Crestfield Furniture Industries, Inc

TABLE OF CONTENTS

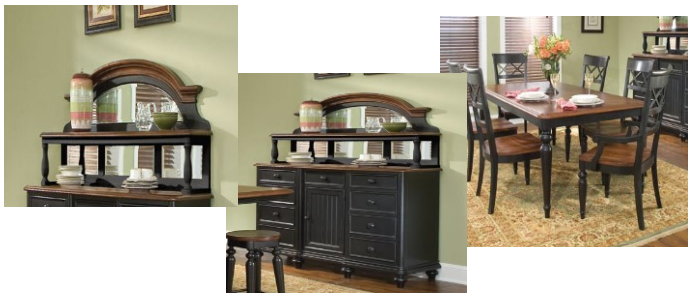
02		EXECUTIVE SUMMARY
03	Section 01	INTRODUCTION & PROBLEM DEFINITION
04	Section 02	EXTERNAL ENVIRONMENT ANALYSIS
14	Section 03	OPPORTUNITIES & THREATS
15	Section 04	INDUSTRY DRIVERS & CSF
16	Section 05	INTERNAL ENVIRONMENT ANALYSIS
21	Section 06	STRENGTHS & WEAKNESSES
23	Section 07	TOWS ANALYSIS
24	Section 08	STRATEGIES
43	Section 09	RECOMMENDATIONS
49	Section 10	APPENDIX

Executive Summary

As a long time manufacturer of quality wood furniture in the U.S, Crestfield Furniture Industries, Inc. must decide how to allocate the 2004 promotional expenditure budget in the light of a changing and increasingly competitive furniture industry. A family owned and run business, Crestfield has built its reputation based on quality manufacturing and selective distribution as well as a competent and knowledgeable sales force.

Three disparate strategies have been proposed for allocation of the promotional budget in 2004; (1) an e-strategy to increase brand awareness, enhance Crestfields brand image and educate consumers, (2) a push-pull strategy to ensure an efficient and effective balance in retail supply and consumer demand and (3) a conservative strategy that protects Crestfield profit margins if the market is not as buoyant as predicted. Both the e-strategy and the push-pull strategy are based on the premise that the wood industry will show growth in 2004 as predicted and that Crestfield will be able to secure a share of that growth as historical performance would suggest. These two strategies allocate an additional $300,000 to the 2004 promotional budget. The e-strategy uses this additional funding and also draws $500,000 from the co-operative budget. The push-pull strategy funds an additional member of the sales force and anticipated increases in sales administration costs (total $135,000) and allocates an additional $165,000 to consumer advertising. The conservative strategy leaves the 2004 promotional budget the same as that set for 2003.

Having considered all three strategies, the advantages and disadvantages of each and having assessed the risks associated with each strategy in detail, it is recommended that management endorse and adopt strategy 1, the e-strategy. It is recognised that culturally this strategy may seem foreign to Crestfield and carries with it a number of risks that will need to be carefully managed and for which controls have been identified. This strategy is recommended as it has the potential to develop a strong point of differentiation for Crestfield in the changing and increasingly competitive industry. It satisfies the needs of consumers and will enhance their awareness, purchase and post purchase satisfaction at the same time optimising retailer sales and strengthening relationships with retailers. This strategy is strongly recommended to Crestfield management to take the company forward and to build and sustain a long lasting competitive advantage.



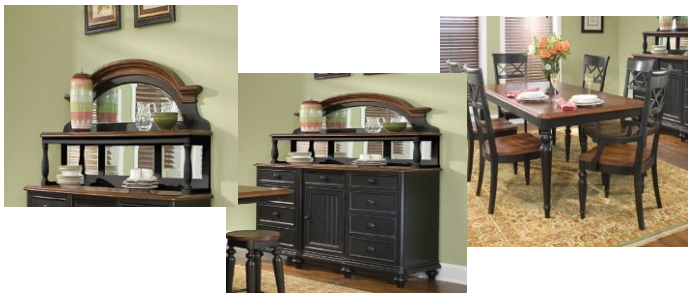
Crestfield Furniture Industries, Inc

1. Introduction and Problem Definition

In his position as President of Crestfield Furniture, Bates must decide how to cast the promotional expenditure budget for 2004. Persuasive arguments from the Vice President of sales for an additional $135,000 to fund a new company sales representative under the premise of 50 new accounts and anticipated increases in sales administration support conflicts with pressure from the advertising agency Hervey and Bernham to fund an additional $255,000 in consumer advertising to launch the new furniture range and build brand awareness across the entire range.

In making a decision Bates and his team need to consider the changing environment and industry forces that are impacting on the furniture industry and will shape its future as well as Crestfield's ability to respond to these changes given its current capabilities. Consideration must be given to the realistic likely level of growth within the wood sector of the furniture market and the likely distribution of this across existing and any new potential competitors within the industry taking into account what drives them, their abilities and likely motivation. A push strategy (through persuading retailers to stock Crestfield furniture and on-sell to the end user) or a pull strategy (through consumers demanding the Crestfield range from retail stores) must be weighed up as well as the likely implications if either of these is not sufficiently nurtured. Additionally Bates must give due consideration to company policies which govern the level of promotional expenditure and desired overall profit margins for Crestfield.

