



# Network of International Business Schools

## **WORLDWIDE CASE COMPETITION**

### *Sample Case Analysis #1*

Qualification Round submission from the  
2014 NIBS Worldwide Case Competition, London, UK

**Case:** *Can Stenders Clean Up on the UK High Street*

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# STENDERS

*Facilitating growth in the UK marketplace*

*Submission prepared for the Qualifying Round of the*  
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by

XXXXXX University

(Name of Student 1)

(Name of Student 2)

(Name of Student 3)

(Name of Student 4)

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## Executive Summary

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STENDERS has cultivated growth in the past by expanding into new markets and capturing market share on the strength of strong customer service and a high-quality, luxury product line. Currently presented with the opportunity to expand into the highly lucrative UK marketplace, the company must balance the need to grow brand awareness and sales within their target market against high and rising costs of doing business in this market. To achieve this manageably, three alternatives are proposed:

1. Pampered Luxury
2. Expert Advice
3. Child Friendly Pop-ups

We recommend the first of these options; a strategy of incorporating limited spa services within stores to create an environment of comfort, supported by a broad marketing campaign to promote the new services and support the brand. Differentiating and reinvigorating its retail format will provide STENDERS with a solid basis on which to attract customers, differentiate from competitors, and reduce the costs associated with the expensive real estate resulting in continued growth. This will increase the company's global presence and provide a gateway for expansion to other western countries.

## Problem Statement

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In pursuing expansion within the United Kingdom, how can STENDERS maintain revenue growth, while containing costs and managing risks?

## Analysis

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### *The UK beauty retail industry*

Characterized by a high amount of competition with limited differentiation, the UK personal care products market presents a number of challenges and opportunities for firms hoping to capture market share (Appendix A). This lucrative £1.4 billion market is currently dominated by a small number of specialized competitors. Products in this sector are perceived as having high value and being of superior quality, so as to become items consumers aspire to own or give as a gift. For STENDERS to be successful in this market, it needs to differentiate itself from the other high prestige fashion brands and enhance its brand value (Appendix B).

### *UK customers*

STENDERS' current global consumer base is mainly women aged 24-45 (Appendix C). Moving into the UK market, it is important that the firm leverage its understanding of this demographic and adapt to cultural preferences and tastes. For its products to be appealing, they must continue to be high quality natural products. STENDERS' main customer target in the UK should be roughly the same age as its current consumer base. High-income individuals who value beauty upkeep and customer service align well with STENDERS' value proposition.

While adapting to the UK market, the campaigns must also align with the firm's goals. The company, and the industry more generally, will gain an advantage by focusing on customer retention in a market that is plagued by weak brand loyalty. Although strengthening the brand in the UK market is key to the success of expansion (Appendix D), it must be measured against the brand position of STENDERS globally.

### *Rising cost of doing business in London*

The high and rising cost of retail space in prime London areas presents a serious challenge to STENDERS when considering possible locations for new franchises. The popularity of these locations with shoppers promises a high amount of walk-through conversions from new customers and the critical brand awareness needed. However, rents can be crippling, as opening a STENDERS location in the west end can be up to ten times more expensive than in a mall in a surrounding district (Appendix E). These surrounding areas also generate a competitive amount of foot-fall on Saturdays, so the benefit of being in prime real estate needs to be measured against the investment costs.

### *Franchising strategy*

Historically, STENDERS has fuelled rapid expansion by using franchisees to help alleviate some of the capital requirements and start up responsibilities. The major drawback of this model is that the firm loses some control over their brand image, creating problems if the candidate is not reliable. By giving franchisees the opportunity to create extra income through business-to-business channels, STENDERS can attract prime candidates to facilitate expansion, thus giving them a competitive advantage.

## **Decision Criteria**

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Four key criteria were considered when determining the optimal solutions for STENDERS: cost of implementation, alignment with corporate vision, profitability of the targeted market, and creation of a strong brand (Appendix F).

## Alternatives

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### *1. Pampered Luxury*

A key challenge for STENDERS will be differentiation from the vast numbers of competitors that are offering similar product lines to a similar market. For that reason, STENDERS may consider differentiating themselves by adding a spa element that focuses on skin care to their stores. Since their primary market is working women between the ages of 24-45 who enjoy relaxing and participating in recreational relaxing rituals, this will enable STENDERS to offer a unique service that creates value for customers. Further, stores would be located in areas outside of the high-cost West End, in larger spaces that will allow room for the relaxing environment. To cultivate brand awareness and recognition, this alternative will employ a marketing campaign that appeals to the targeted market. This may pose a risk to the business-to-business markets that currently use STENDERS' products at their spas. But it would also create direct revenue for the STENDERS spas by using the firm's products.

