolidated the costs into two types: **FOB** and **CIF**. FOB (Freight On Board) is where the seller is responsible for all shipment losses up until the container is loaded "Free On Board." Even if the container were to fall off the crane during dock loading, the seller would still be responsible. The seller's responsibility ends when the container is on the ship. CIF (Cost, Insurance, and Freight) is where the seller pays CIF all the way to the buyer's destination. CIF must have a destination to be legally binding.

Breakdown of Shipping Costs

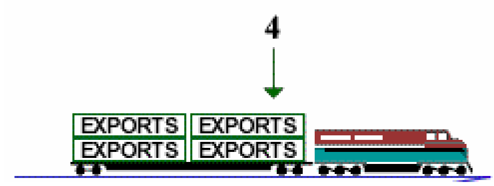
1 • Materials, labor, and overhead • Custom packaging • Inspection fees • Licensing fees • Royalties	
2 • Buying agent's commissions • Trader's markups **3** • Bank charges and commissions • Overseas agent's commissions • Freight forwarder's charges • Documentation charges • Insurance premiums	

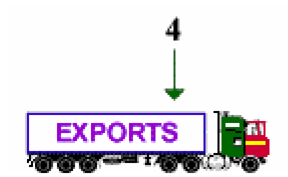
<table>
<tr><td>

Export license fees
Certification fees
Consular fees
Advertising

</td><td></td></tr>
<tr><td>
4

Road freight (cartage, drayage) and/or rail freight
Routing costs (canal and inland waterway links)
Uninsured damages
Theft and pilferages
Handling charges
Demurrage

</td><td>




</td></tr>
<tr><td>
5

Brokerage fees
Export levies

6

Insurance premiums
Air freight

7

Theft and pilferages
Overtime charges
Handling charges
Warehousing
Loading fees
Demurrage
Wharfage

8

Insurance premiums
Ocean freight
Lighterage

</td><td>


</td></tr>
<tr><td>
9

Uninsured damages (e.g., war and acts of God)
Pilferages

</td><td>


</td></tr>
<tr><td>
10

Lighterage

</td><td></td></tr>
</table>

<table>
<tr>
<td>

11

- Theft and pilferages
- Quarantine charges
- Overtime charges
- Handling charges
- Unloading fees
- Warehousing
- Demurrage
- Wharfage

12

- Import duties and taxes
- Bank charges and commissions
- Import license fees
- Brokerage fees

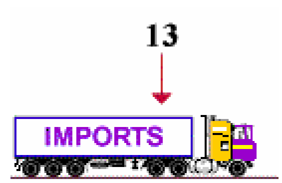
</td>
<td>

</td>
</tr>
<tr>
<td>

13

- Road freight (cartage, drayage) and/or rail freight
- Routing costs (canal and inland waterway links)
- Theft and pilferages
- Uninsured damages
- Handling charges
- Demurrage

</td>
<td>

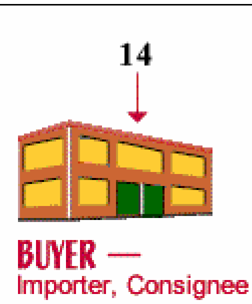


</td>
</tr>
<tr>
<td>

14

- Warehousing
- Interest charges
- Advertising

</td>
<td>



</td>
</tr>
</table>

EXHIBIT 4: INTERVIEW WITH GAP BUYER

Interview with LH, a buyer for Gap / Banana Republic:

About new fashion accessories in general

Q: *What are the typical markups or profit margins in the fashion apparel industry for accessories (bags, purses, wallets, etc.), i.e., what percentage of the retail sales price does the manufacturer get, the distributor, the retailer, etc.?*

LH: Unfortunately, I cannot give you these numbers from Gap because it is confidential information, but I can say that it really ranges...

- Mass products: lower margins. Luxury goods usually have higher margins, but it really depends on where you source the goods (China, India, etc.).
- Accessories, especially jewelry: generally higher margins than clothing. Margins can range from 40-80%.

Q: *How is this breakdown different for well-known, popular manufacturer brands vs. unknown boutique items? The percentages don't have to be exact - it's only to give us a rough ballpark for our calculation of costs.*

LH: Again, this depends... you really have to give me a more specific idea of what type of product it is, where you are sourcing from, what types of detailing are on the product, what the brand name is....

