

# Case Study - Bridge View Custom Cabinets

BMKT 365

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*The case of Bridge View Custom Cabinets can be found at <http://www.vaniercollege.qc.ca/business-administration/official-case-challenge/sample-cases.php>*

# The Case of Bridge View Custom Cabinets

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## 1. SITUATION ASSESSMENT

**Symptoms:** At the moment, BVCC’s business was quite well but the owners perceived that they should do something more for its health and longevity.

**Issues:** The business was only 2 years old and obviously it has not had strong marketing strategies. The owners knew that most of small businesses failed after 5 years. There was also a forecast about a slowdown in housing starts and/or renovations due to the cyclical nature of the housing market in Lethbridge.

**Opportunities:** BVCC was young but its financial health was still good at the moment. The housing market has been quite strong despite some concern of its cyclical nature.

**Persons making the decision:** BVCC’s owners (Fred and Wilma Ferber)

**Time frame:** the next 12 months (assumed)

**Complexity of case:** Analytical

## 2. SWOT MATRIX

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"><li>• Simple management → flexible to adopt new strategies</li><li>• Good products</li></ul>	<ul style="list-style-type: none"><li>• Lack of marketing expertise</li><li>• New player in the cabinet making cabinet in Lethbridge (2 years old)</li><li>• Effectiveness of sales force</li><li>• Generic cabinets category: the amount of designs was reduced due to the “cookie cutter” approach of GC</li><li>• Payment method: only cash and checks, no wire transfer</li><li>• Unused spaces in the “back stage” area</li><li>• Untidy and unclean “front stage” area (sawdust, some hardware)</li></ul>

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>The housing market has been quite strong → still have room to grow</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 80% of small businesses failed after 5 years</li> <li>Market demand: a potential glut of residential homes (several hundred homes were currently sitting on the market)</li> <li>Strong competitors who targeted at the same segments</li> </ul>

### 3. OVERALL PROBLEM STATEMENT

More things BVCC needs to do in addition to their current strategies to secure health and longevity of their young business.

### 4. MARKETING TOOLKITS

#### Porter's 5 forces analysis for the housing market in Lethbridge

	<p style="text-align: center;"><b>THREAT OF ENTRY</b></p> <p>(-) Incumbents had a competitive advantage in learning curve: more diversified designs</p>	
<p style="text-align: center;"><b>BARGAINING POWER OF SUPPLIERS</b></p> <p>(+) Designs: insourcing</p> <p>(+) Software and materials: BVCC was not overly dependent on any powerful supplier (assumed)</p> <p>(+) Switching cost: low</p>	<p style="text-align: center;"><b>INTENSITY OF RIVALRY</b></p> <p>(-) Competitors: 5 main regional competitors who had somewhat of a “strangle hold” over a portion of the market plus 2 major home improvement stores selling stock shelving units</p> <p>(-) The cyclical nature of demand in an industry could cause price war</p> <p>(+) Companies matched their prices to keep themselves on a level playing field</p>	<p style="text-align: center;"><b>BARGAINING POWER OF CUSTOMERS</b></p> <p>(-) Quite few alternative customers: mainly GC and DIY</p> <p>(-) Unsatisfying current relationships between the salesperson and customers</p>
	<p style="text-align: center;"><b>THREAT OF SUBSTITUTES</b></p> <p>(+) Few substitutes: stock shelving units</p> <p>(+) Cross-price elasticity of cabinets- stock shelving units: low</p> <p>(+) Switching costs between products: high</p>	

Where:

(-) is for the factors that make the industry less attractive;

(+) is for the factors that make the industry more attractive.

The market was quite attractive. But from Porter’s 5 forces analysis and SWOT, I would suggest BVCC to consider some issues:

- BVCC have not, perhaps, positioned themselves. Who did they want to be in the market? Positioning helped them approach the potential customers whose needs BVCC’s products and services best meet.
- They should determine what their competitive advantages were. What differentiated them from other cabinet companies? This was a factor also influencing their positioning strategy.
- It seemed to me that they cared more about their production rather than customers’ needs and attitudes. Personally, customer orientation would be better for their business in the long term.
- BVCC should improve their marketing and sales skills.
- BVCC should also invest more in the intangible attributes of their products, particularly store atmospherics and customers’ emotion.
- “A potential glut of residential homes” might drive BVCC’s focus to the segment “home renovators” in the DIY who were mostly Baby Boomers, Generation X.

