Network of International Business Schools

WORLDWIDE CASE COMPETITION

Sample Case Analysis #2

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

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

STENDERS

Case Study Analysis

Submission prepared for the Qualifying Round of the
2014 Network of International Business Schools
Worldwide Case Competition
London South Bank University

by

XXXXXX University

(Name of Student 1)
(Name of Student 2)
(Name of Student 3)
(Name of Student 4)

Word count: 1,445

Key Concern

With ever expanding market opportunities, STENDERS needs to define the optimum competitive positioning for the brand and the steps necessary to align this positioning with the established international brand identity. Should STENDERS enter the United Kingdom market through franchises?

Situation Analysis

SWOT, PESTLE., Porter's Five Forces, and Strategic Group Mapping analyses were used to evaluate the firm's internal situation and external market forces affecting the firm (See Appendices I-IV). We noted several relevant items from each. Most notably, we see room for global market expansion from the SWOT. In addition, healthy growth in sales of luxury goods is evident as noted in the PESTLE. As shown in Porter's Five Forces, buyer power is extremely strong due to price conscious and well informed buyers. With the competitive prices and quality products STENDERS offers, buyer power is to our advantage. Increasing the number of locations and maintaining competitive pricing, will allow STENDERS to grow in a positive manner as shown in the Strategic Group Map.

Analysis of Findings

As STENDERS has grown, the company has struggled with distribution and production as well as control of the franchisees. However, STENDERS has created a unique selling point (USP) by offering premier customer service. In addition to mid-range pricing and ecologically sustainable products, a distinctive core competency has been created in the area of attention to detail (Appendix V). As the market rebounds from recession, economic indicators forecast growth in the world's beauty and luxury market.

Alternatives

1. Launch franchise in United Kingdom
2. Launch company owned store in United Kingdom
3. Grow presently established market
4. Partner with existing boutique to offer our products

Evaluation of Alternatives

The advantages and disadvantages of the alternatives vary. Following a weighted competitive strength analysis that evaluates each of STENDERS alternatives, we recognized the comparative importance of key success factors (Appendices VI - VII). Classic, chic, sophisticated positioning and providing excellent customer service were allotted the highest weight as they are crucial for future firm profitability. Growing distribution was ranked next as the widespread availability of STENDERS' products is vital to successful company expansion. Our next highest factor was maintaining an eco-friendly standing, as there is an expanding market segment for natural and sustainable products. To expand the market further, variety of products was ranked fifth, encouraging untapped markets to come to STENDERS. Our final key success factor was administrative control. We feel that maintaining control of advertising and store management limits divergence from STENDERS mission.

The first alternative offers potential to continue with the current business structure and **expand the number of stores by selling franchise rights in the United Kingdom**, meeting the goals of company executives. With the economy rebounding, a number of investors may seek a portion of STENDERS' value, providing the company with increased capital for further worldwide expansion. However, poor franchisee management is already a weakness of the company.

The second alternative is to **launch a company owned store in the United Kingdom** and maintain control of this launch point. This allows STENDERS to grow the brand in the country, building brand equity among the consumer. Upon success, the company will be better positioned to launch a second store before expanding through franchising. Furthermore, company control may encourage the implementation of a production and distribution center for the Western Hemisphere. On the other hand, upfront costs are higher for STENDERS at a corporate level.

The third alternative is to **promote the availability of franchises in a presently established market**. With this alternative, existing equity can be leveraged to encourage new franchises to open, increasing the brand awareness of the company. However, focusing on existing markets may cause STENDERS to miss an opportunity for expansion into new or growing markets.

The fourth alternative is to **partner with an existing boutique in the United Kingdom** and begin selling STENDERS products. These boutiques can range from spas to salons. This alternative allows the company to build equity with little to no capital requirements, with future potential to open stores in the United Kingdom. On the other hand, this alternative offers little profit and does not meet the goal set by company executives.

Recommendation

Given the conditions of the company and the market, along with our analyses, we recommend that STENDERS launch a company owned store in London in the Westfield Shopping Mall.

