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SYNOPSIS

Palm Inc: Piloting the Palm Café

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In Spring 2003, Ken Wirt, Senior Vice-President, Marketing and Product Development, Palm Inc., was reflecting on the early results obtained from a Palm owned mall based retail kiosk. The retail kiosk, internally code named Palm Café opened in the Westfield Valley Fair Shopping Center in San Jose, CA on October 7th 2002. Sales and customer survey data reflecting 6 months of operations are available. Mr. Wirt commented:

“The penetration rate of Personal Digital Assistants (PDA’s) among U.S. Households is about 8% compared to 70-80% for PC’s. Palm is executing a strategy to reach the mass market consumer. A new model, the Palm Zire, was launched in October at a \$99 price point *and* features that appeal to the mass market consumer. In addition to existing channels, Palm models are also being sold through new channels such as Target and Radio Shack that reach the mass market. During the 2002 holiday season, the Zire was one of the top selling PDA models in the U.S. and in Europe.

Around this time we pilot tested a company owned mall based retail kiosk code named the Palm Café. Since technology oriented companies have rarely embarked on this approach, there are a number of unknowns. First, there is the question of being able to reach the mass market and sell technology to them. Will the current design of the Palm Café be successful in this regard? Second is the law of unintended consequences. Will the Palm Café cannibalize sales from existing channels? Then, there is the question of channel economics. Can the Palm Café be successful from a cost of sales perspective? Other significant questions include sustainability of the Café test performance and scalability to other locations.

We now have 21 weeks of results from operating the Palm Café. The question is what are the implications for our strategy to reach the mass market? Should our next steps be to do another test, pursue a store within a store format, moderately expand the number of locations or expand on a larger scale?”

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Learning Objectives

This case can be used in the channels module of a marketing management class or a class on distribution channels to illustrate channel evolution in the context of a very dynamic technology product. Specifically how

- Products and features rapidly evolve in technology markets
- ‘sell-in’ and ‘sell-thru’ activities are tailored to each channel.
- New channels are added to reach new segments.
- Development activities have to be undertaken when a firm finds out that the right channel (configuration of channel activities) to reach a target market does not exist
- Field tests inform us about consumer shopping needs and desired channel services
- The conflict that can arise due to manufacturers direct selling efforts and how this can be managed
- Contribution margin projections are used to evaluate and compare the costs of alternative channels

Recommended Preparation Questions

- 1) How has Palm’s product line evolved over the past year? What are the target segments and who are the competitors? What new markets are being targeted?
- 2) How big is the mass-market opportunity? How do the Zire’s features address the needs of the mass market customer? Has the Zire introduction been successful?
- 3) What are the retail channels used by Palm? How are sell-in and sell-thru activities tailored to each channel? What are the capabilities and weaknesses of the channels? Grade Palm on its overall channel management.
- 4) **The Palm Café Pilot**
 - a) Assess the performance of the Palm Café pilot in terms of, Sales, reaching new customers, providing a good shopping experience, costs and cannibalization of existing channels. What is driving this performance?
 - b) What is the expansion potential for the Palm café given the total number of locations available?
 - c) Overall, what is this test telling us?
- 5) **Recommendation:** In your decision memo, recommend one of the strategic options presented in the case. Make sure that you discuss the risks of your recommendation, how you intend overcoming them and why other alternatives were not chosen. Your actual memo should not be longer than two pages, typed and double-spaced. Be sure to cite supporting information from your analysis as appropriate. You can provide supporting analysis in an appendix if necessary.