**Positioning strategy**

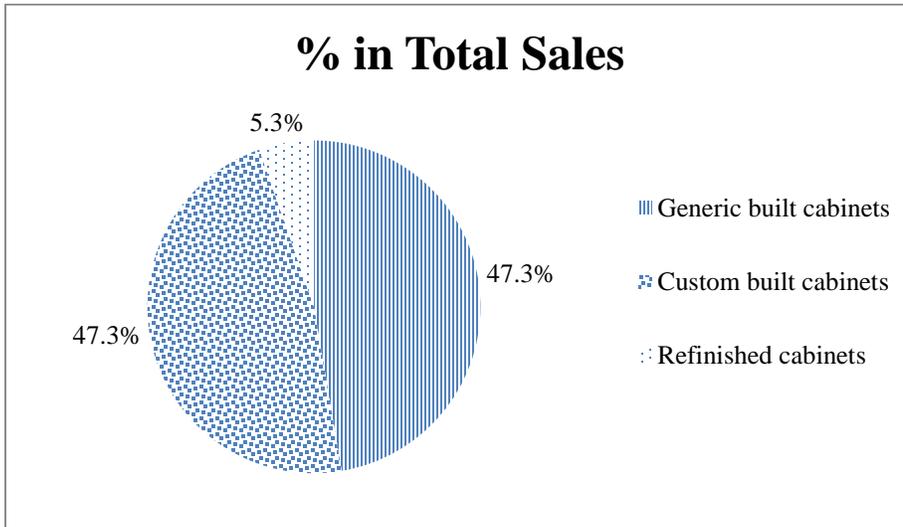
**Currently target segments:**

1. General Contractors (GC): in Lethbridge area, they mostly worked with B2B and many home owners
2. Individual home owners (DIY), where almost:
  - Consumers purchasing starter homes: Generation Y
  - Home renovators: Baby Boomers, Generation X.
3. Commercial Renovators (worked with B2B and B2C segments)

**Sales and profitability in 2 years:**

		<b>Custom built cabinets</b>	<b>Generic built cabinets</b>	<b>Refinished cabinets</b>
Ave amount (sets)	Q	16 (2*24*1/3)	32 (2*24*2/3)	6
Ave price (\$)	P	20,000	10,000	6,000
→ Sales (\$)	=P*Q	<b>320,000</b>	<b>320,000</b>	<b>36,000</b>

COGS/Price (%)	A	40%	40%	20%
→ Profit/set	=P*(1-A)	<b>12,000</b> (20,000*60%)	<b>6,000</b> (10,000*60%)	<b>4,800</b> (6,000*80%)



1. Sales of Custom built cabinets = Sales of Generic built cabinets: the largest portions in total sales. BVCC needed to focus on these built cabinets. However, the generic cabinets were built to specifications for GC's and GC's often used 1 CAD multiple times that led to a reduced amount of CAD for generic cabinets. Whereas, the custom built cabinets' CAD were customized mostly based on demand of home owners (who are mainly Baby Boomers and a small segment of Generation X). Therefore, BVCC should take care of these potential customers (custom built homes) more, by developing more good CADs, serving customers,...

2. Profit/cabinet gained from "refinished" category was quite impressive in comparison with those from "generic built" and "custom built" categories due to its low COGS. BVCC should also consider this category to develop their business strategy.

→ From all the points above, I think BCVV should pursue **Product attribute or benefit positioning**, in which they would select their competitive advantages (superior attributes(s) and benefit) that differentiate their products and services from those of competitors, and position the product on these attribute(s) and benefits.

## Porter's Generic Strategies – competitive advantage

Competitive advantage \ Competitive scope	Low cost	Differentiation
Broad	Cost leadership	Differentiation
Narrow	Cost focus	<b>Differentiation focus</b>

In the belief at the moment BVCC lacked identification of their competitive advantages, I would argue that BVCC should employ Differentiation focus strategy.

- BVCC was pursuing the best-price clauses which I think really worked and BVCC might want to keep that direction, because they could avoid the price-war hurting their financial health as well as they would benefit from higher prices. So, low cost strategy was not a choice.
- As a young and small business, BVCC clearly lacked resources to serve the whole broad market and directly confront with large competitors. So their differentiation strategy should go along with the focus strategy. They would create better products and focus on serving one or a few niches.

BVCC could differentiate themselves in terms of products, services, brand recognition and brand image. However, in order to follow this strategy, BVCC should stay closer to their target consumers. In that way, they could have more thorough understanding of their segment's needs and react quickly to their changing tastes and requirements. And this required them to improve their current sales and marketing skills.