### *2. Expert Advice*

Since consumers in the UK place a high value on expert advice and opinions, a second alternative is to feature in-store demonstrations by experts that would provide skin care and beauty advice, thus creating added value for the customer and differentiating STENDERS from competitors. The location of these stores will be in high-demand West End areas in order to boost brand prominence and awareness through foot traffic and word of mouth. A risk of this alternative is that the high cost of the locations may outweigh the revenue created by the new service; however, we anticipate that this option will generate sufficient incremental sales to justify the additional costs.

### ***3. Child Friendly Pop-Ups***

STENDERS is currently seen as not child-friendly, which may deter customers with children from shopping at the stores. These customers place high value on gift-wrapping services, functional products for babies and toddlers, and products for sensitive skin. STENDERS could create a new product line for sensitive skin that would be suitable for children. This product line would effectively differentiate STENDERS from competitors. To create brand awareness and recognition in the UK, STENDERS could create small temporary retail locations-- pop up stores—in central locations to capture the attention of consumers. A potential downside of this alternative is a loss of perceived sophistication due to the creation of more family-friendly stores. We believe STENDERS can mitigate this risk by ensuring a luxurious atmosphere and services for all customers (Appendix G).

## **Recommendation**

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After weighing the alternatives against our decision criteria, we recommend that STENDERS implement the "Pampered Luxury" alternative (Appendix H). While it does not align perfectly with the current corporate vision, this option has the potential to generate high levels of profitability from the targeted market, creates a strong brand reputation, and utilizes cheaper store square footage—all elements that are essential for STENDERS' long term growth.

## Implementation

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### *Short-term*

For successful implementation of the recommended strategy, STENDERS should focus on three pillars: franchising, marketing, and human resource management (Appendix W-1). In order to capitalize on the growing UK demand for beauty retail goods and lucrative franchising opportunities, STENDERS will need to showcase their value to franchisees. Expansion of stores to include small spas will provide franchisees with increased foot traffic, profits and brand reputation, as well as stronger industry knowledge. The risk of loss of franchisee profits from B2B sales will be mitigated by providing additional support to other channels, such as salons (Appendix I) . Hiring procedures for franchisees will be laid out in the two-month training period, with standard practices for employees.

To cultivate the desired brand image within the new target market, a promotional campaign centered around the theme “Indulge in Sophisticated Relaxation” will be created, focusing heavily on billboards in high traffic locations. The campaign will showcase STENDERS services and natural products, and demonstrate how they fit in their target markets fast paced lives.

### *Long-term*

STENDERS will need to create strong relationships with franchisees while meeting expectations by standard training, and frequent reporting. To ensure long-term customer loyalty and retention, a customer relationship management strategy should be put in place. This will entail communication channels through email, with frequent experience and product-satisfaction surveys. Through continued monitoring of franchisees, STENDERS can look to further expand within the UK, thus providing a gateway to other western countries.