In deciding how best to allocate funds, and how much to allocate overall, consideration must not only be given to the outcomes for 2004, but also the long term implications for Crestfield and how it can achieve and maintain its desired position in the wood furniture industry. In considering the options and making recommendations, the D.E.C.I.D.E model was utilised within the strategic marketing framework (Appendix 01).



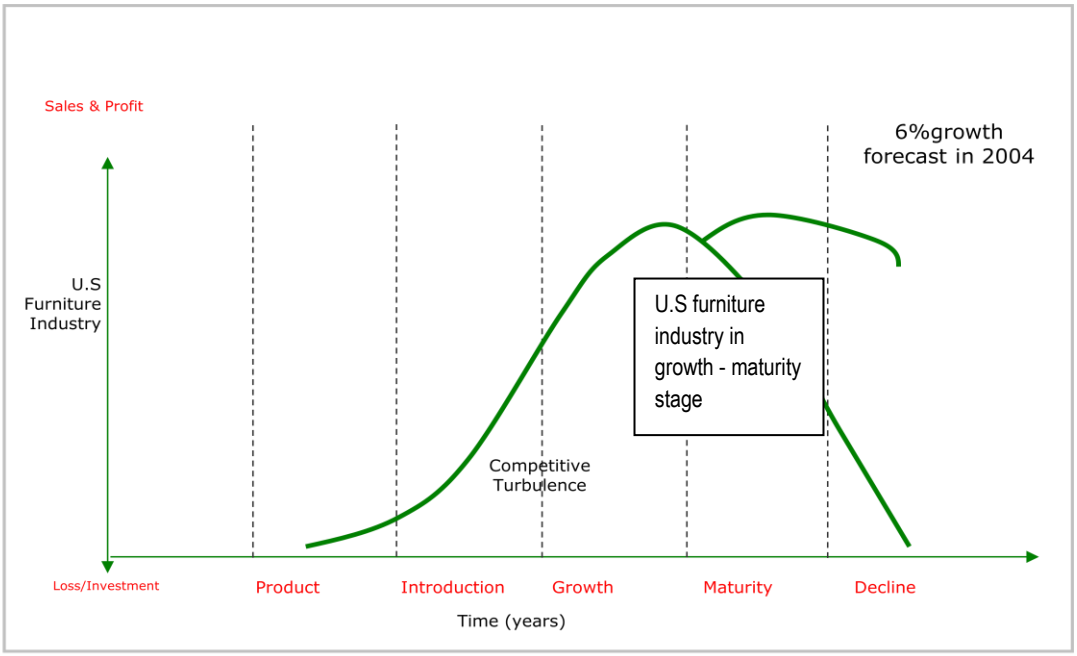
2. External Environment

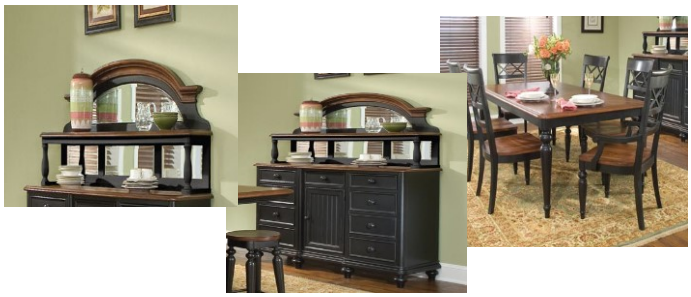
Crestfield Furniture Industries, Inc

2.1 Market Review

The wood furniture industry was flat in 2003, suggesting a mature industry; sales were $10.3 billion (43% of the total furniture industry sales). Predictions are for 6% growth in the wood sector in 2004 (figure 2.1), most likely driven by factors such as higher disposal income particularly in the baby boomer segment (39-57 age group) and government incentives to stimulate the housing market. It is not clear however if growth will be even across all price / quality segments or if current price points will be able to be maintained as trends indicate that industry drivers are causing pressure for prices to reduce across the sector. Sales in the furniture industry are known to be highly cyclical and affected by economic conditions.

Figure 2.1: Furniture industry life cycle (wood)



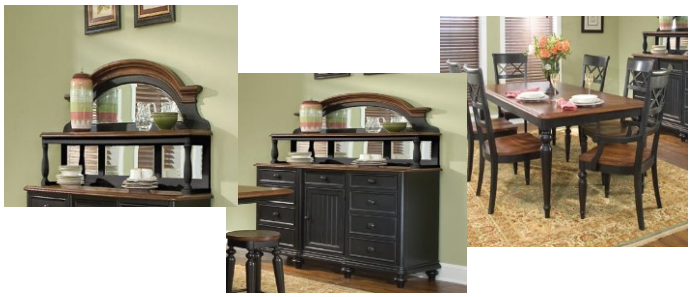


Crestfield Furniture Industries, Inc

2.2 Industry Forces

Applying Porter's five forces to assess the competitiveness within the furniture industry and the attractiveness (figure 2.2) overall the furniture industry is not considered to be very attractive with three of the five forces rated as high. Appendix 02 shows the detailed assessment using Porters forces.

