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REPORT ON

BOMBAY CANADA

About this Report

The purpose of this report is to present the best strategy available to Bombay Canada in order to enter the Canadian market.

A recommendation is backed up with analysis of the market, competition and other environmental forces.

A final part, with some quantitative data, is attached.

REPORT PREPARED BY

NICOLAS DEMOS

869184505

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1. MESSAGE

Primary Objective:

To enter the Canadian market with the least "casualties".

Secondary Objective:

To choose a successful and teleological marketing strategy in order to:

. minimize the risk
. overcome the barrier to entry
. sustain a relatively steady growth
. expand rapidly into different segments of the Canadian market.

Ways to Go:

. wholesale
. retail
. mail order development

Each option requires a lot of cash, but we enter through the leverage of our most valuable asset, the brand name of our product.

Our information is limited, but we make the best of it.

2. ACTION

I recommend that we enter with the new business entity of "Bombay Canada Ltd."

This joint venture should have two partners. REM Nourse with 60 percent of the shares and Bombay Co. Inc. of New Orleans with 40 percent.

For this venture to be workable and successful, we assume that the two partners share the same goals, expectations, optimism and philosophies concerning the business and life itself.

The products of the new business entity should come directly from the huge warehouse and New Orleans.

Finally, the most attractive entry route is the retail option.

The first choice should be the Toronto Eaton Centre and, the second rate preference, a suburban shopping centre in the immediate time.

Later on, slowly, but progressively, we use the mail order option so to expose our products to the whole Canadian market.

3. ANALYSIS

Marketing develops strategy based on analysis of:

(a) consumers
(b) competition
(c) other environmental forces, and
(d) strategic input (financial, human resources, etc.)

(a) Market:

This analysis concentrates upon the opportunities and the threats (Figure 1) that the Canadian market in general and the more segmented market of Toronto, Montreal, Vancouver, etc., in particular, have to offer.

Who creates the demand?

- Roughly, the two-thirds of Canada's population, who have British background and, therefore, cultural and emotional attractiveness towards our products.
- People who come from commonwealth countries, full of sensitivity and familiarity with our products.
- People with a sense of history and love for fine quality imitations with low price tags.
- People who were exposed to the advertisements of the product of the American magazines.

Adynamies of the Target Market:

- A lower average income than that of the American one.
- Higher selling prices due to taxes, duty and exchange rates.
- An underdeveloped (but fledging) mail order selling approach.
- A more volatile economy and its constraints.

Other factors influencing the buyers:

- Although the wholesaling entry is very attractive, it does not stress our unique products, overlaps our brand name, allows direct competition with similar products and tightens up our future moves.
- The uncertainty and threat of a recession at the time of entrance might give us a deadly hit. So, we should cautiously take the first step at the place which is least affected by economic down-run. Obviously, this is the city of Toronto.
- The social, political and cultural characteristics and impulses of each group.
- The availability of the products at the time of demand.

In order for the product to be available, we must choose the most efficient, effective and reliable supply line.

We have basically to choose between the New Orleans warehouse (NOW) and the imports directly from the overseas producers (DOP).

The main tradeoff is between time and cost (Figure 2).

The time favours the NOW while the cost is cheaper, around 15%, through the direct purchasing.

Nevertheless, we propose the NOW supply line because:

- the delivery is faster, more reliable, with guaranteed quality of the product.
- The timing and availability of the different products is very important since we anticipate a seasonality is demand.
- The risk of political instability, war and other social and political factors is lower when we deal with the NOW.
- The minority of holding shares gives greater incentive to the American company for fash and no-frill delivery.
- The required service intensity, vigor, nimbleness and fast action create defensive and offensive policies towards the competition.

(b) Competition:

"The analysis of a given marketing situation begins with the identification of the unique advantage of that business. This requires the identification of specific competitors who act as constraints" - Bruce D. Henderson once wrote.

The current competitors in the Canadian market are:

- Small firms which offer similar products at comparable prices.
- Elegant stores which sell the antiques themselves.
- We also anticipate new entries, depending on our success, and mostly on the size and growth of the demand.

What, again, is going to affect the demand?

The lifestyle, the demographic components, the product usage, the loyalty.

So, it is very important to create a very reliable and available product.

The reliability should dissipate the uncertainties of the quality of this "cheap" imitation and the availability and exclusiveness to expose our products to as many customers as possible through advertising, retail stores and catalogues.

This exposition should create the appropriate awareness of the variety and usefulness of our products (Figure 3).

Since the products people buy, the attributes they value and the principals, whose opinion they accept, are all culture-based choices, culture influences every aspect of competitive advantage.