Q: *How would a small designer of accessories typically get his/her goods sold through a large retailer? Is it usually by going to trade shows, or cold calling buyers at Macy's and Nordstrom, or through some other means?*

LH: A small designer can showcase and sell wholesale products through trade shows (large ones at the GiftCenter and Jewelry Mart in SF) or through smaller shows. They can definitely cold call buyers at large retailers, but I think that would be difficult. The large retailers have vendors that they are used to using. You might want to do some research on whether the Magic show held annually in Las Vegas showcases accessories. I think they should....

About digital camera bags in specific

Q: *You wondered about the product. What we are studying is how a digital camera bag importer from China can differentiate their product into a style-oriented accessory (rather than the generic black bags very common at all the electronics retailers). This would allow the* *importer to enter other channels such as apparel retailers, gift shops, etc. We envision a stylish, colorful camera bag perhaps in a different shape, made out of exotic materials - leathers, synthetics, etc. that could be coordinated with other fashion accessories. Any ideas?*

LH: Depends on the price point, but definitely take a look at the International Gift Fair held at the GiftCenter in SF twice a year. Most gift shops in the Bay Area or maybe California go there to find new merchandisers for their stores.

In terms of margin, you might want to try to achieve the style-oriented look with color and different types of fabric, instead of using leather. Again, it depends on what price point you are targeting, but I am envisioning something that might be able to appeal to Target Stores.... something fun and stylish, but good value for the money.

If you are involved with making recommendations on the style and look of the bag, pay attention to upcoming trends in the fashion apparel market. For example, if you are targeting tweens/teens, pay attention to the 80's colors that are coming back, and cargo pockets and Jelly products coming back in. If you are targeting the older market who own digital cameras, maybe something that's more feminine (think pink iPods), but sleek and functional so it still protects the camera inside.

EXHIBIT 5: TARGETED CUSTOMER INTERVIEWS

The first interview was conducted with **Susie Suburban**. She is a 31 year-old Senior Account Executive at an e-commerce company by day, and a wife and mother of two by night. Her hobbies include fine dining, shopping, and spending time with friends and family. Her dual income household and multiple home ownership suggest she may be in the upper middle-class income bracket and engages in frequent social gatherings. We would consider her a mass-market frequent digital camera user.

Susie owns a camera bag but does not use it. She sees minimal value in a camera bag. For her, a purse or diaper bag is a near-perfect substitute in most situations when she travels with a camera. Primary reasons she cited for not using a camera bag were that it offers no real functional value and it is "boring." Even though she acknowledged that her substitutes do not offer adequate protection for her camera investment, she felt carrying another bag would be one too many.

However, she commented, if the bag offered some style and were large enough to act as a purse replacement she would consider using it on a regular basis. Susie typically shops at Macy's, Target, Best Buys, and other traditional retailers. She is an astute shopper, and aware of the typical $10-15 range for camera bags. At one point she looked down at her Prada purse and stated, "If camera bags offered more functionality, some protection, and some style and colors, I would pay $40-$50 for one and may add more to my collection of purses."

The next interview was conducted with **Sally Snapfish**, a female freelance photographer in her mid twenties. She is married and lives an active lifestyle. Her camera collection ranges from professional-grade analog cameras to a Canon semi-pro digital camera. Recent imaging technology advances, falling prices, and portability have now made it possible for Sally to satisfy most of her photographic needs by carrying only her 4-megapixel Canon camera. Because photography is both her vocation and avocation, Sally would be considered both an early adopter and a heavy mass-market digital camera user. She bridges the professional and amateur segments.

Since professional photographers are clearly not our target market, we asked her to respond to our questions as a non-professional.

Protection, functionality, and durability are the attributes most important to her since she carries her digital camera with her at all times, even when she is not working. It was two years ago when she last shopped for a carrying case for her personal/hobbyist camera. With the above three attributes in mind, she shopped online, at mass merchandisers, and department store luggage departments – all without success. She did not visit Circuit City or Best Buy because she perceived these retailers would not carry the level of quality and functional enhancement she needed.

Her persistence finally paid off. She found a Swiss Army brand camera bag made of ballistic nylon at a small regional purse and luggage store commonly found in central business districts. This bag had the sufficient padding to protect her investment and enough properly sized pockets to securely store accessories like batteries, cords, and memory flash cards. She paid over $50 for this bag yet felt she did not have to pay a brand premium.

