

Elite Furniture

Context

Your client is a company named EliteFurniture (EF). EF manufactures and sells household furniture in the top price segment across 3 countries and more than 40 cities in the CIS region. The company was founded in 2005. It has a readily recognizable brand – high sales volumes have allowed it to invest in increased brand awareness through TV advertising.

The company's furniture is sold via showrooms, where samples are displayed and customers can order them to the dimensions they require. EF sells its products in its own showrooms and also via franchisee showrooms.

Revenues are growing steadily but not in the franchised showrooms. EF's CEO wants to boost the company's sales via franchises.

Question 1

What factors should EF consider in the context of boosting sales via the franchisee network?

ANSWER

An answer might include the following:

Number of franchisee showrooms

- How is the number of showrooms changing over time in the different sales regions? Are they growing or falling, and how is this affecting revenues?

Average number of items sold per showroom

- How many visitors are there per showroom?
- What is the showroom visitor to buyer conversion rate?

- How many items does a visitor buy on average?
- How do average sales per showroom differ from franchisee to franchisee, from region to region etc.?
- What product types are sold via the franchise network? Are they different from the items sold via EF's own network? How are they different from competitors' products?
- To what extent does EF's marketing cover the franchisee showroom networks: are showroom addresses displayed in online and offline advertisements? Do franchisees engage in promotion activities of their own?

Average price of items sold

- What is the company pricing policy in relation to franchisees? Are franchisees allowed to set their own prices? Are there any constraints?
- What is the average price by product type? How does it differ from prices charged by EF's own network and by competitors?

Question 2

You organized a meeting with EF representatives to discuss potential revenue growth options. EF's showroom network Chief Sales Officer mentioned that growth in the number of franchisee showrooms in cities with already dense showroom networks may result in cannibalization (*cannibalization refers to a reduction in sales volume, sales revenue, or market share of one product as a result of the introduction of a new product by the same producer*) of own network revenues.

After the meeting, you gathered data on the largest cities where EF is present. You further calculated that revenues generated by franchisee showrooms is on average only half that of revenue from EF's own showrooms.

Which of the cities has the least dense network of EliteFurniture showrooms, (counting both own showrooms and franchisee showrooms)?

City	City area, km ²	Number of own showrooms	Own showrooms' market share (in monetary terms)	Franchisee showrooms' market share (in monetary terms)
1	300	12	10%	20%
2	180	9	20%	20%
3	350	14	10%	5%

ANSWER

Density = (No. of franchisee showrooms (a) + No. of own network showrooms (b)) / City area (c)

(b) and (c) are known for each city. It is necessary to calculate (a) on the basis of market volume data in monetary terms.

- Compare the market shares of own showrooms and franchisee showrooms:

No. of franchisee showrooms = No. of own showrooms \times 2 \times (Share of franchisee showrooms / Share of own showrooms)

City 1:

$$(a) = 12 \times 2 \times (20\% / 10\%) = 48$$

$$\text{Density}_a = ((a) + (b)) / (c) = (48 + 12) / 300 = 60 / 300 = 0.2 \text{ showroom/km}^2$$

City 2:

$$(a) = 9 \times 2 \times (20\% / 20\%) = 18$$

$$\text{Density}_s = ((a) + (b)) / (c) = (18 + 9) / 180 = 27 / 180 = 0.15 \text{ showroom/km}^2$$

City 3:

$$(a) = 14 \times 2 \times (5\% / 10\%) = 14$$

$$\text{Density}_k = ((a) + (b)) / (c) = (14 + 14) / 350 = 28 / 350 = 0.08 \text{ showroom/km}^2$$

The lowest density of EliteFurniture showrooms is in City 3.

Question 3

Following client interviews and several analysis sessions, your team concluded that a boost in the number of sales per one franchisee showroom will yield the highest revenue growth.

What factors should EF consider to analyze the average quantity of items sold per showroom?

ANSWER

An answer might include the following:

Number of visitors

- Spontaneous visitors:
 - What region is the showroom located in? Is there a large market there and what is the EliteFurniture showroom density?
 - Where is the showroom physically located? What human traffic passes by the showroom? How focused is the human traffic passing the showroom (this can be a furniture mall or just a dormitory suburb)?
 - To what extent are the showroom signboard and exterior elements visible and attractive?
- Target visitors:
 - Through what marketing channels do buyers learn about the showroom? How efficient are these channels?
- Has the company any business offerings? To what extent is the value proposition adapted to B2B sales?

Visitor to buyer conversion

- To what extent is EliteFurniture's offering competitive, in particular, as regards quality, design, tailoring opportunities, etc.?

- To what extent does the service offered in the showroom drive sales? Are customer contact data taken for subsequent communication, how do sales managers communicate with customers, etc.?
- What share of customers will return to buy furniture again?
- Is the company successful in attracting the best managers from the market?
- Are managers motivated to sell? How is the KPI (*KPI is a measurable value that demonstrates how effectively a manager is achieving key business objectives*) system for sales managers and their superiors designed? Is this system the same across EF's own network and the franchisee network?

Average number of items per buyer

- Does furniture sell in lots of several items per buyer? Is furniture offered in sets? Are there any special offers for buyers of several items?
- Are any auxiliary items offered, such as replacement/additional fixtures, sofa cushions, crockery sets for tables, etc.

Question 4

Your team analyst has prepared data on the largest franchisee showrooms.

- Which of the franchisees has the lowest visit to sale conversion rate?

Franchisee	Number of showrooms	Visitors per month	Average values per showroom	
			Visit to registration conversion rate, %	Registration to sale conversion rate, %
Franchisee 1	42	400	22%	10%
Franchisee 2	33	500	18%	11%

Franchisee 3	50	1,000	5%	20%
Franchisee 4	45	900	24%	12%
Franchisee 5	19	1,400	16%	15%

ANSWER

An answer might contain the following calculation:

Franchisee 3 has the lowest conversion rate. His/her showrooms have conversion rates of 1% (visits to registrations – 5% × registrations to sales – 20%), while competitors' showrooms have greater values for this indicator (the answer may be obtained by multiplying figures on an approximate basis).

Question 5

You decided to interview the Chief Sales Officer in the aim of identifying possible bottlenecks in the furniture showroom visitor registration process.

You found that registration consists of entering the visitor's telephone number in the contacts database, and that the showroom sales manager is responsible for this.

What ideas can you come up with to improve the showroom visit to registration conversion rate?

ANSWER

Ideas you might discuss could include:

- Managers have the necessary equipment (computers/laptops/tablets)
- Showroom internet connection up and running (if necessary for registration purposes)

- Registration software performs efficiently
- Managers understand how to do registration
- Buyers have mobile handsets
- Manager motivation system encourages registrations (e.g., bonus depends on the number of registrations)
- Managers have informal motivation (e.g., there is healthy competition amongst managers)
- Visitors understand the meaning and value of registration to them
- Visitors are offered a bonus for registration (e.g., a discount)
- Registration process is not onerous for customers and does not take long (e.g., client does not have to visit the website)