

# **Case 32: Black Diamond Equipment LTD.**

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Case number 32, entitled Black Diamond Equipment LTD., is a manufacturing company that produces equipment for activities from extreme skiing to campfire sleepovers. Black Diamond was originally named Chouinard Equipment. Chouinard Equipment declared bankruptcy in the early 1980s. Chouinard equipment went bankrupt essentially because they were not efficient in warning their customers of the hazards associated with using their equipment. Chouinard Equipment had a great reputation for their astounding innovations, quality of equipment and customer satisfaction.

Competitors were unable to match Chouinard's competition. On December 1, 1989, Chouinard was bought out and renamed Black Diamond Equipment LTD. The title "Black Diamond" came from the level of difficulty to ski down a mountain. The Black Diamond is the most difficult mountain to ski down, and the marketing department of Black Diamond Equipment LTD., felt they would gain the appeal of not only the extreme skiers but also to those beginner skiers.

In 1991, Black Diamond Equipment moved from Ventura, California to Salt Lake City, Utah. The motive for this move was due to the marketing aspect of Black Diamond Equipment. This way Black Diamond Equipment would be able to focus more on the targeted customers and the equipment would have a little bit of a better delivery advantage since Salt Lake City, Utah is well known for their amazing mountains to ski down. Numerous skiers tend to vacation in Salt Lake City. Having the manufacturing plant in Salt Lake City would be able to provide numerous ski resorts with Black Diamond Equipment while also providing other ski stores with their products for purchase.

Changing Chouinard's Equipment to Black Diamond Equipment LTD was done to improve Black Diamond's image while still keeping the same logo. As for today Black

Diamond has changed their logo slightly while still keeping the black diamond shape. To this day Black Diamond still is known for their highly innovative designs for mountain climbing equipment.

As for Black Diamond's commitments, they like to keep a global presence; they support their specialty retailers in order to promote brand loyalty to Black Diamond's products, along with gaining long-term relationships with these companies. Black Diamond is always competing to have the upper hand in sales; Black Diamond ensures the safety of employees while also showing their employees Black Diamond's gratitude for their hard work.

Ethically Black Diamond continues to promote safety in the plant for all of their employees while also providing critical testing for all equipment in order to sell to buyers. These tests are done to ensure the equipment that Black Diamond is providing them is a safe product. Black Diamond selling equipment holds a large amount of liabilities but having these tests will help aid Black Diamond in a decrease of lawsuits or accidental deaths.

From 1990 to 1993, the market became very demanding. The demand became increasingly high on innovative equipment with a faster delivery time. In 1991, Black Diamond was owned 50/50; employees owned 50% of the company the other 50% was held by investors and out of that 50%, Peter Metcalf, CEO, held 75%. In 1993 Black Diamond's Annual sales were \$12 million, a gross profit of \$4.8 million and a net profit of \$1.2. In 2001, Black Diamond had sales of \$36 million.

Currently Black Diamond is a private company and does not exchange stocks with the New York Stock Exchange, they do however exchange stocks in the foreign market

such as Hong Kong under a different name. Black Diamond also works with non-profit partners and industry partners in order to further their cause. Black Diamond's cause is to give back to their community. The customer is always number one in Black Diamond's eyes. Since Black Diamond takes great pride in their customers, they tend to give back to their community by fundraising. One of the fundraisers is called the Annual Utah Avalanche Center Fundraiser and the proceeds go to Utah Avalanche Center, which provides Avalanche advisories. Black Diamond has donated thousands of their dollars to their community.

In 1993, Black Diamond created the most highly innovative climbing axe that any experienced climber could get their hands on. The name of this axe was the Black Prophet. It was designed specially for ice climbing. This axe was innovated because of its ergonomic shape, which was designed to reduce arm fatigue in the climber's arm. With a composite rubber-bounded shaft constructed to gain ability to grip and weigh reduction with interchangeable parts. The Black Prophet seemed to be the newest and best product out and was going to send Black Diamond to the top. Black Diamond's production cost was \$80, retailing at \$200 with a wholesale price of \$140. These profits would have increased Black Diamond's profit margin tremendously except for one problem.

