CASE 3-7 Gillette: The 11-Cent Razor, India, and Reverse Innovation

In April of 2010, Gillette released its Guard the razor, capturing 50 percent of the Indian shaving market in just 6 months. The Guard was a lightweight, disposable-blade razor that was developed after a year of research that involved observing Indian men as they purchased and used razors in their daily lives. The result was a 15-rupee (0.34 USD) razor with 5-rupee (0.11 USD) blades, uniquely designed for Indian men. To help the Guard reach the 50 percent milestone, Gillette had been aggressively promoting the product throughout the country of India, with billboards and TV commercials featuring Bollywood actors shaving with the razor. The price of the Guard was higher than that of the market leading double-edge blades, but the new razor offered a close shave without the frequent cuts that resulted from quick rusting, double-edge models.

In contrast, Gillette's leading product in the US—the Gillette Fusion ProGlide—was Gillette's most technologically innovative razor, with five blades on the skin contact surface. Gillette's frequent TV commercials touted the ability of the Fusion ProGlide to give a comfortable, close shave, while enabling men to create elaborate facial hair designs. At $9.99 for the razor and $16.99 for a four-pack of blade cartridges, the Fusion ProGlide was not only Gillette's most advanced razor, but it was also Gillette's most expensive and most profitable razor.

John Sebastian,[1] Gillette's Manager of Male Grooming products, sat at his desk at company headquarters in Boston, Massachusetts, holding a Gillette Guard and a Gillette Fusion ProGlide in his hands, pondering next steps for. Sebastian had been given the task of analyzing market conditions and making a recommendation to the vice president of male grooming for the Gillette Guard global strategy. There were over a billion men in low income countries, who potentially would be willing to try the Guard. The Guard could be a viable low cost option for many Americans. Despite the fact that the premium priced Fusion ProGlide was Gillette's best-selling razor, not every American was willing to pay such a high price. Many Americans were especially price sensitive due to the state of the economy, which was slowly recovering from the 2008 financial crisis. Introducing the Guard to the US market could allow Gillette to dominate the low end of the shaving industry and boost sales in a slow growing market. On the other hand, Gillette's high margin products like the Fusion ProGlide might suffer if the Guard began to cannibalize sales. Sebastian was preparing for the meeting with his supervisor, during which he would offer his strategy recommendations to the vice president of male grooming for the Gillette Guard. The meeting was quickly approaching.

COMPANY HISTORY

The Gillette Company was founded in 1901 by King C. Gillette to manufacture his invention—the disposable-blade safety razor. At the time, the leading shaving products were straight-edge razors. (See Exhibit 1.) After repeated use, the blade of a

Exhibit 1
Straight-Edge Razor

straight-edge razor becomes misaligned, and must be realigned and polished by *stropping* the blade—dragging it along a strip of leather or canvas. While looking through a Montgomery Ward mail order catalog in 1895, Gillette noticed that Montgomery Ward guaranteed that it would replace any defective razor, with the disclaimer, if "properly used and stropped on a good smooth strop." Gillette recognized an opportunity to manufacture and sell a razor with disposable blades that would not require maintenance. Patented in 1904, Gillette's "safety razor," as it became to be known, consisted of a razor (handle and blade compartment) and a disposable double-edge razor blade. (See Exhibit 2.) Because customers would need to continuously buy new blades, disposable razors would provide a steady, continuous source of revenue for Gillette. The company's original safety razor sold for $5 in 1904 (about $135 in 2015 dollars), and a pack of blades that would last a year cost $1.

After expiration of the patent in 1921, Gillette feared that low cost imitators would erode his margins. Rather than simply reduce his prices, he took a two-pronged approach. First, shortly before the patent was set to expire, Gillette released an upgraded version of the razor with a price of $5, and marked down the original razor to $1. This new upgrade kept Gillette ahead of competitors at the high end of the market. Increased sales of Gillette's original razor provided an even bigger boost

Exhibit 2
Safety Razor

Source: Wikipedia

to profits. The new, lower price convinced large numbers of customers to try the razor. Second, Gillette strategized that once these customers owned the razor, they would be forced to buy the blades at full price to continue using the razor. Recognizing the continuous stream of profits that resulted from getting the razor into the hands of customers, Gillette began selling razors at low, promotional prices, and even giving them away as a means to create demand for the high margin blades. This method of selling an initial product at a low price to stimulate demand for a higher margin related product is used in many industries, but is still referred to as the “razor-and-blades” business model.