Sally explained her views on the differential importance of branding for a high technology product, like a digital camera, vs. a low tech undifferentiated product, like a camera bag. When she evaluates a camera, the quality is covert or unseen and the brand acts as a standard guarantee. In contrast, when she checks out a camera bag, the construction and materials used are more tangible and overt. This minimizes brand premium power. She found high value in her purchase and thought the durability of the bag was worth the above-average price, despite the fact a similarly sized garden-variety bag at a mass-market or electronic store would have cost only $15-$25. In her mind, she would have paid $50 for the right bag regardless of brand.

Sally professed she does more Internet research than most people before making purchasing decisions. Sally searches non-mainstream sites to find the latest, coolest technology product reviews. One is boingboing.net, a community and information site where she has found many uniquely styled laptop bags offered by new niche vendors. She thinks styles and colors may determine market demand and direction for next-generation camera bags.

EXHIBIT 6: SURVEY RESULTS

Table 1. Gender and digital camera case ownership.

Own case?	**No**	**Yes**	
Female	44%	56%	100%
Male	33%	67%	100%

Table 2. Reasons for not having a digital camera case.

	Purses/Bags	**Lacks Style**	**Expensive**	**Does not Fit**	**Inconvenient**	**Will Buy**	**Other**
Female	**10 (37%)**	**5 (19%)**	3 (11%)	2 (7%)	3 (11%)	1 (4%)	2 (7%)
Male	**5 (19%)**	2 (7%)	1 (4%)	1 (4%)	3 (11%)	2 (7%)	2 (7%)
ALL	**15 (56%)**	**7 (26%)**	4 (15%)	3 (11%)	6 (22%)	3 (11%)	4 (15%)

Total Respondents 27

Table 3. Reasons to buy a digital camera case – men & women.

What are the most important criteria when choosing a digital camera case?

ALL (Men & Women)

	Strongly disagree	**Somewhat disagree**	**Neutral**	**Somewhat agree**	**Strongly agree**	**Response Average**
Brand	23% (15)	20% (13)	**41% (26)**	6% (4)	9% (6)	2.58
Utility	8% (5)	2% (1)	3% (2)	30% (19)	**58% (37)**	4.28
Price	6% (4)	5% (3)	8% (5)	34% (22)	**47% (30)**	4.11
Appearance/Style	5% (3)	5% (3)	5% (3)	**45% (29)**	**41% (26)**	4.13

Total Respondents 64
(skipped this question) 2

Table 4. Reasons to buy a digital camera case – women.

Female

	Strongly disagree	**Somewhat disagree**	**Neutral**	**Somewhat agree**	**Strongly agree**
Brand	19% (7)	22% (8)	44% (16)	8% (3)	3% (1)
Utility	9% (3)	0% (0)	3% (1)	33% (12)	**53% (19)**
Price	85 (3)%	3% (1)	85 (3)%	28% (10)	**50% (18)**
Appearance/Style	6% (2)	6% (2)	3% (1)	**47% (17)**	**36% (13)**

Table 5. Reasons to buy a digital camera case – men.

Male

	Strongly disagree	Somewhat disagree	Neutral	Somewhat agree	Strongly agree
Brand	22% (8)	14% (5)	28% (10)	3% (1)	14% (5)
Utility	6% (2)	3% (1)	3% (1)	19% (7)	**50% (18)**
Price	3% (1)	6% (2)	6% (2)	33% (12)	**33% (12)**
Appearance/Style	3% (1)	3% (1)	6% (2)	33% (12)	**36% (13)**

Table 6. Types of digital camera usage.