Once the Black Prophet was put on the market, an accident due to faulty equipment was reported. This supposedly state-of-the-art-climbing tool broke into numerous pieces and fell thousands of feet to the canyon floor. Thankfully, no one was hurt during this climbing trip but Black Diamond's reputation could have been lost forever.

Black Diamond was then faced with the numerous liabilities due to the increased rate of its sales. The Black Prophet was already out on the market and Black Diamond had

to make a decision whether to recall all of the axes or to inspect those that were in the warehouse and send out warnings to all those who had purchased the Black Prophet or take a tremendous drop in revenues due to recalling the Black Prophet. Today, Black Diamond no longer manufactures the Black Prophet. They have taken the proper steps in guaranteeing that all of Black Diamond's equipment will ensure the climber's safety with the proper use of the equipment.

This leads to the numerous strengths that Black Diamond has. Black Diamond's vast array of equipment and affordable prices also helps to give them the upper hand in the competition. Black Diamond knows how to market with a vast amount of advertisements. Black Diamond markets not only nationally but also creating a wide range of customers internationally. They are very innovative and technologically savvy. Black Diamond was able to conquer the Black Prophet case due to a strong bond between employees, CEO's and shareholders.

Black Diamond uses the three sigma rating system, making its goal for Black Diamond's retailers and employees know as much as possible about the equipment, and assure its customers that they are receiving a product of the highest quality. Black Diamond can give its products a strength rating and come up with a percentage of potentially faulty products produced. The management section of Black Diamond is very in-depth; there are numerous managers for each section of the company. These managers range from quality, marketing, designers, production, research development, assembly leaders to customer service leaders. All of these managers and leaders work together to create synergy, finding the best, most innovative and highly technical equipment to fulfill all orders and preseason orders.

Black Diamond has corrected their weakness in the past years. In 1993, Black Diamond was unable to obtain an ISO-9000 certification (ISO-9001 certification is a quality control system for companies that already have systems in place and helps insure that quality by monitoring design, manufacturing and testing methods.) that would have prevented any defects in Black Diamond's equipment while also increasing Black Diamond's geographical range of sales. Black Diamond's sales would have been able to go global. In October 27, 1998, Black Diamond became certified, and recently updated their certification in 2000 from ISO-9000 to ISO-9001 certified. Along with becoming ISO-9001 certified, Black Diamond has also put a criterion for those who want to purchase Black Diamond's Equipment. This is called a Pro Purchase eligibility and application process before any climber can purchase equipment. The climber must show proper certification allowing the customers to purchase a specific piece of equipment. The Pro Purchase eligibility is not only ethically sound but also decreases Black Diamond's liabilities.

There are always threats and opportunities for any company or corporation in their respective markets. An example of Black Diamond's weakness is the failures of the products that are caused by pressure. Black Diamond received pressure from the demand and the market that was directed mainly on making equipment without using a system of checks and balances. There were simply not enough employees and machines to keep up with the high demand.

Quality control is one of the most important factors in a business. It's concerned with how the products will serve the consumer needs. If the quality control is strict and well managed, the company can produce a well-rounded product that is satisfying to the

customer. On the other hand, if quality control is not handled right away, customers will not be satisfied with their products and the business runs the risk of financial problems.

One of the major problems for a business includes lawsuits from consumers and product researchers for selling faulty equipment. Another problem is the focus and anticipation on new products that a company can produce. The Black Prophet caused a huge drawback on their production of goods. The Black Prophet was Black Diamond's special version of a climbing axe and all-purpose climbing tool that can be used to support the weight of the climber.

However, In 1993 Black Diamond ran into a similar problem, as did Chouinard Equipment, dealing with the safety of its most innovative product in years. The Black Prophet did not have a structure and control systems nearly as extensive as the procedures they have in place today. The manufactured parts for the Black Prophet did not match up precisely, which caused the axe to fail over time when the climbers stabbed the axe into the ice. This flaw may have been caused by improper casting of all of the parts to the right dimensions, making all the tolerances out of specification. It may have also been possible that the materials used to create the Black Prophet became brittle due to the extremely cold temperatures. The Black Prophet as a fully assembled product would then be flawed or under designed.