The Brand Name of Bombay:

- satiates the culture-driven customer.
- Offers a mixture of symbolic, functional and experiential benefit.
- Can be used to guide our positioning decision and consequently determines the set of competiting brands.

Positioning Strategies:

- Communicate extensively and intensively our brand image.
- Remove the transaction barrier (ensuring time and place accessibility, willingness to pay, information availability).
- Enchance, after a short time, the value of our brand image by way of adding new features, improving attributes, etc.
- Use the features, capabilities, repetition, perceptions of the American "parent company" product image, so as to fortify ours. For example, the GM repetition in the USA affects the image of Canada's buyers.
- Utilize information. Develop a strategic information system that complements the strength or counteracts the weakness in the value chain, thereby providing us with the information necessary to act upon ongoing opportunity to cut costs and/or improve productivity.

  For example, in the retail area, direct marketing and teleshopping can provide the linkage between customer homes, warehousing facilities and producers. Thus, the entire sales and distribution cycle will be linked via sophisticated information technology systems.

(c) <u>Other Environment Forces</u>:

By other environmental factors, we refer mainly to market entry barrier.

The bigger the entry barrier, the greater the financial risk that the firm takes.

The entry barriers are crucial factors because they influence the market share, the profitability, the growth and the competitive situation of the firm.

The major barriers and their implications are:

- Capital requirements in order to enter, compete and perform effectively.
- Access to distribution channels. The early or first market entrants use intensive distributors strategies or create a monopolistic chain of stores.

- Cost advantages of incumbents which result from economies of scale and learning curve effects.

- Product differentiation of incumbents as a result of brand identification, customer loyalties due to advertising being first in the market, customer service or product differences.

- Customer switching costs from one supplier to another.

- Governmental policy by requiring licenses, permits, duty rates, etc.

- Prize warfare can deter us to entry (need of deep pocket).

- Number of competitors and their reactions.

- Sunk costs.

Therefore, we should enter the Canadian market:

- either by doing some innovative thinking in terms of promotion, price policy and follow unconventional strategies, or

- by the backing of the Bombay Co.

The most favourable is the joint venture with the American company and entry through internal development.

This involves the creation of a new business entity in the industry.

A 60/40 percent partnership should give us the effective control of the business and, at the same time, the financial requirements required to be in the new barriers and to overcome the structural entry barrier.

We anticipate that our entrance will:

- disturb the equilibrium of supply and demand for the imitation products of Georgian antiques.

- Stimulate a retaliation of the incumbent.

This retaliation will be formed on the combination of:

- lower selling prices
- product quality improvements
- special promotions
- marketing activities
- extension of warranty items
- easier credit

which indicates that, without a strong backing, would be difficult to sustain our existence not alone our competition.

(d) Strategic Inputs

Financial requirements and considerations (Tables 1, 2 and 3) favour the Eaton Centre shopping centre choice since it creates a net income.

Depending on the optimistic scenario, a profit/risk tradeoff criteria, we state that the ~~symmetry~~ synergy with the American company is crucial for our success.

(WP/STUD)

4. EVIDENCE

FIGURE 1: Opportunities and Threats of the Canadian Market.

