

Integrating Commodity Manufacturing and Retail

Client Profile: A large flooring manufacturer.

Situation:

- 1) Client was feeling the impact of an industry with only marginal growth of the past several years.
 - The industry itself lacked direction and manufacturing leadership
 - It was a low margin business—price driven, commoditized
 - The fiber used in the product was the only differentiator
- 2) Additionally, retail cooperatives and large category-specialists stores were growing in an effort to drive the wholesale prices down even further.
- 3) The expense of keeping technologically current to satisfy higher performance demands meant smaller margins for the manufacturer

Client was looking for ways in which it could grow its market share and control sale at the retail level. It engaged The Bedford Group to investigate the option of vertical integration (entering the retail marketplace) among a number of other strategic alternatives.

Contribution:

- Assessed current market position and projections for the future
 - Government data
 - Business press
 - Competitors
 - Financial databases
 - Special reports
 - Company's own financial records.
- Interviewed key stakeholders
 - within the organization
 - the investment community
 - leading dealers and distributors (and those that were not)
 - industry leaders
 - specialty and mega-store retailers
- Conducted other interviews:
 - buying groups, franchisees, co-ops from flooring focus to other categories of business
- Assessed talent pool internally
- Conducted market research among consumers

Recommendations:

- 1) Phased, stepwise diversification of the company's channel portfolio to broad ranging presence in virtually every channel by 2002.
 - Sell to buying groups in specific ways
 - Create a strong company image
 - Develop aggressive programs to help the small, and large retailer grow
 - Develop a non-retail program in catalogs and home shopping
- 2) Experiment in owning retail. Do not attempt to build retail control through company owned, franchise or co-op ownership until the company culture, management and dynamics have been changed in order to support such an initiative.

Client Impact:

The company, nevertheless, embarked on an aggressive retail ownership program within 12 months of our recommendations. It failed.