While producing the Black Prophet they used a random sampling method along with separating its production facilities into different functional segments. These control systems were supposed to prevent faulty items from leaving the warehouse. They ended up running into the same problems that faced Chouinard equipment with its nightmares of faulty products being shipped to its customers. Today Black Diamond Equipment, LTD is

doing very well because it was able to prevent any lawsuits by recalling the product and issuing a statement to its consumers about the safety risk associated with the Black Prophet.

There was also the threat of the constant turnover of employees in the company. Employees jumped around from numerous different tasks at once and were trained in a short amount of time due to the constant rush of new employees. The manufacturing process also slowed down due to this problem, running the risk of making mistakes in part production, which would lead to faulty equipment. Furthermore, the employees who were hired for the job were not highly educated to begin with. Many of the employees did not even graduate from high school, while many of them were foreign and could not speak English.

Some of Black Diamond's external environmental opportunities were the desire to obtain ISO-9000 series certification in order to expand internationally and to expand their market by catering to the needs of non-mountaineering industries. Some examples include companies such as Dick's Sporting Goods and LL Bean, which are department stores for sporting goods. The increase in brand awareness is another external opportunity for a company. In order to accomplish that, Black Diamond needs to expand internationally through marketing and publicity with more advertisements to spread their name and reputation out. That way, their profit and sale can increase since many customers tend to have brand loyalty and choose the brand they are most familiar with.

Black Diamond plans to become vertically integrated which means that the management believes in in-house performance of operations related to core products that would enhance Black Diamond's competitiveness. It would increase both their profit and



the number of new customers nationally and internationally. Another opportunity is the relocation of their business stores.

In order to be closer to their target customer, relocating their stores from Ventura, California to Salt Lake City, Utah, near the mountain areas where climbers may be living, would make it more convenient for them to buy Black Diamond's products. This can increase Black Diamond's reputation through word-of-mouth and through advertising. In order to improve on company weakness and threats, employees should have the opportunity to attend service training to decrease the chance of making faulty equipment and increase their knowledge on the company's products and their consumers' needs.

Other external environmental threats to Black Diamond are global warming and brand loyalty. Global warming could decrease the number of ice climbers because of the unstable weather changes that ruin icy mountain conditions for the climbers. Research also shows that climbing is not as trendy in the U.S. as in Europe, because of the cultural differences. Brand loyalty is another external threat. The biggest market is in Europe, where customers chose equipment they know the most about and had the most confidence in.

Product substitution is another external threat. The new consumers are ignoring the wildlife and conventional experience by going to indoor climbing walls or learning skills from friends. These inefficient training methods increase the rates of accidents occurring. Many industry experts believe that the conventional training methods would cause an increase in accident rates by the lack of knowledge regarding mountaineering safety.

Competitors like Petzl, who supply consumers with high quality products for mountain climbing, also create threats. Petzl, a French company, produces a full range of

products, and takes an aggressive position in the U.S. market. They are Black Diamond's most fierce competitor because of their well-established international reputation, and the location of their manufacturing facility in the US within sixty miles of Black Diamond's manufacturing facility. As of today, Black Diamond gained Lauri Wilder who used to work for Petzl, who now works for Black Diamond as the demand manager who deals with the global demand that has opened numerous opportunities for Black Diamond to expand.

Black Diamond can continue to pursue its current business or corporate level strategy profitably by expanding its market share. They could turn their weaknesses into strengths and their threats into opportunities by improving weaknesses, decreasing threats and using Porter's five Forces that are the risk of new entry by potential competitors, the degree of rivalry among established companies within an industry, the bargaining power of buyers, the bargaining power of suppliers and the threat of substitute products.

Black Diamond could also develop new functional business/corporate strategies. Black Diamond uses its corporate level strategies in order to become a success in their industry. One part of Black Diamond's corporate strategy is to take a closer look at its new product introduction and production process. The reason Black Diamond is using this strategy is to limit the number of new product defects. Black Diamond works with retailers, wholesalers and manufactures to distribute their products.

Part of Black Diamond's strategy was to become ISO 9000 certified they achieved this goal and as stated previously are now ISO 9001 certified. Black Diamond participates in vertical integration. Black Diamond is a private company; they exchange resources in order to manufacture their products.