Figure 2.2: Porters five forces (furniture industry)



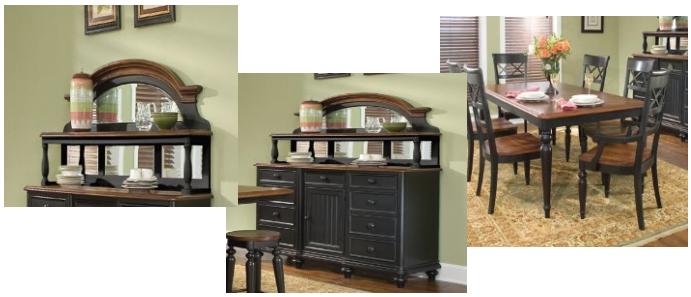
2.3 Distribution

Crestfield currently sell through 1,000 of the possible 100,000 furniture retail outlets (1%). Speciality, department and home furnishing stores represent around 83% of the retailer market and these are Crestfield's key accounts. The changing retail sector presents both opportunities and threats. There are opportunities to secure contracts with the emerging chains that are replacing many independent furniture stores that Crestfield's service however the threat is that smaller manufacturers such as Crestfield will not have sufficient presence or force to secure deals with the chains. It is highly likely that furniture chains will purchase centrally and stock the same lines and sales deals may be locked in through the annual expos effectively eliminating other manufacturers. Sales representatives or agents will need to play a more significant role in ongoing account servicing, managing logistics issues, merchandising and educating retailers as solid manufacturer - retailer relationships are likely to be an important success factor in securing ongoing sales and floor space.

Similarly, the trend towards gallery and single vendor stores presents an opportunity to show case the entire Crestfield range but the threat that larger manufacturers will have the bargaining power to secure these arrangements. Crestfield is already threatened in this respect, with many existing accounts only stocking part of the total range.

2.4 Supply

The trend towards off shore manufacturing may result in suppliers pushing up prices to maintain margins. Environmental issues may impact on the availability, quality and price of materials. Opportunities exist to lock in contracts with suppliers to ensure efficient supply and optimal pricing.



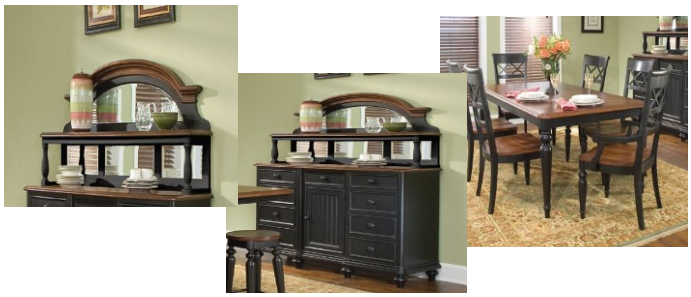
Crestfield Furniture Industries, Inc

2.5 Competitor Review

With more than 1,000 furniture manufacturers in the U.S. industry and increasing global competition, the market is highly competitive. In 2003, 5 manufacturers achieved 31% of total furniture sales (all types of furniture), with share of sales ranging from 9.5% to 3.2%. Crestfield's share was 0.3% of the total furniture sales and 0.7% of wood furniture sales (table 2.5.1). Based on 2003 sales and the fact that approximately half of all sales are accounted for by the top 25 manufacturers, it is reasonable to assume that Crestfield lies somewhere in the bottom range of the top 25 U.S. furniture manufacturers (figure 2.5.1).

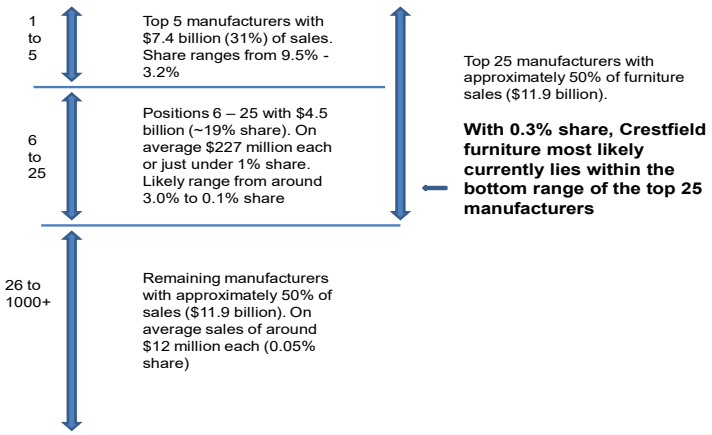
Table 2.5.1: Share of U.S. furniture sales, 2003