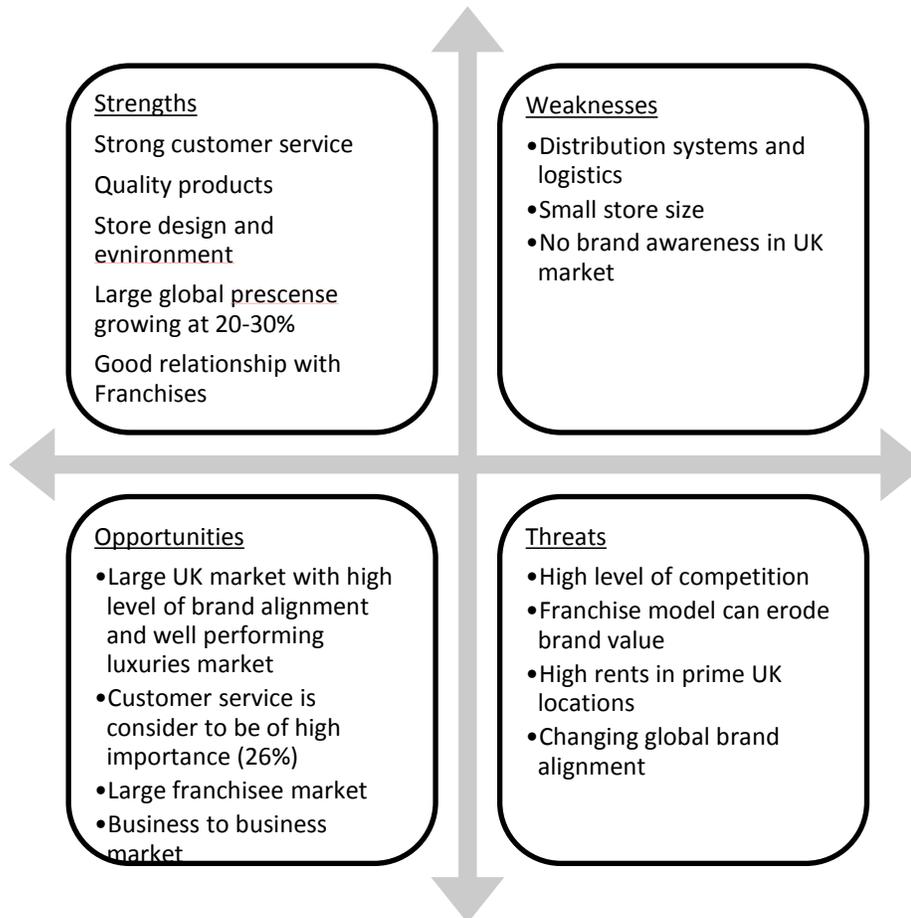
## Expected Outcomes

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We calculated average store profitability by converting footfalls outside the prime market if the average revenue from a purchase is £40 (Appendix J). Success of the selected alternative can be assessed through return on investment (ROI) of the project, which depends on how many stores STENDERS wishes to open during implementation and what operating margin they currently operate at (Appendix W-2). Based on a strategy of four stores in the first year, we anticipate that STENDERS will realize a ROI of 6.1% in its initial year of operation.

## Appendices

### Appendix A – Internal / External Analysis



### Appendix B – PESTLED Analysis

Environmental Factor	Implication
<b>Political</b>	Low impact on the industry, though there is a possibility for partnerships with fair trade government and non-government entities in the future
<b>Economic</b>	Due to recession: <ul style="list-style-type: none"> <li>• Consumers spending more on personal care entities and at-home personal care</li> <li>• Demand for franchisees is increasing. This is augmented by a rise in real estate costs in the UK; entrepreneurs value relatively low start-up costs of franchises</li> </ul>
<b>Social and Demographic</b>	<ul style="list-style-type: none"> <li>• Relatively equal proportion of consumers purchase based on quality or value: 46% vs. 49%</li> <li>• 57% of speciality bath &amp; body purchases made due to friend recommendation</li> <li>• Younger demographics (18-24) are less loyal and more price sensitive</li> <li>• Older demographics (46+) motivated by quality rather than endorsements</li> </ul>
<b>Technological</b>	<ul style="list-style-type: none"> <li>• Resistance to online purchasing due to inability to test, touch and feel product</li> </ul>

**Appendix C – Market Segmentation and Targets**

Gender	Status	Age	Income	Classification
Female			High	
		18-24	Medium	
			Low	
			High	Secondary
	With Children	24-45	Medium	
			Low	
			High	
		46+	Medium	
			Low	
			High	Primary
		18-24	Medium	
			Low	
			High	
	No Children	26-45	Medium	
			Low	
			High	
	46+	Medium		
		Low		

**Appendix D – Positioning Map of Firms in UK Bath & Body Care Industry**



**Appendix E – Retail Space Cost Comparison for Various London Districts**

Stenders Store Square footage	Bond Street	Kings Road	Paddington
	1,300/sq ft	400/sq ft	150/sq ft
800	£1,040,000	£320,000	£120,000
850	£1,105,000	£340,000	£127,500
900	£1,170,000	£360,000	£135,000
950	£1,235,000	£380,000	£142,500
1000	£1,300,000	£400,000	£150,000

### Appendix F – Key Decision Criteria

Decision Criteria	Rationale	Weight	Quantifying Measures: Key performance Indicators
Cost of Implementation	Need to maintain low costs in a competitive market to attain lucrative margins to both corporate and franchisees	0.15	<ul style="list-style-type: none"> <li>• Cost of franchise acquisition</li> <li>• Logistics: rental fees</li> <li>• Legal and regulatory costs</li> </ul>
Alignment with corporate vision	Consistent brand image to facilitate a sustainable competitive advantage and reap economies of scale as a global competitor	0.15	<ul style="list-style-type: none"> <li>• Customer survey ratings</li> <li>• Increase in corporate turnover: Sales / square foot</li> </ul>
Profitability of Targeted demographic	Brand-loyal consumers who are less price sensitive, value high quality products with natural well-being elements	0.3	<ul style="list-style-type: none"> <li>• Revenue per customer</li> <li>• Likelihood of repeat purchase</li> </ul>
Strong Brand Reputation	Brand awareness and the perceived value of the brand drive sales and foster long-term growth in industry	0.4	<ul style="list-style-type: none"> <li>• Proportion of footfall entering the store and purchasing</li> <li>• Average spend by buyer</li> </ul>

