

CASE STUDY : KUSTOM KITCHENS LIMITED

Kustom Kitchens was established in the Auckland suburb of Glenfield in 2007. The company was formed by Bill Johnson, a carpenter and cabinet maker, who left his previous job with Wonder Homes (a major group home builder) to set up in business for himself, but maintained an excellent working relationship with his former employer. Much of his early work was on contract to Wonder Homes, based on the building and installation of kitchen bench units, pantries and cupboards in the new housing developments that were springing up all around Auckland's North Shore. Virtually all of these installations were built to one basic and standard Wonder Homes plan, and Bill was able to plan his future with some certainty. He knew fairly well in advance how many kitchens were to be installed, how much skilled and unskilled labour he would need, and when he would need to place orders for the timber, panels, electrical and plumbing inputs he required. For the first five years of the company's existence, solid and steady growth was displayed.

In 2010, at the age of 34, Bill had married Paula Lombardi, a lady of Italian descent and a talented artist/designer. Paula had very firm views on where Bill's company future lay, and constantly reminded him of two things – first, the dangers of relying too heavily on just one customer (Wonder Homes) and second, the higher profit margins available for kitchen installation in architect designed luxury homes, as opposed to cheaper group housing. This, Paula was convinced, was where Kustom ought to be heading. By 2012, Bill had decided to make major changes.

At that time, he employed four skilled cabinet makers in his Glenfield workshops and three teams of installers, each of which comprised a builder, a plumber and an electrician. Whilst the cabinetmakers were full-time salaried employees, the installation teams were paid a fixed fee for each installation completed. The only other staff member was a retired accountant who worked three days a week keeping Bill's finances in order. This system, and the personalities involved, had worked well for Bill to date and he thought it would offer firm foundations for Paula's proposed new venture. It was time for a change.

For the new year in 2013, while still generating most of its income from the Wonder Homes contract, Kustom Kitchens made a determined assault on Paula's new market. The company invested a considerable proportion of its accumulated profits in a co-ordinated marketing campaign aimed at householders in East Coast Bays, the eastern suburbs of Auckland city, and Papakura, a campaign which was an immediate success. Paula would visit private homes, design a unique kitchen layout in consultation with clients, and offer an integrated design, build, and install kitchen service. Every kitchen was of course different in style, design and materials (and therefore cost) though a foundation principle of the company's operations was that profit margins should never be excessive – Bill firmly believed that, if he treated his customers well, he would receive his payback in customer loyalty and word-of-mouth referrals.

2013-2015 were exciting times, as the business went from strength to strength. As Bill's order book blossomed, he initially tried to handle the Wonder Homes account with his existing salaried staff and installation teams, and Paula's designs by the same people working overtime. His staff were happy with this opportunity, but eventually Bill had to add an additional salaried cabinet maker and two more installation teams, along with an office administrator to handle the day-to-day queries the company was by now receiving. In addition, when the workload became too much for his retired accountant friend, he

was forced to engage Betty Thomas (a recent Accounting graduate from Auckland University) as his Finance Manager. His final appointment, necessary because of newly varied nature of his business, was that of Tom Peters as his business development manager with responsibility of converting initial orders into satisfied customers. By early 2016 Kustom was on a roll, with annual turnover approaching \$ 4 million and 2015 profits of \$ 400,000 before tax. However, halfway through the year, problems struck.

Wonder Homes was taken over by Living Systems of America, a multi-national company with group home building operations throughout North America and Europe. Wonder Homes were able to give Bill nearly a year's notice that their relationship would have to come to an end – Living Systems had their own kitchen unit assembly plant in Mexico, and by the middle of 2017 Wonder Homes would be compelled to use the Mexican products. In addition, Kustom Kitchens could no longer rely on the availability of construction materials that they had traditionally obtained as a sub-contractor to Wonder Homes, but would have to negotiate new supplier contracts in their own right. As this case draws to a close, Kustom Kitchens face a new year in which 40% of their income is about to disappear.

QUESTIONS

1. What are the external inputs, internal conversion, and external output processes that need to be managed in this case?
2. Where do you think Kustom Kitchens currently sits on the business life cycle chart?
3. What are the most important implications of globalised competition in this case?
4. To what extent is Kustom Kitchens adequately equipped with the levels of technology needed to prepare for its future.
5. What is the company's best option in terms of replacing the reduction in revenue caused by the loss of the Wonder Homes contract?
6. What are the most appropriate targets for Bill to set for the company to achieve over the next five years?