	2003 revenue ($billion)	share total 2003 furniture sales	share 2003 furniture sales (wood)
Furniture Brands International	$2.27	9.5%	
La-Z-Boy, Inc	$1.86	7.8%	
Ashley Furniture Industries, Inc	$1.62	6.8%	
Klaussner Furniture Industries, Inc	$0.90	3.7%	
Ethan Allen Interiors, Inc	$0.77	3.2%	
Total top 5 manufacturers	$7.41	31.0%	
Crestfield Furniture	$0.08	0.3%	0.7%
Total sales (all types of furniture)	$23.90		
Total wood furniture sales (43%)	$10.28		

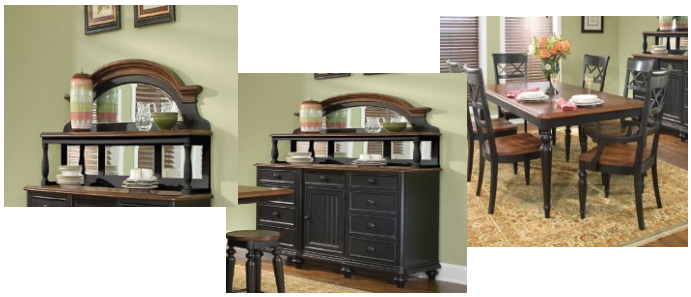


Crestfield Furniture Industries, Inc

Figure 2.5.1: Industry position of Crestfield Furniture



The competitor set, defining all possible levels of competition for Crestfield Furniture is shown in figure 2.5.2. Appendix 03 describes the four levels of competition more fully. Michael Porters competitive framework (figure 2.5.3) has been applied to assess the drivers and abilities of key competitors within the product form, product category and generic category level. It has been assumed that the top 5 manufacturers compete across multiple furniture segments (wood, upholstery, other).



Crestfield Furniture Industries, Inc

Figure 2.5.2: Competitor set for Crestfield Furniture

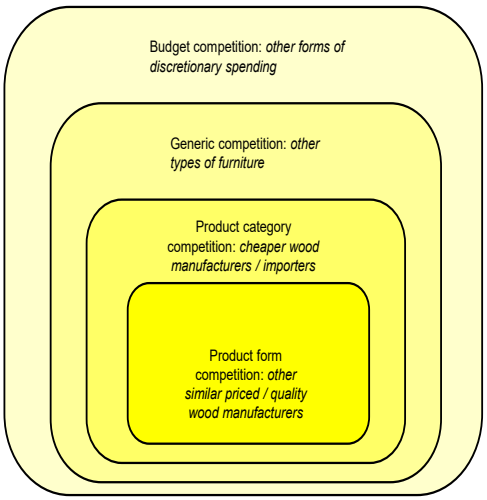
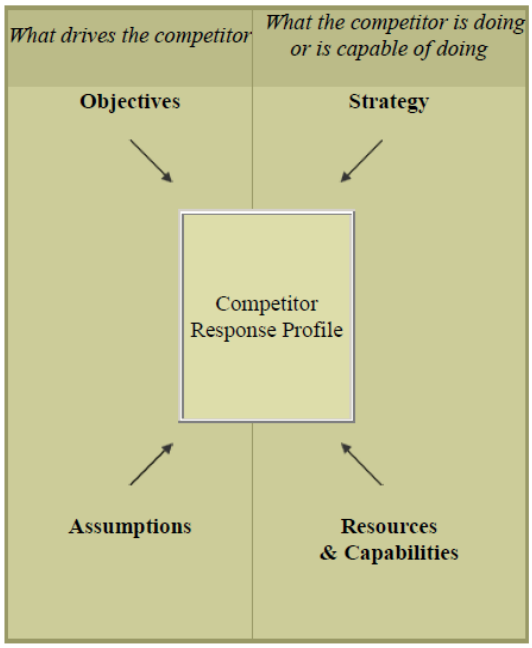
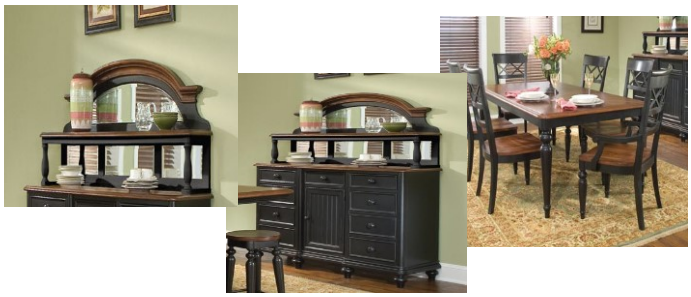


Figure 2.5.3: Porters competitive framework



The detailed analysis from Porters model is shown in Appendix 04. The greatest threat to Crestfield from competitors is their likely ability to secure deals with the major retailer chains to stock their full lines and extend their hold on gallery / single vendor stores giving them the opportunity to increase their share of sales and possibly push out smaller manufacturers. This could potentially result in Crestfield losing some existing retail accounts and make it difficult for them to penetrate existing accounts with their full range. Larger competitors and importers will no doubt continue to capitalise on economies of scale and some may look to purchase other existing smaller manufacturers to increase their power and range and / or shift manufacturing off shore to further reduce costs which is likely to impact further on price.