## 5. BRAINSTORM ALTERNATIVES

4. Produce more stylish CADs for custom built cabinets
5. Improve sales and marketing skills
6. More advertising and other promotional methods targeted at Custom built homes (Baby Boomers and Generation X)
7. Improve customer relationships
8. Can charge reasonable prices for superior custom CADs design
9. Pay more attention on the design of store

## 6. EVALUATE ALTERNATIVES

Customer satisfaction + Brand image + Competitive advantage – Risk – Cost + Potential profit = Total

<b>Alternatives</b>	<b>Customer satisfaction</b>	<b>Brand image</b>	<b>Competitive advantage</b>	<b>(Risk)</b>	<b>(Cost)</b>	<b>Potential profit</b>	<b>Total</b>
Produce more stylish CADs for custom built cabinets	5	5	4	4	3	4	<b>11</b>
Improve sales and marketing skills	5	4	3	0	2	5	<b>15</b>
More advertising and other promotional methods targeted at Custom built homes	4	4	3	0	3	4	<b>12</b>
Improve customer relationships	5	4	4	0	3	4	<b>14</b>
Charge reasonably high prices for superior custom CADs	4	3	3	3	3	4	8
Pay more attention on the design of store	5	4	3	0	3	4	<b>13</b>

## **7. SELECTED ALTERNATIVES**

Basing on the assessment above, the combination of alternatives I would recommend was:

1. Improve sales and marketing skills
2. More advertising and other promotional methods targeted at Custom built homes (Baby Boomers and Generation X)
3. Improve customer relationships
4. Pay more attention on the design of store

When these changes could attract more custom built homes customers, BVCC might then consider the alternative “Produce more stylish custom CADs”.

## **8. OUTLINE THE EXECUTION OF THE RECOMMENDATIONS**

Additional things to do and change in BVCC’s current strategies:

### **Product and Service**

The fact that GC’s used 1 generic CADs many times led to a reduced amount of CADs. However, 1 benefit was BVCC could then reduce their design costs of several generic cabinets.

Focus on promoting their service of refurbishing and refinishing cabinet sets. Although in these 2 years, BVCC only made 6 contracts but I think they should take this segment into consideration. It might be potential to target at in the future.

Continuously improve their deliver, installation, repairs, maintenance processes in order to offer better service

Ensure high quality of cabinets.

In the near future, when having an enough amount of custom built homes customers, BVCC might think about focusing on “producing more stylish custom CADs” at reasonable prices.

## **Price**

Continue current pricing strategy: matching industry pricing standards.

At the moment, BVCC accepted only cheques and cash. They should also use wire transfer method to provide customers more convenience, security and time saving.

## **Management**

BVCC really needed to attract more customers and build and maintain relationships with them. So, marketing and sales skills need improving. Given BVCC only afforded 1 salaried employee at this time, they should employ an employee who would take care of their marketing and sales parts. Fred should invest his full time in working in the back stage, taking over the current employee’s tasks because that was what he loved and was good at. Wilma was doing well as the administrator and designer.

## **Promotion**

To differentiate their business from competitors, BVCC should focus on enhancing their brand recognition and brand image, besides products and service. Stressing promotional methods could help BVCC create effective brand recognition. Better brand image would reflect the effort at improving the quality of products and services BVCC offer to customers; here, again, sales force would play a determinant role in great customer services.

Advertising and other promotional methods should be targeted at home renovators in the DIY market (Baby Boomers and Generation X) rather than consumers purchasing starter homes (Generation Y) because: (1)

DIY customers tended to purchase custom cabinets, (2) consumers purchasing starter homes mostly worked with GC's and demanded generic cabinets, (3) demand of consumers purchasing starter homes might decrease in the near future due to the cyclical nature of housing market. At the time, BVCC was supporting minor hockey in the Lethbridge area, paying for the hockey jerseys for the team and throwing a pizza party at the end of the season which was attended also by parents. This was a good promotion idea, provided that these parents were among Baby Boomers and Generation X.

Promotional methods were not targeted at consumers purchasing starter homes; instead, BVCC should concentrate on building and maintaining the B2B relationships with GCs who most of them time represented consumers purchasing starter homes.

At the time, there was no SEO on BVCC's website; they have not been promoted in any other fashion online, or through promotional literature. Obviously, BVCC should add this marketing into their promotional strategies.

They could also utilize Internet channels, for example: video their building, installing and refurbishing cabinets and upload them on YouTube. Newsletters and word-of-mouth would also be powerful promotional tools.

## **Store Atmospherics**

Pay more attention on the design of store

BVCC used a typical servuction system design for their store layout strategy, which was nice. The only problem was that while several boxes hardware occupied a part of the front stage, there was still some space in the back stage sitting empty. I would recommend BVCC should rearrange their back stage to "tidy up" the front stage and increase manufacturing capabilities. (The space in the back stage allowed  $\leq 8$  cabinets to be built/ month and BVCC at the moment produced an average of 2 cabinets/ month.)

BVCC should find way to minimise the amount of sawdust in the front stage. The sawdust might cause customers' uncomfotability.

## **Place/ Distribution**

The location of BVCC was ideal; information on distribution was not available. So, I do not have a recommendation in this part.

## **9. BUDGET**

Given the budget for advertising and promotion = 10% of net sales and a timeline of 1 year, I would recommend allocating 50% for advertising towards home renovators in the DIY market, 40% for promotions towards B2B relationships with GCs, and 10% for promotion on Internet and publicity.

Besides, 7% of Q1 net sales should go into improving store atmospherics.