Black Diamond not only utilizes its corporate level strategies to be a success, but they

also have business level strategies that help them to be over all successful. According to this case study, Black Diamond has 10 guidelines for its operations. (Mattson, 2005,p.24). Black Diamond wants to be a market leader while staying passionate about the sports they market to. Most of the people that work for Black Diamond also participate in the sports with their customers, which helps them relate to one another on a more personal level. Black Diamond also wants to create a global presence and they have done this by being ISO 9001 certified. In addition to having a global presence, they also want to make sure that they support specialty retailers.

One of the guidelines that really helped Black Diamond to be successful is creating long-term partnerships with other companies. One way that Black Diamond creates long-term partnerships is by being easy to do business with one another. Black Diamond wants to be a fierce competitor but they also want to maintain ethical standards. They know that if they maintain ethical standards then they will develop a sustainable, competitive advantage over the market. Black Diamond knows that happy employees are very important and aid in their success. Creating a safe, personally fulfilling work environment for all employees will help to decrease employee turnover and increase employee loyalty.

The final strategy for Black Diamond is to be well-known as an environmentally-friendly company through preservation and access to mountain environments because they know how important the environment is, not just for the survival of the human race, but for the survival of their company as well. Black Diamond puts an emphasis on their supply chain management in order to be a success. They also strive to keep up with their competitor's technology and processes.

Since the Black Prophet was recalled, the company has made huge strides towards

their goal and have been able to prosper into a profitable company. One of the biggest reasons for Black Diamonds success has been its certification of ISO-9001, which allowed them to enter the global market where the ISO-9001 certification is required to sell products. Since Black Diamond is a US based company, and climbing is falling off in popularity here, the survival of the company could be based in the ISO 9001 certification that they achieved in 1998. They are now able to compete in a global market where extreme mountain climbing is a prominent sporting activity.

This along with the three-sigma quality testing measures allowed Black Diamond to rebuild its reputation of having innovative, high quality products by keeping up with the changes in quality standards in Europe. Black Diamond is securing a strong future in the climbing industry and assuring they can continue to sell in the global market is very important for a company in this business, especially when climbing is losing its appeal in the US where Black Diamond is headquartered.

Black Diamond has learned a lot over the years having to recall several of its products since the Black Prophet, but having no significant set backs in the company's reputation or sales. In 2001, Black Diamond opened a new 47,000 sq. ft. distribution center to allow for faster shipping that is more accurate. On top of faster shipping, the warehouse had monitors, wireless computer capacity and sophisticated scanning devices allowing Black Diamond to continue to provide quality and innovative products while also keeping up with demand and improving on their service. These additions only added to the strengths of Black Diamond's structure and control systems because of that they are recognized as industry leaders.

Looking at Black Diamond LTD. Today, they are one of the global leaders for

climbing and extreme ski gear. They are among the industry leaders in Japan, Australia, New Zealand, and Hong Kong. They have also expanded globally with the additions of manufacturing and warehouse facilities in Brazil and Switzerland. Black Diamond also plans to open a new plant in Asia in the Fall of 2007. They suspect this will increase Black Diamond globally. Black Diamond will be able to meet the demands from other global buyers while competing against other companies. Asia is a free trade zone, which will also help decrease delivery prices importing and exporting Black Diamond products. Today Black Diamond has developed into a major corporation within their target market and looks strong for the future.

Black Diamond puts an emphasis on innovation and qualities preferring mostly on budget towards innovation which allow the products they produce to market themselves. They have managed to develop the largest Research & Development engineering department in the backcountry skiing and climbing industry which allowing them to stay with their philosophy of letting the product speak for itself. This is the same company philosophy as when the company was formed from the Chouinard Equipment in 1989.

The Black Diamond Company has taught us the importance of brand recognition and how it can become a competitive advantage through steady innovation and quality products. Black Diamond has confirmed that customers' safety is always number one no matter what it cost. Last, they prove how important it can be to provide an innovative, quality product to the consumers. Their reputation and global expansion has allowed them to become one of the biggest global marketers of climbing and extreme skiing equipment in the world.