2.6 Customers

The A.I.D.A.S consumer decision model has been applied to customers (end users who purchase furniture from retailers) (figure 2.6.1).

Figure 2.6.1: A.I.D.A.S model

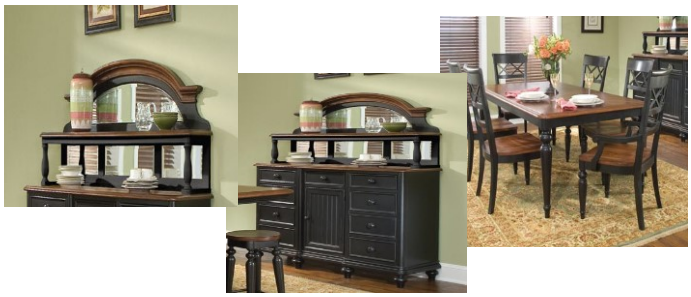
Attention → Interest → Desire → Action → Satisfaction

The key factors influencing each stage of the A.I.D.A.S model are shown in tables 2.6.1 and 2.6.2 (using findings from the Better Homes and Gardens consumer panel survey).

According to the Better Homes and Garden consumer panel survey, there are different key factors and different levels of significance influencing consumers at each stage of the decision process. It is clear that families, specifically partners play a significant role in the decision process and that prior to purchase it is important for customers to be able to visualise through advertisements and in store browsing. Furniture purchases are not rushed or made on impulse but are carefully considered and well thought through.

Customers lack confidence in purchasing furniture, largely as they find it difficult to judge quality / price and desirable styles; therefore they seek qualified assistance to ensure post purchase dissonance is minimised, thereby increasing the likely hood of brand loyalty through repeat purchases and word of mouth recommendation.

The interrelationship between customers, retailers and manufacturers is critical in driving overall purchase and post purchase satisfaction. Essentially, customers desire advice and assistance as well as the opportunity to purchase at their own pace without pushy sales people. They value well designed and manufactured furniture that is comfortable, stylish, well matched and need assurance that their decision reflects these factors.

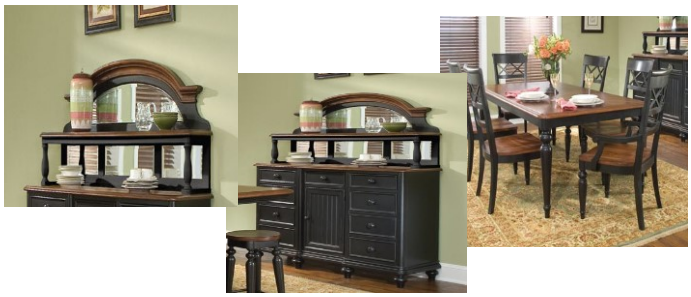


Crestfield Furniture Industries, Inc

Table 2.6.1: Factors influencing furniture purchase decisions

***Attention* / Awareness**		***Interest* / Influence**	
Factor	**Significance**	**Factor**	**Significance**
Magazines	*High*	Family / Spouse	*High*
Furniture advertisements	*High*	Store displays	*Moderate – high*
Browsing	*Moderate – high*	Magazine ads	*Moderate – high*

***Desire* / Decision**				***Action* / Purchase**			
Major pieces		**Other pieces**		**Major pieces**		**Other pieces**	
Factor	**Significance**	**Factor**	**Significance**	**Factor**	**Significance**	**Factor**	**Significance**
Husband	*High*	Husband	*Moderate*	Husband	*High*	Husband	*Moderate – high*
Other relative	*Low*	No-one	*Low – moderate*	Other relative	*Low*	No-one	*Low – moderate*
Friend	*Low*	Friend	*Low*	No-one	*Low*	Other relative	*Low*

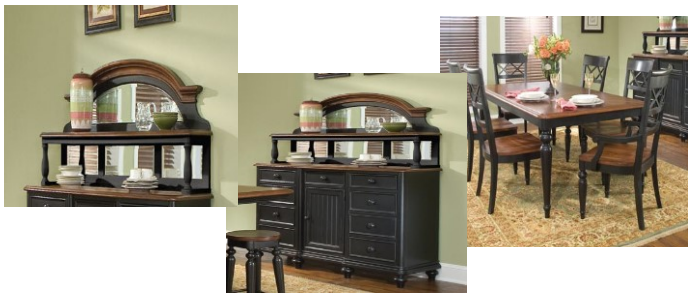


Crestfield Furniture Industries, Inc

Table 2.6.2: Factors influencing customer satisfaction and likely re-purchase

***Satisfaction*: Customer need / benefit**	**Significance in case good furniture purchase**	**Significance in all furniture purchase**
Construction	*High*	*Moderate – high*
Style and design	*Moderate – high*	*Moderate – high*
Consistency	*Moderate – high*	*Moderate – high*
Comfort	*Moderate*	*Moderate – high*
Type & quality of wood / material	*Moderate*	*Low – moderate*
Durability of fabric	*Low – moderate*	*Moderate*
Price	*Low – moderate*	*Low – moderate*