Throughout the 20th century, Gillette lived up to its slogan, “The best a man can get” by continuously developing the next “best” razor to the market every few years. Gillette’s innovations included a “Twist to Open” double-edge razor (Aristocrat, released in 1934), a two-blade razor (Trac II, 1971), a razor with a pivoting head (Atra, 1977), a razor with spring-loaded blades (Sensor, 1990), a three-blade razor (Mach 3, 1998), and a five-blade razor (Fusion, 2006). Several variations of these products were also sold, including a women’s version of the Mach 3 (Venus), battery-powered razors that vibrated for an ever-closer shave (e.g. Fusion Power), and razors with various combinations of features such as color schemes and lubricating strips. Gillette also developed several disposable razors in which the entire razor, not just the blade, was to be thrown away after the blade became dull. Gillette expanded into the electric shaver market in 1967 by purchasing Braun, a German consumer products manufacturer. Electric shavers, in general, are faster and safer than shaving with a manual razor, but are not able to provide the close shave of a traditional razor.

From the 1950s through the end of the 20th century, Gillette expanded into product lines outside of shaving by purchasing market leading brands such as Duracell, Liquid Paper, and Cricket Lighters. Razors remained Gillette’s core business, however, consistently accounting for more than half of the company’s profits. The 1990s were an especially prosperous time for Gillette. The company developed innovative new products in all of its major product categories, while experiencing rapid growth in new markets such as China and Eastern Europe. Gillette’s stock price grew more than tenfold from the late 1980s to the late 1990s. But by the early 2000s, the company’s rate of innovation and international expansion had slowed, and with it, Gillette’s sales. Gillette’s earnings came in below estimates for 15 consecutive quarters, due in part to what board member Warren Buffett commented were unrealistically high estimates.

Jim Kilts was hired as Gillette Chief Executive Officer (CEO) in 2001. Kilts’ mission was to reinvigorate the company, turning it around by reducing costs and reinvesting the savings into aggressive research and development. This new strategy brought Gillette back to profitability, and it posted six consecutive quarters of record profits. Despite the company’s rebound, Kilts believed that relying so heavily on razors would endanger the company in the long run. Gillette merged with Proctor & Gamble (P&G) in 2005 to take advantage of the marketing and distribution strength of P&G’s global organization. Although billed as a merger, the deal was essentially a $57 billion acquisition of Gillette. After 2005, several business units were separated from Gillette, returning the company’s focus to core business—shaving products and personal care items, such as antiperspirant and body wash.

GILLETTE IN 2010

By 2010, Gillette's male shaving product line was led by the Fusion ProGlide, a re-engineered version of the Fusion razor with five thin blades. The Fusion ProGlide was backed by a national advertising campaign featuring celebrities including actor Adrien Brody and hip-hop musician André 3000 with highly stylized facial hair. Retailing for $10.99 ($11.99 for the battery-powered vibrating version) with a four pack of blade cartridges that retailed for $16.99, the Fusion ProGlide was Gillette's best-selling and most profitable product. Gillette's next most expensive product was the Mach 3, which retailed for 6.99 USD with a four pack of blade cartridges selling for 10.49 USD. Gillette also sold several types of disposable razors, with prices as low as 0.65 USD each when purchased in a multi pack. The company benefited from a "trade-up" strategy—consumers often moved up from Gillette's less expensive products to its more expensive ones, but rarely moved down the price scale. In this sense, cannibalization of the sales of existing products in favor of newer, more profitable ones, was a fortuitous circumstance.

Gillette's brand recognition, market share, and advantages in technology and manufacturing had kept it at the top of the razor market since the company's founding. Gillette's leading competitor—Schick—held a 15 percent global market share compared to Gillette's 70 percent. Throughout the 2000s, however, Schick put pressure on Gillette as the two companies engaged in what the media referred to as the "Razor Wars." Schick was the first company to release a razor with four blades: the Quattro. Gillette's Fusion ProGlide was then the first razor with five blades. Schick quickly followed with its own five-blade razor—the Hydro 5. Volume growth in the US shaving industry had been stagnant for several years, with sales growth derived primarily from price increases attached to new, innovative products.