Risks & Contingencies

A moderate risk of our recommendation is the increase of lease rates. This might occur because the demand for lease space increases in our desired market in Westfield Mall. To combat this risk, we feel we have significant lease options and would be able to relocate with increased customer loyalty.

A minimal risk of our plan would be if store profits do not meet projections. We feel that we have an established brand and reputation within the global market. An increased marketing budget, coupled with an intensive advertising campaign, can help increase profits.

Another minimal risk is the threat of new entrants to the market. Because the beauty and luxury good market is growing, new entrants could enter the market. We feel that running sales promotions can help keep the brand-sensitive consumer with STENDERS.

Implementation

A study of potential locations (Appendices VIII-IX) revealed the best location to be Westfield Mall. This location offers high potential returns (after an initial investment) while keeping with the brands chic, sophisticated style (Appendices X-XI). The mall also best reach the primary target market (women aged 24-25 with mid-range income).

First, we recommend that STENDERS research open retail space in the Westfield Mall and conduct a feasibility study. This will reveal which specific storefronts demand a high footfall, but still keep with the style and space requirements of STENDERS. Should no stores meet these strict requirements, the company can consider modifying an existing storefront to meet the requirements.

Once a store is found, leasing and preparing the store for business can begin. Targeted advertising should begin as the store is prepared for opening. We also recommend hiring an experienced manager, perhaps one who has worked in the local beauty retail industry, to set an example for future store managers and employees.

After two years, we feel that STENDERS should evaluate the success of its launch point store. Should company capital allow, we recommend that a second company owned store open in the London area. This store will further increase the equity of the brand in the United Kingdom market. Furthermore, this second store will be created after the target market is more refined from the first store. This will allow for even more targeted marketing, which can include but is not limited to billboards and other transient advertising, television advertising, and corporate gifts and sponsorship.

After three years, we feel that the company will be well positioned in the market. With success, STENDERS can begin to offer franchise rights to investors. Franchising after becoming established increases the likelihood of franchisee success due to increased brand awareness and equity, which in turn increases the capital of STENDERS. These two launch point stores can be used as model stores, as well as training centers, for future franchise managers. This prevents STENDERS from having franchisee management issues in the United Kingdom market though effective training.

Finally, after five years in the U.K. market, we recommend the company evaluate the creation of a Western Hemisphere production and distribution center. This will help STENDERS solve its production and distribution issues, while helping them to grow into future markets. The United States and Canada, for example, each have growing beauty and luxury markets that are presently not fully saturated.

At six months, as well as at one, two, and four years, we encourage milestone reviews and evaluations. The review process allows STENDERS a chance to determine if all processes are going as planned and if any modification should be made due to unanticipated events. Additionally, the two year milestone review will be crucial in determining whether to open a second company owned store and expand our United Kingdom presence or maintain present operations while seeking alternatives.

Summary

In conclusion, we believe that STENDERS should implement the second option and launch a company owned store in London in the Westfield Shopping Mall. This option is consistent with our distinctive core competency and follows the suggestion presented in the weight competitive strength analysis. With a company owned United Kingdom presence, STENDERS can prepare to solve their weaknesses in franchisee management and production and distribution. Additionally, the presence in the Western Hemisphere can open STENDERS up to potential new markets. If this recommendation is not followed, we may risk exposing our weaknesses to competition, decreasing the brand equity and losing our distinctive core competency that brings in profit.