***Satisfaction*: Choice of store to purchase from**	**Significance**		***Satisfaction*: Decision to re-purchase**	**Significance**
No sales pressure	*High*		Perceived quality / durability	*High*
Style carried	*High*		Enjoyment / experience	*Moderate – high*
Reputation of store	*High*		Spousal approval	*Moderate – high*
Quality / value perception	*High*		Compatibility with other pieces	*Moderate – high*
Atmosphere	*High*		Self confidence	*Moderate – high*
Knowledgeable salespeople	*Moderate – high*		Advice given during previous purchase	*Moderate - high*
Quality stocked	*Moderate - high*			



2.7 Market Segmentation

The consumer furniture market can be segmented according to the following characteristics:

- Age
- Household income
- Family life cycle
- Social class
- Benefits sought
- Style of furniture
- Readiness stage
- Type of store preferred

The key target market for Crestfield currently is households with income $100,000+ in the 39-57 age bracket (baby boomers) who frequent quality furniture and department stores as well as gallery style stores both to gain ideas and purchase. As they move towards or are already in the 'empty nest' stage of the family life cycle, this represents an attractive segment with a high disposable income seeking high quality durable furniture and with the time and motivation to spend looking for it.

3. Opportunities and Threats

	Opportunities	S*	P*	Threats	S*	P*
Retailer/Competitor	Increasing number of retailer chains	5	5	Larger manufactures potential to dominate furniture chains and gallery stores	5	5
	Increasing number of gallery and single vendor stores	5	5	Manufacturers merging or purchasing other manufacturers	4	3
Economic	Opportunity to capture sales in the growing wood sector of the furniture industry with 6% growth forecast in 2004	5	4	Trend towards imported furniture and off shore manufacturing pushing down prices	5	5
	Trend towards off shore manufacturing to reduce costs	4	3	Increase in supplier prices and manufacturing wages	3	4
Socio cultural / demographic	Large baby boomer market (~47%) likely to be moving towards or already in the empty nest stage and looking to replace furniture with better quality more durable furniture.	4	4	Consumer uncertainty / lack of confidence in making furniture purchase decisions	4	4
	Higher disposable income levels predicted	4	4	Wide choice of options for consumer discretionary spending	4	5
	Increase in the number of new housing starts, therefore the need to purchase furniture	3	4	Possible trend towards preferences for lower priced furniture	4	2
Technological	Increasing use of the internet as a marketing communications tool to increase brand awareness, support customer purchase decisions and build brand loyalty	4	4	Larger manufacturers already have invested in technology and have well developed promotional websites	3	3
	Technology still in the innovators / early adopters stage for furniture but likely to diffuse	3	3	Trend towards online furniture purchasing at the expense of in store purchasing	1	1
	Streamline supply chain management through the internet	3	2			

S* - Rating of the degree of significance: 'extremely significant' (5), 'quite to highly significant' (4), 'significant' (3), 'reasonably significant' (2) and 'not very significant' (1). P* - Rating of the probability of occurrence: 'extremely high probability' (5), 'high probability' (4), 'quite likely to occur' (3), 'moderately likely to occur' (2) and 'not likely to occur' in this time horizon (1).

4. Industry Drivers and Critical Success Factors

Key trends that are driving the US furniture market and will shape the future and key factors for continued success are shown in table 4.1.

Table 4.1: Industry Drivers and Critical Success Factors

Industry Driver	Critical Success Factor
Changing retailer structure: trend towards furniture chains at the expense of independent stores and gallery / single vendor stores displaying entire manufacturers range.	*Strong long lasting relationship with retailers*: the ability to secure ongoing distribution to key furniture stores that match the target market and to expand the full range within these stores.
Increasing choice of different furniture styles and price ranges; increasing number and variety of stores and purchase options	*Monitor customer needs and market trends*: an understanding of how consumer tastes in furniture are changing as well as their purchasing practices and how target market needs can best be met and communicate effectively.
Consumer uncertainty / lack of confidence: desire for education / knowledge to reduce uncertainty and post purchase dissonance.	*Awareness and image*: consumer knowledge of furniture and their perception of the quality and image of the furniture available.
Imports and off shore manufacturing threatening to reduce prices.	*Manufacturing capabilities and furniture quality*: the ability to manufacture quality furniture in a cost effective way and appropriate management decisions to maximise economies of scale.

Crestfield Furniture Industries, Inc

5. Internal Environment

Crestfield Furniture Industries, Inc

5.1 Non-marketing Capabilities

5.1.1 Financial Position

Profitability ratios (table 5.1.1) indicate:

- A trend increase in business performance with a net profit margin of 4.9%.
- A trend increase in sales performance with sales growth of 6% forecast.
- Gross profit margin low indicating poor operating performance.
- Contribution margin set to fall to 20% in 2004, indicating variable costs may increase.