Gillette, however, faced stiff competition in the disposable razor category, which was at the low end of the razor market. Gillette's lowest cost razors offered advanced features such as dual blades, pivoting heads, and lubricating strips. Competitors such as Bic, Wilkinson Sword, and Schick not only sold products that rivaled Gillette's disposable razors in terms of features and price, but also produced bare-bones versions of the products. These very low-end razors could be purchased for as low as $0.20 when purchased in a multipack.

Gillette also faced competition from store brands ("private labels"), or razors that would be carry a brand unique only to that store (such as "Great Value" in Walmart). Otherwise, nationally branded products were primarily sold to retailers that, in turn, sold the products to consumers. Throughout the 1990s, the retail industry underwent consolidation, with Walmart becoming the largest player and Gillette's largest customer. Walmart's purchasing power, as well as its low-priced store brands, enabled it to place downward price pressure on its suppliers. Despite the lower prices, however, the store brands did not take significant market share from name brand products.

INTERNATIONAL STRATEGY

By 2010, Gillette held 70 percent of the global market share for razors. The market share varied by region, and Gillette's individual country strategies of product development and pricing differed based on characteristics of the country, such as consumer income levels. Europe and Australia resembled the US market, where

Exhibit 3
Gillette Competition

Gillette Competition

Brand	Company	Indian Market Share
Super-max	Super-max	15%
Gillette vector	P&G	13%
Topaz	Malhotra shaving products	10%
Gillette mac3	P&G	9%
Shick-wilkinson sword	Energizer holdings	8%
Laser	Malhotra shaving products	6%

consumers were willing to pay premium prices for premium products. To stay ahead of competitors, Gillette introduced its high-end razors and put significant money and effort behind marketing the innovative products. By the year 2000, there were limited opportunities for growth in these regions. In less mature markets, however, there were still huge opportunities for growth. Hundreds of millions of low income consumers in countries such as China and India often shaved with double-edge blades instead of using Gillette's products. Only wealthy consumers in these countries could afford Gillette's high-end razors, so Gillette focused on marketing its lower cost products, rather than promoting higher cost razors.

India, in particular, represented a massive untapped market for Gillette. Of the 1.2 billion people in India, many belonged to a group referred to as the "Base of the Pyramid" in economic terms—the 4 billion people in the world who lived on 1 USD to 3 USD a day. In India, despite the fact that such consumers had low incomes, the sheer number of potential customers made the region very attractive to Gillette. The majority of low income men in India—roughly 400 million—shaved using double-edge razors, which cost only 1.5 rupees to 2 rupees (0.05 USD) per blade. Double-edge blades were inexpensive, but they rusted easily and often caused cuts. Instead of trying to sculpt elaborate facial hair designs with a razor, many low income Indian men would be satisfied with a blade that could give them a good shave without nicking their skin and drawing blood. The leading double-edge razor producer—Super-Max—held 15 percent market share. As of 2009, Gillette's top two razors in India—the Vector and the Mach 3—held only 13 percent and 9 percent market share respectively. (See Exhibit 3.)

GILLETTE GUARD DEVELOPMENT

Gillette realized that it needed to change its approach to product development and pricing to achieve success in the low income Indian market. Gillette's previous marketing process in India involved little more than repackaging its existing razors and changing the language on the labels. The Mach 3, which was one of Gillette's leading razors in the US, had only 9 percent market share in India, because the price for the product was too high for most Indian consumers. Gillette's lower priced offering—the Vector—was closer to the appropriate price point, but still could not win over more than 13 percent of the market. The Vector was a rebranded Gillette Atra, a product that was introduced in the US in 1977, but had been discontinued.

Gillette turned to *reverse innovation* to develop the Guard. The traditional path of a new innovation involves research and development in wealthy Western countries, where plenty of capital is available for investment, followed by market entry in low income countries. Reverse innovation turns the process around, beginning with the development of an innovation in a low income country, then perhaps introducing it in higher income countries. For the new Indian razor, Gillette began with a price customers would be willing to pay, and then it built the features around the price.