Appendices

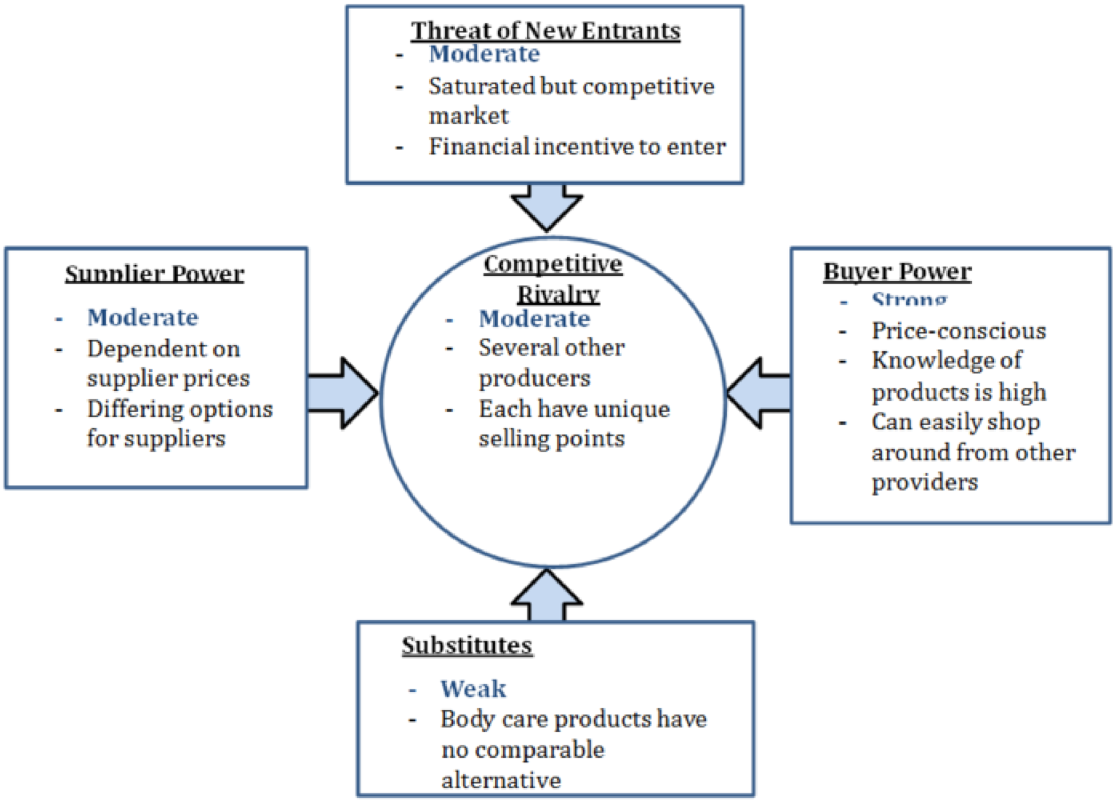
Appendix I – SWOT Analysis

Strengths	Weaknesses
• Unique customer service • Attention to detail (gift wrapping and flowers) • Well established world brand • Natural ecofriendly packaging and store environment • Mid-range pricing strategy • Established franchise system	• Production/distribution issues • Poor franchise management • Limited employee resources
Opportunities	**Threats**
• Room for global market expansion • New retail venue options • Men's market	• Minimal Western market experience • Global recession • Numerous competitors • Young people are not brand loyal • Major market competitor