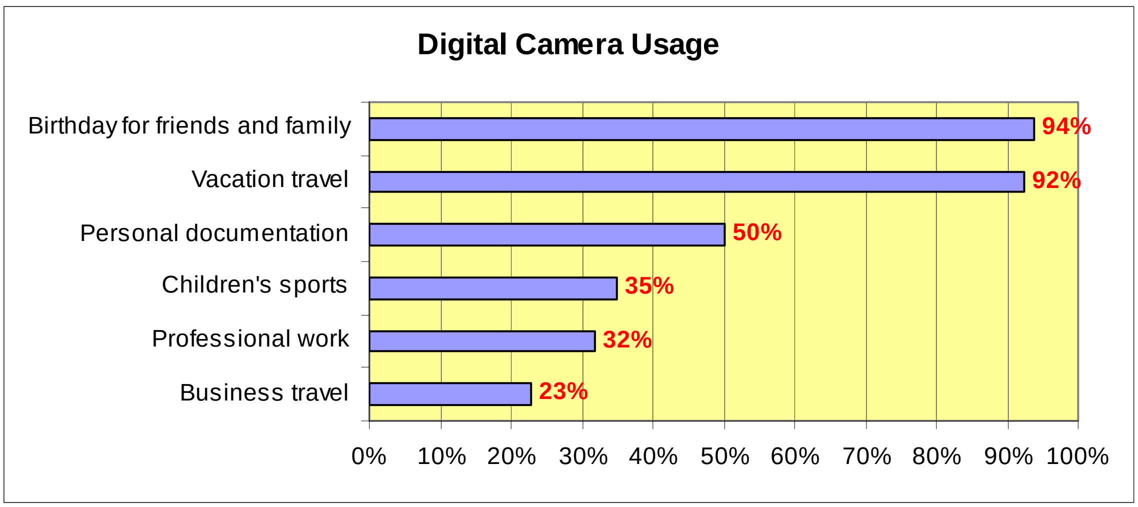


EXHIBIT 7: TALENE REILLY AD

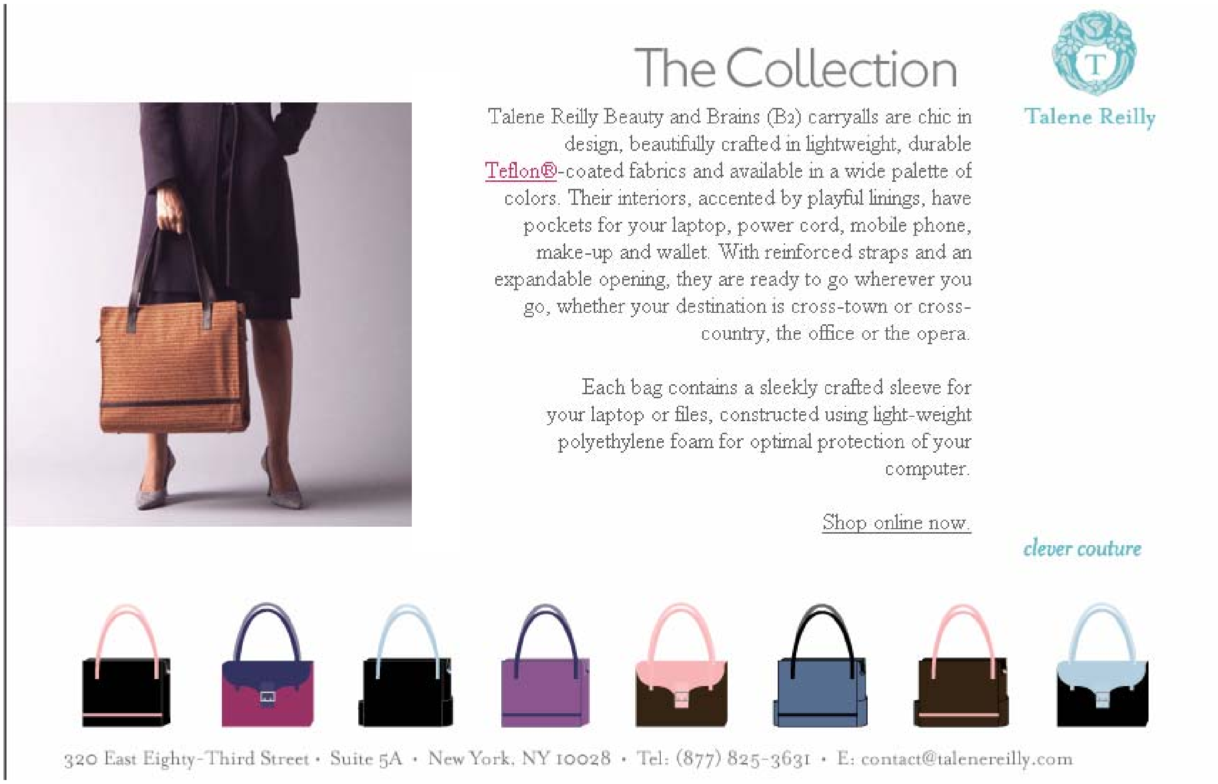


EXHIBIT 8: CHANNEL DEMOGRAPHICS

Reputation and the quality of the sales staff appear to be the determining factors for customers of camera stores in selecting an outlet for purchasing a camera. Camera store customers rated a knowledgeable sales staff and quality reputation as "very important" in choosing a store. Maintaining a wide selection of photography goods is also more important to camera store customers than to customers of other outlets.