### Appendix G – Comparison of Alternatives

Alternatives	Strengths	Weaknesses
Pampered Luxury	<ul style="list-style-type: none"> <li>• Added-value for customers from well-being ritual and high quality products</li> <li>• Ability to target group purchases and leverage gift giving and friend recommendations</li> <li>• Differentiation from competitors</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease in extra profits earned by franchisee from B2B channel sales</li> <li>• Economic downturn boost at-home services</li> <li>• Initial high cost capital to start up SPA services</li> </ul>
Expert Advice	<ul style="list-style-type: none"> <li>• Expert demonstrations boost trust and credibility of the brand</li> <li>• Aligns with corporate vision</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of labour</li> <li>• Easily imitated by competitors</li> </ul>
Child friendly pop-ups	<ul style="list-style-type: none"> <li>• Grow target market by serving mothers and single women</li> <li>• Less lucrative target market</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to organize and implement pop up stores</li> <li>• High cost of marketing to build brand loyalty to mothers</li> </ul>

### Appendix H – Quantitative Evaluation of Alternatives

Criterion	Weight	Alternative 1: Pampered Luxury	Alternative 2: Expert Advice	Alternative 3: Child-friendly popups
Cost	.15	3 (.45)	1 (.15)	2 (.3)
Alignment	.15	1 (.15)	2 (.3)	2 (.45)
Profitability of demographic	.3	3 (.9)	1 (.3)	2 (.6)
Strong brand reputation	.4	3 (.12)	1 (.4)	2 (.8)
<b>Total</b>	<b>1</b>	<b>2.7</b>	<b>1.15</b>	<b>2.15</b>

### Appendix I – Identified Risks and Mitigation Strategies

Risk	Likelihood	Severity	Mitigation
Diluting extra profits made by franchisee through B2B channel (spas)	Medium	Medium	Offer more lucrative agreements, such as intensive training placing an emphasis on opportunities in other B2B channels such as salons
Change in global brand alignment	High	High	Marginal implementation of spa locations in select locations in the UK with future implementation in other global regions
Franchisee risk of pursuing their own strategy	Low	Medium	Clear and precise documentation Offer extensive training Require frequent training based on established standard metrics
Continued economic downturn leads to decline in demand for luxury goods	Low	Medium	Marketing campaigns that place emphasis on importance of mental well-being offered by spas and physical wellbeing facilitated by natural products to sustain value offered by brand.

### Appendix J – Projected Expenses & Revenues, Per-Store

Marketing campaign Expenses	£100,000
Rent-Expense (Assuming 1300 Square feet per store)	£195,000
Staff Expense (Assuming 5 Staff Members)	£92,000
Utilities Expenses	£19,500
Insurance	£7,500
<b>Cost Per Store</b>	<b>£414,000.00</b>

		Malls		Stations	
	Average	Wednesday	Saturday	Wednesday	Saturday
Footfalls	1212.5	1100	590	2200	960
Average store entrance rate	3.80%	3.80%	2.80%	5.20%	3.40%
Average purchase rate	40.75%	0.52	0.33	0.29	0.49
Average purchase per day	18.78				
Average income per day (£40 average purchase)	£751.02				
Income per month	£22,530.68				
<b>Adjusted for franchise profit (.75)</b>	<b>£16,898.01</b>				

**Appendix W-1 – Implementation Timeline**

Implementation Activity	Tomorrow	1 Month	2 Month	3 Month	4 Months	5 Months	6 Months	7 Months	8 Months	9 Months	10 Months	1 Year +
Creation of franchise strategy												
Hiring of marketing team												
Marketing Research												
Franchisee decision process and training												
Pre-launch marketing												
Hiring for London stores												
Launch marketing												
Store grand-opening												

**Appendix W-2 – Return on Investment, Sensitive to Operating Margin & Number of Stores Opened**

Operating Margin	Number of Stores					
	1	2	3	4	5	6
0.05	0.20%	0.41%	0.61%	0.82%	1.02%	1.22%
0.1	0.41%	0.82%	1.22%	1.63%	2.04%	2.45%
0.15	0.61%	1.22%	1.84%	2.45%	3.06%	3.67%
0.2	0.82%	1.63%	2.45%	3.27%	4.08%	4.90%
0.25	1.02%	2.04%	3.06%	4.08%	5.10%	6.12%
0.3	1.22%	2.45%	3.67%	4.90%	6.12%	7.35%
0.35	1.43%	2.86%	4.29%	5.71%	7.14%	8.57%
0.4	1.63%	3.27%	4.90%	6.53%	8.16%	9.80%
0.45	1.84%	3.67%	5.51%	7.35%	9.18%	11.02%
0.5	2.04%	4.08%	6.12%	8.16%	10.20%	12.24%