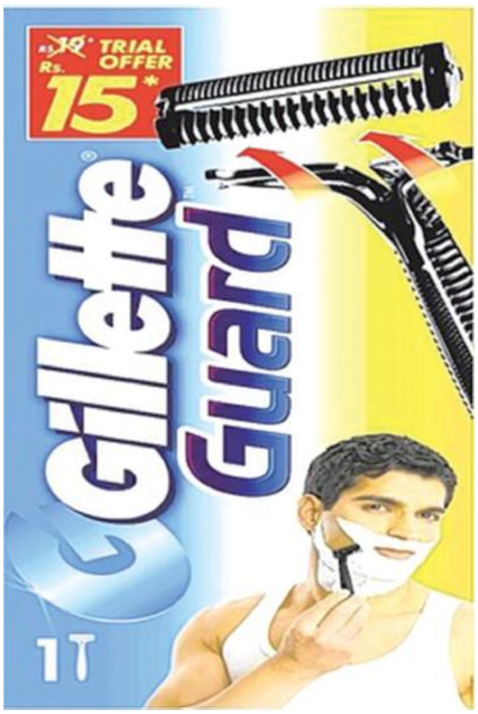
A team of product development personnel was assembled and given the task of learning what it is that Indian men wanted from a razor. The team spent thousands of hours studying and observing the Indian market first hand, following Indian men as they shopped for and used razors. The team also conducted interviews and in-home visits, and fine-tuned its product ideas with thousands of consumers. Every element of the razor was viewed through the eyes of the low income Indian consumer.

The Gillette team learned several lessons from its research. The company learned that Indian men purchased razors primarily in *kiranas*—small local shops—instead of at large retailers. Gillette also learned that Indian men often do not shave every day, and when they do shave, it often happens while sitting on the floor with a bowl of water and a hand-held mirror, rather than standing at a sink with a large mirror. Through the course of its interviews, the team learned that Indian consumers valued affordability first and foremost, followed by safety and ease of use.

The team developed the Gillette Guard to address each specific need. For safety, the Guard included a safety comb and an easy-to-hold grip. For affordability, the lubrication strip was abandoned; only a single blade was used, and the Guard contained 80 percent fewer parts compared to the Gillette Vector. For ease of use, the razor was lighter than double-edge razors and many American razors, easy to rinse, flexible enough to reach areas that are difficult to reach with a double-edge razor, and able to cut longer hair, since many Indian men did not shave every day. (See Exhibit 4.)

Gillette also set up its manufacturing and distribution with the Indian consumer in mind. Labor costs were much lower in India than in the US, and Gillette minimized shipping costs through the use of local production. On the distribution side, Gillette developed relationships with a number of the local kiranas to ensure that they would stock the Guard. This approach to distribution was vastly different from the company's US strategy, which focused on a few large retailers.

Exhibit 4
Gillette Guard



Source: Wall Street Journal

The Indian market's response to the Gillette Guard was extremely favorable. In a survey, customers preferred the Gillette Guard 6-to-1 over double-edge razors. The positive perception of the Guard, along with its price that was not much more than double-edge razors, meant that the Guard became an affordable luxury for many customers. The Guard managed to surpass 50 percent of the razor market by volume only six months after its launch in October 2010. Whether or not these customers would trade up to higher cost razors, as they often did in the US, remained to be seen, but Albert Carvlaho, Gillette's Vice President of Male Grooming for Emerging Markets, felt confident that they would, saying, "When they start enjoying a better shave, they'll be more open to all solutions."

OPPORTUNITIES AND CHALLENGES

The tremendous success of the Guard left Gillette with opportunities. Hundreds of millions of potential customers in China, Indonesia, and other low income countries still shaved with double-edge razors. Gillette could immediately release the Guard, in its present form, in each of these countries. On the other hand, lessons learned in the Indian market may not have applied to every country. Just as American products did not necessarily transfer easily to India, the Indian product may not have transferred easily to China. If they did, the possibilities of damaging stock-outs loomed large if production could not keep up with demand.