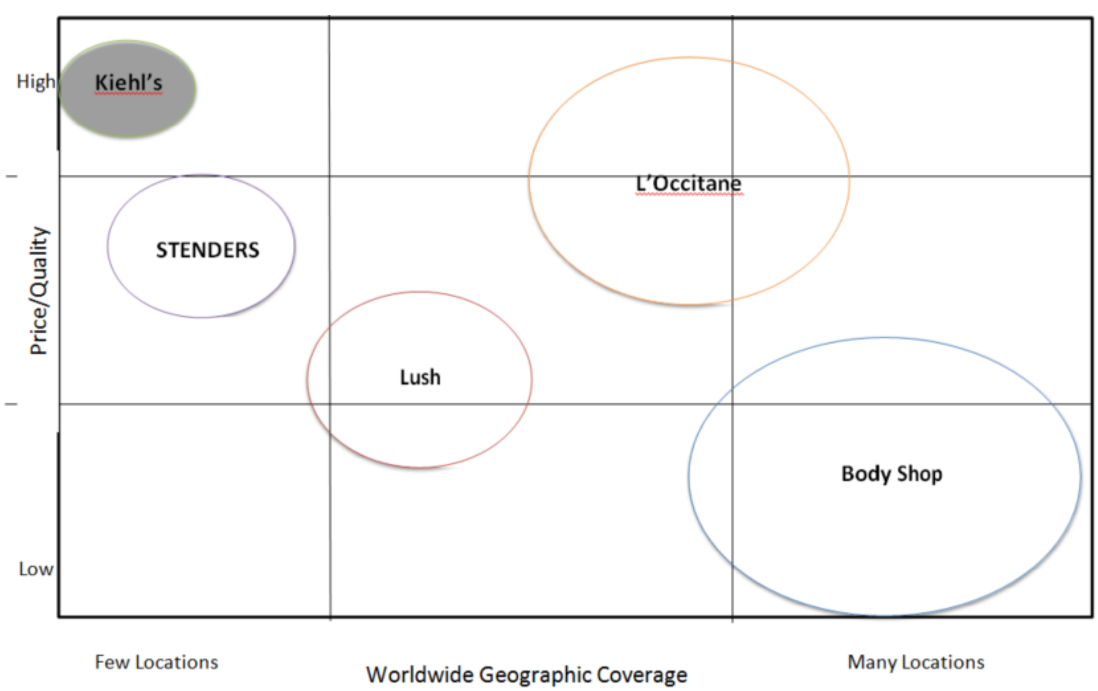
Appendix II – PESTLE Analysis

Population Demographics	• Upwardly shifting standard of living for majority of population • 25.6 million females in the UK • Aging baby boomers
Economic Factors	• UK beauty retail market worth £14.8B • Healthy growth in the sale of luxury goods • Increase consumer desire for convenient shopping
Societal Factors	• Growing acceptance of beauty products • Increased desire for comfort and indulgence projects • Higher demand for green products
Technological Factors	• Lack of sensory stimulation vie internet
Legal Factors	• Wide governmental incentives for new business growth • Direction and stability of political factors
Ecological Factors	• Increasing internal business shifts toward green production / distribution • Governmental restrictions on energy and waste

Appendix III – Porter's 5 Forces



Appendix IV – Strategic Group Map



Appendix V – Current Marketing Mix

Product	Price	Place	Promotion
x Classic, chic, and sophisticated x All natural x Bath x Body cleansing x Cosmetics x Massage products	x Competitive with other firms x Affordable x High-quality x Package deals	x Global brand x Latvia x CIS region x China x Middle East x Asia x Pending other locations x United Kingdom x Ireland x United States	x Gift wrap x Flowers x Customer service

Appendix VI – Weighted Comparative

		Launch franchise in UK		Launch company owned store in UK		Grow presently established market		Partner with existing boutique to offer products	
Key Success Factor	**Weight**	**Raw**	**Total**	**Raw**	**Total**	**Raw**	**Total**	**Raw**	**Total**
Classic, chic, sophisticated positioning	0.25	4	1	5	1.25	4	1	2	0.5
Provide excellent customer service	0.24	3	0.72	4	0.96	3	0.72	1	0.24
Grow distribution	0.19	5	0.95	5	0.95	5	0.95	3	0.57
Maintain eco-friendly standing	0.15	4	0.6	5	0.75	4	0.6	3	0.45
Variety of products	0.10	5	0.5	5	0.5	5	0.5	3	0.3
Administrative control	0.07	2	0.14	5	0.35	2	0.14	5	0.35
Totals	1	3.91		**4.76**		3.91		2.41	

Ranking Scale
1. The alternative does not effectively address this criterion.
2. The alternative may contribute to readdressing this criterion
3. The alternative provides an average solution to this criterion
4. The alternative provides an above average solution to this criterion
5. The alternative effectively addresses this criterion

Appendix VII – Key Success Factors

1. Classic, chic, and sophisticated positioning
2. Provide excellent customer service
3. Grow distribution
4. Maintain eco-friendly standing
5. Variety of products
6. Administrative control