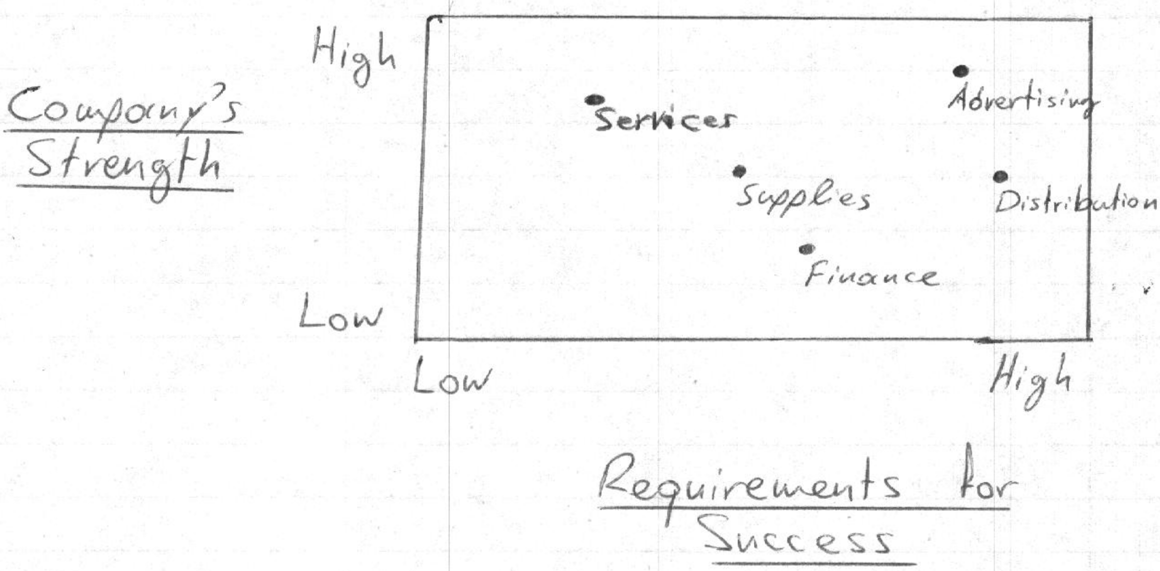

FIGURE 2: Supply options matrix

Origin of Supply		
NOW	higher	faster
DOP	lower	slower (3½ - 4½ months)
	COST	TIME

Main Variables

Note: We ignore the volume variable, although it is an important variable affecting our decision. The DOP require a full container quantities ordered which limits our flexibility, vigour, nimbleness and execution.

FIGURE 3: A simple customer flow model

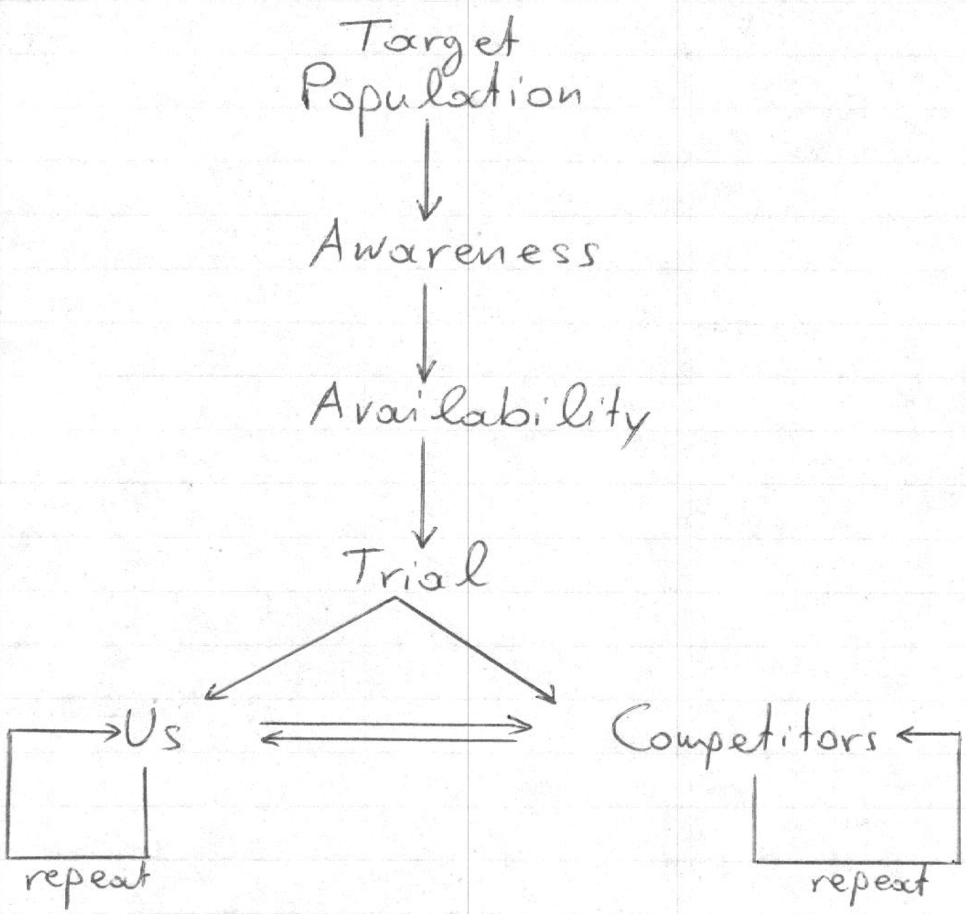

TABLE 1: Annual Rental Expenses for Retail Stores

Hazelton Lanes	: (1500 + 700) × 39	≈ 78,000
Suburban Store	: (2,000) × 28	≈ 56,000
Eaton Store	: (1850) × 46	≈ 85,000

TABLE 2: Mail Order Operating Expenses

Warehouse expense	8,000
Telephone "	10,000
Salaries	13,000
Advertising expense	100,000
Miscellaneous "	19,000
Total Expenses	150,000

TABLE 3 : INCOME STATEMENT

EATON STORE

Sales		1,000,000
COGS (46%)		460,000
Gross Margin		540,000
Operating Expenses		
Rent	85,000	
Salaries	70,000	
Supplies	10,000	
Advertising	50,000	
Miscellaneous	150,000	
		365,000
Net Income		175,000