Gillette’s next decision was whether or not it should complete the reverse innovation process by releasing the Guard in the US. Gillette had been profitable in recent years despite stagnating volume growth in the US market, primarily due to high margin products like the Fusion ProGlide. Industry analysts questioned the sustainability of this strategy. If Gillette chose to release the Guard in the US, the low price would surely attract customers, but this option carried some risk. The Guard may not meet the quality demands of American customers, and even if it did, it could cannibalize sales of Gillette’s higher margin products such as the Mach 3 and Fusion ProGlide. Usually cannibalization worked the other way around: trading up from a low-price product to a high-priced one. As John Sebastian prepared to deliver his recommendation to the vice president of male grooming, he considered the ripple effects each option would have on Gillette and its markets around the world. His recommendation could determine the direction of the company, as well as his career, for years to come.

QUESTIONS

1. Describe the razor-and-blades business model.

2. How and why do US razor consumers differ from razor consumers in India?

3. How did Gillette’s product development process differ for the Gillette Guard when compared to its previous product development processes?

4. Should Gillette release the Gillette Guard in the US? Should it release the product in other low income countries besides India?

This case draws from “Gillette: The 11-Cent Razor, India, and Reverse Innovation,” written by Ryan Atkins, Terry School of Business, University of Georgia. Used by permission of GlobaLens, a division of the William Davidson Institute, University of Michigan. It is intended to be the basis for class discussion rather than to illustrate either the effective or ineffective handling of a managerial situation.

Sources: Byron, Ellen. “Gillette’s Latest Innovation in Razors: the 11-Cent Blade.” *Wall Street Journal*, October 1, 2010. Accessed January 25, 2013; Ibid; Picker, Randal C. “The Razors-and Blades Myth(s).” *University of Chicago Law Review* 78.1(2011): p. 227; Ibid; “The Gillette Company.” *Form 10-Q Quarterly Report, March 31, 2005.* Boston: The Gillette Company; Roman, Kenneth. “The Man Who Sharpened Gillette.” *Wall Street Journal* September 5, 2007. Accessed January 25, 2013; Isidore, Chris. “P&G to Buy Gillette for $57B.” *CNNMoney* January 28, 2005. Accessed January 25, 2013. Byron, Ellen. “Gillette’s Latest Innovation in Razors: the 11-Cent Blade.” *Wall Street Journal* October 1, 2010. Accessed January 25, 2013; Walmart.com. Retail prices. Accessed January 25, 2013; “Triple Blades Hone Trade-up Pitch.” *DSN Retailing Today* 42.5. 2003; Narr, Susan McGinnis. “The Razor Wars.” *Early Show.* CBS News, New York. December 5, 2007; Glazer, Emily. “A David and Gillette Story.” *Wall Street Journal* April 12, 2012. Accessed January 25, 2013; Walmart.com. Retail prices. Accessed January 25, 2013; Govindarajan, Vijay, and Chris Trimble. “Is Reverse Innovation Like Disruptive Innovation?”

HBR Blog Network September 30, 2009; "Gillette Guard Fact Sheet." Ed. Proctor & Gamble. 2013; Ibid; Ibid; Govindarajan, Vijay. "P&G Innovates on Razor-Thin Margins." *HBR Blog Network* April 16, 2012. Accessed January 25, 2013; "Gillette Guard Fact Sheet." Ed. Proctor & Gamble. 2013; Govindarajan, Vijay. "P&G Innovates on Razor-Thin Margins." *HBR Blog Network* April 16, 2012. Accessed January 25, 2013; Byron, Ellen. "Gillette's Latest Innovation in Razors: the 11-Cent Blade." *Wall Street Journal* October 1, 2010. Accessed January 25, 2013; Coleman-Lochner, Lauren. "Why Proctor & Gamble Needs to Shave More Indians." *Bloomberg BusinessWeek.* June 9, 2011. Accessed July 1, 2015; "How Gillette Execs Spent a Fortune Developing a Razor for India Using MIT Student Focus Groups… Without Considering the Country's Lack of Running Water." *Daily Mail* October 3, 2013. Accessed July 1, 2015; Reddy, Srinivas and Christopher Dula. "Gillette's 'Shave India Movement.'" Ft.com/management. November 4, 2013. July 1, 2015.

[1]The characters and scenario are fictional. The company and market details are based on fact.

[1]The character and scenario are fictional. The company and market details are factual.