Reasons for Choosing the Store where Households Purchased the Camera/Camcorder they Use Most

Features rated by importance

	Camera stores	Electronics and video stores	Discount stores	Other mass retailers
Knowledgeable sales staff	5.7*	4.9	4.2	4.5
Quality reputation	5.5	4.9	4.6	4.8
Carried brand/type wanted	5.3	5.2	4.9	5.1
Friendly/polite/courteous sales staff	5.2	4.8	4.6	4.6
Wide selection of photography goods	5.0	3.9	3.5	3.5
Liberal return policy/money back guarantee	4.2	4.8	4.9	4.7
Satisfied with other products bought there	4.1	4.9	4.8	4.8
Low price	4.1	5.1	5.2	4.9
Convenient location/easy to get to	3.8	4.1	4.5	4.3
Ease of parking	3.3	3.7	3.8	3.7
Attractive atmosphere	3.1	3.4	3.2	3.1
Offers one-stop shopping	3.1	3.4	3.8	3.3
Close to home or work	2.7	3.1	3.6	3.3
Provides computer/digital photography training	2.2	2.5	2.1	2.1
Wide selection of computer goods	1.7	2.8	2.1	2.1
Interest free financing	1.7	2.9	2.0	2.3

Notes: Discount stores include discount stores and combination/hypermarkets. Other mass retailers include supermarkets, catalog showrooms, drugstores, wholesale clubs, and department stores.
Importance level was measured by a 7-point scale of 1 = not important, 3 = somewhat important, 5 = very important, and 7 = extremely important.
Read: "The importance rating of a knowledgeable sales staff was 5.7 (i.e.: "very important") among households purchasing the camera/camcorder they use most at camera stores.
Base: All who indicated the outlet type where their household's most used camera/camcorder was purchased
Source: 2000 PMA U.S. Consumer Photographic Survey

Demographics of Specialty Camera Store Customers

Specialty camera stores hold an advantage over discount stores and other types of outlets in that camera store customers tend to be relatively affluent and well educated. A large share of consumers who purchased cameras or camcorders from camera stores during 2001 – 38 percent – earn annual household income of $75,000 or more. In addition, nearly two-thirds of camera store customers hold a college degree (an associate's degree or above), with 18 percent having earned a post-graduate degree. Only electronics and video stores come close to matching these demographic advantages. This customer profile means specialty retailers are able to offer relatively advanced, higher priced products, such as high-resolution digital cameras, SLR cameras, and accessories, that generally wouldn't appeal to customers of discount stores or other mass merchant chains. In fact, camera stores can sometimes be a testing ground for new photographic products to determine which will have broad consumer appeal and later appear on mass merchandisers' shelves.

Distribution of Camera Sales Across Demographic Groups

By outlet type

	Camera stores	Electronics and video stores	Discount stores	Other mass retailers
Household income				
Under $15,000	7%	4%	17%	18%
$15,000 - $29,999	11%	12%	24%	14%
$30,000 - $49,999	18%	24%	27%	21%
$50,000 - $74,999	27%	32%	21%	25%
$75,000 and over	38%	29%	12%	23%
Total	100%	100%	100%	100%
Head of household age				
Under age 25	1%	5%	6%	2%
Age 25-34	10%	25%	18%	10%
Age 35-44	18%	29%	30%	28%
Age 45-54	26%	24%	23%	29%
Age 55-64	24%	12%	13%	18%
Age 65-74	14%	4%	9%	12%
Age 75 and older	8%	1%	2%	2%
Total	100%	100%	100%	100%
Head of household education				
Some high school or less	0%	0%	4%	7%
Graduated high school	12%	19%	30%	25%
Some college - no degree	23%	21%	27%	26%
Associate's degree	20%	10%	12%	14%
Bachelor's degree	27%	32%	20%	23%
Post-graduate degree	18%	18%	6%	6%
Total	100%	100%	100%	100%

Note: Discount stores include discount stores and combination/hypermarkets. Other mass retailers include supermarkets, catalog showrooms, drugstores, wholesale clubs, and department stores.
Base: Households that purchased cameras in 2001
Source: 2002 PMA Camera/Camcorder, Digital Imaging Survey