Table 5.1.1: Profitability Ratios

Net profit margin %	= profit before tax / sales
	= ($3.7M / $75 M) x 100
	= 4.9 %
Sales growth % forecast for 2004	= current year's sales – previous year's sales
	= (($79,500,000-$75,000,000) / -$75,000,000) x 100
	= 6 %
Gross profit margin %	Operating profit before tax / sales
	= ($7,375,000 / $75,000,000) x 100
	=9.83 %

Appendix 05 provides a further breakdown and explanation of the current financial position of Crestfield including assumptions made in calculating these margins.

Operational efficiency ratios (table 5.1.2) indicate:

- A trend increase in employee efficiency with sales per employee at $6.25 million.
- Crestfield's acknowledgement of an increase in sales expenses of $65,000 indicates sound financial planning capabilities

Table 5.1.2: Operating efficiency ratio

Sales per employee	= sales / no. of sales employees
	= $75M / 12
	= $6.25M

5.1.2 Management & Leadership

The review of Crestfield's management & leadership was based on assumptions of the organisation. A weakness was revealed in reviewing Crestfield's management and leadership capabilities in terms of dealing with change in the external environment, particularly the threat of imports pushing prices down and the possibility of having to manufacture offshore.

A score system was used to assess the assumed capabilities with the company scoring 48 out of a possible 70 as shown in Appendix 06. Thus indicating the organisation's leadership and management is 68% capable in dealing with the afore mentioned changes. Management needs to commit themselves further to developing stronger relationships with retailers, to secure supply deals and obtain more opportunity for gallery stores. Additionally Crestfield management must consider the possible inclusion of a website to boost sales and be aware that the opportunity to purchase another manufacturer or be purchased is a possibility.

5.1.3 Human Resources

Inference would suggest that Crestfield manages recruiting on an ad hoc basis with no formal human resources department. It is assumed that the sales team of 12 were recruited by the President and Vice President. Highlighting the requirement for an additional member of the sales team to manage new accounts reflects that Crestfield may need to consider recruiting a human resources employee as further growth is likely to lead to additional staffing requirements in order to handle the work load in an efficient manner.

5.1.4 Research & Development

Information indicates research and development occurs at Crestfield with reference to several new styles of furniture set for release in 2004. This indicates Crestfield is pro-active in developing new furniture products in order to compete and fulfil a wider range of needs for their customers.

5.1.5 Operations – production, supply, coordination & responsiveness

Reference to quality management within the industry suggests assumptions with respect to how Crestfield handles quality can be made. It could be assumed that a strength of Crestfield incorporates their careful review of quality standards for their products. Ensuring quality is high for raw materials, all parts of production process including design, construction, finishing and packaging meet quality standards set by Crestfield. Additionally as the industry is concerned with safely shipping goods to consumers, so it will be assumed that Crestfield is also concerned with providing purchased products to consumers in great condition and within the specified delivery time.

Inferences suggest Crestfield is not exploring possibilities to outsource manufacturing overseas, which could indicate a future weakness. An additional weakness is assumed lack of

planning of Crestfield for the possibility of having to downsize their manufacture facilities should sales not meet expectations, as has become common in the furniture industry.

5.2 Marketing Capabilities

5.2.1 Marketing Organisation

Information indicates there is no formal marketing department at Crestfield. It appears decisions for promotional expenditure are made by the President and Vice President based on recommendations from Hervey & Bernham advertising agency. Additionally it would appear all sales personnel are aware of the promotions planning expenditure of the organisation indicating good communication within the organisation.

5.2.3 Market Intelligence

Crestfield indicates strengths in their ability to generate market intelligence through identification of market sales patterns, target markets, segments, industry sub-categories, buyer behaviour, consumer spending patterns, barriers to purchase, influencers and factors affecting purchase decisions and evaluation of consideration set in terms of price, quality and delivery. Additionally Crestfield indicate further strengths in their ability to generate market intelligence through identification of attempts to educate the industry, information gatekeepers, information search process, degree of contact with sales people required, trends affecting retailers, optimal outcomes from use of sales and distribution strategies, optimal communication strategies and media channels, and some knowledge of competitors communications strategies. Appendix 07 contains a complete listing.

Weaknesses are identified in the collection of market intelligence at Crestfield through lack of active scanning of feedback from front line staff, lack of self-critical benchmarking practices and lack of continuous experimentation and improvement, due to lack of systems to improve productivity or increase customer satisfaction.

5.2.4 Marketing Planning

Crestfield's planning mechanisms appear present with references to the conditions surrounding reaching sales forecast and planning for the possibility of not attaining forecast, identification of the need to increase exposure and brand image, planning for additional sales reps and associated costs, additional funds available for communications budget, new product development planning, optimal and media channel planning, communications planning, considering conservative communications budget, as highlighted in Appendix 08.

Additionally lack of formalised planning is a weakness, along with non-specific marketing objectives, no specific planning activities surrounding retail sales training, innovative merchandising or inventory management planning.

5.2.5 Marketing Control

From the information provided it has been assumed that there is a lack of a formalised monitoring system for marketing control. It appears changes in the external environment are monitored but strategies and objectives are not modified, to prevent problems with performance and products.