Appendix VIII – Profit Comparison

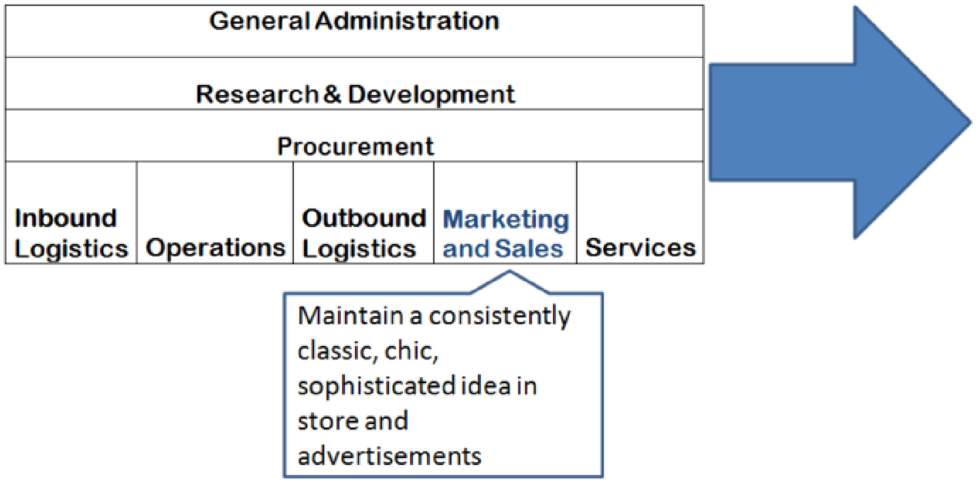
West End		High Street		Shopping Mall	
Annual revenue	**£2,017,398.24**	**Annual revenue**	**£ 990,066.29**	**Annual Revenue**	**£ 1,165,048.17**
Annual Lease Expense	£ 1,248,000.00	Annual Lease Expense	£ 832,000.00	Annual Lease Expense	£ 416,000.00
Business Rate	£ 499,200.00	Business Rate	£ 332,800.00	Business Rate	£ 166,400.00
Payroll	£ 128,000.00	Payroll	£ 128,000.00	Payroll	£ 128,000.00
British Tax Contribution	£ 4,000.00	British Tax Contribution	£ 6,400.00	British Tax Contribution	£ 6,400.00
Insurances	£ 7,500.00	Insurances	£ 7,500.00	Insurances	£ 7,500.00
Utilities	£ 15,000.00	Utilities	£ 15,000.00	Utilities	£ 15,000.00
Cost of merchandise sold	£ 201,739.82	Cost of Merchandise	£ 99,006.63	Cost of Merchandise	£ 116,504.82
Annual Net Loss	**-£ 86,041.58**	**Annual Net Loss**	**-£ 430,640.34**	**Annual Net Profit**	**£ 309,243.35**

Appendix IX – Key Financial Inputs & Assumptions

Assuming the trends in customer activity are well represented from Appendix C in the case, these estimated figures should reflect the projected annual net income/net loss for this location.

- Business hours 9-7
- Foot traffic per hour deviates about 5% from base hour (3:00-4:00)
- *= Estimated peak footfall hour
- v= weighted estimated footfall x average v from all stores taken from Appendix C in case
- b/v= v x average b/v from all stores taken from Appendix C in case
- Weekly revenue= Weekly buying customers x average spent on weekday and weekend from Appendix C in case
- Annual Lease Expense= £per square feet (adjusted for expected 4% rise in prime rental values page 7 of case)x1000 square feet
  - West End- £1248 x 1000
  - High Street-£832 x 1000
  - Shopping Mall- £416 x 1000
- Business Rate= 40% of annual rent (page 8 of case)
- Payroll= £16,000 per employee per year x 8 employees
- British Tax Contribution= Payroll x 15% British Tax
- Insurance= Flat rate of £7,500 annually
- Utilities= £15 per square feet x 1,000 square feet
- Cost of Merchandise Sold= 10% of annual revenue

Appendix X – Value Chain



Appendix XI – Implementation Timeline

Implementation Phases		Years							
		1				2	3	4	5
	Today	3 mo	6 mo	9 mo	12 mo				
Research and open retail space									
Lease and prepare store									
Begin Target advertising									
Open second company owned store									
Launch franchises									
Evaluate expansion into Western market									
Milestone Review									