5.2.6 Marketing Strategies

An indication of strategic planning strength from Crestfield includes strategies for: new product development, premium competitive pricing, communications activities including advertising, trade promotion and personal selling, media channels to be used, distribution to quality retailers, use of galleries, as indicated in Appendix 09. An indication of strategic planning weakness from Crestfield's includes overall lack of strategies: for full lines to be carried in retail stores, for more galleries, specific brand objectives, to motivate and educate retail sales personnel and preserve brand image.

6. Strengths and Weaknesses

	Strengths	S*	P*	Weaknesses	S*	P*
Non-marketing capabilities	Decreasing contribution margin	2	3	Lack of HR team	3	3
	Sales follow industry trends with 6% forecast for 2004	5	3	Operating performance below normal	5	5
	High employee efficiency	5	4	Lack of management planning to manage threats	4	4
	Management planning for opportunities	5	5	Lack of management planning for further development of relationships with retailers	4	3
	Proactive in new product development	3	3	Lack of management planning for actions of competitors	5	5
	High quality standards	4	4	Lack of management planning for outsourcing or downsizing	3	3
Marketing Capabilities	Communication to sales team	3	4	Lack of marketing team	4	5
	Generating market intelligence (as noted in Appendix 07)	5	5	Lack of active scanning, self-critical benchmarking practices, continuous experimentation and improvement, systems to improve productivity or increase customer satisfaction.	4	3
	Planning mechanisms present in key areas with planning for: • conditions surrounding reaching sales forecast and • possibility of not attaining forecast, identification of the need to increase exposure and brand image,	5	4	Planning mechanisms absent in some areas : • lack of planning for specific activities surrounding retail sales training, • lack of innovative merchandising or inventory management planning	5	4

	• additional sales reps and associated costs, • additional funds available for communications budget, • new product development planning, • optimal and media channel planning, communications planning, considering conservative communications budget			• presence of non-specific marketing objectives		
	Monitoring of the external environment	4	3	Lack of monitoring system for marketing control	3	3
	Strategic planning in key areas with strategies developed for : • new product development, • premium competitive pricing, • communications activities including advertising, trade promotion and personal selling, media channels to be used, • distribution to quality retailers and use of galleries	4	4	Strategic planning lacking in key areas: • lack of strategies for full lines to be carried in retail stores, • no strategies to secure more galleries, • no specific brand objectives, to motivate and educate retail sales personnel and preserve brand image	5	4
	Own company sales force committed exclusively to Crestfield lines	5	5	Lack of monitoring system for marketing control	4	4

S* - Rating of the degree of significance: 'extremely significant' (5), 'quite to highly significant' (4), 'significant' (3), 'reasonably significant' (2) and 'not very significant' (1). P* - Rating of the probability of occurrence: 'extremely high probability' (5), 'high probability' (4), 'quite likely to occur' (3), 'moderately likely to occur' (2) and 'not likely to occur' in this time horizon (1).

7. TOWS Analysis

	Strengths	Weaknesses
Opportunities	**Use strengths to take advantages of opportunities** • Tap into the growing wood furniture sector with consistently manufactured mid - high priced / quality furniture. • Target the baby boomer market with high disposable income. • Use the company owned sales force to demonstrate exclusive commitment and offer specialist advice to strengthen retailer relationships. • Build commitment and trust through outstanding service delivery, logistical and merchandising management and ongoing education. • Concentrate on expanding the full Crestfield range into key retailers to maximise the opportunity for gallery exposure and reduce the dependence on independent furniture stores. • Attend more furniture expos and use the strong company based sales representative – retailer relationship to secure contracts. • Use market intelligence to develop new ranges that meet consumer needs and to focus on the types of retailers that the target markets are most likely to visit and purchase from.	**Overcome weaknesses by maximising opportunities** • Develop an ongoing company training program for new and existing sales representatives to ensure the sales team are better placed to develop strong relationships with retailers and expand the number of lines in store to improve the likelihood of exposure in more gallery stores. • Develop strategies to differentiate from competitor furniture manufactures (e.g. based on ability to service, quality of furniture, knowledge, expertise etc). • Employ own marketing team or better manage the relationship with agency marketing. • Engage resources to develop and manage an interactive Crestfield website for consumers to become aware of Crestfield's range and decorating possibilities therefore feeling better able to make purchasing decisions. • Consider off shore manufacturing to improve operating performance.
Threats	**Use strengths to avoid threats** • Use knowledge of consumer needs and the buying behaviour process to encourage purchase and repurchase within the target market. • Educate consumers to facilitate purchasing and reduce post-purchase dissonance. • Maintain quality and standards to protect prices. • Establish regular group and individual training sessions with retailers to teach them about furniture production and the benefits of Crestfield furniture as well as optimal ranging and display options. • Ensure sales territory planning is optimal to minimise the impact of competitor activity and maximise sales representative efficiency. • Plan for a mixture of promotional channels to ensure a balance of push – pull strategies are in place such that both retailers and consumers seek Crestfield furniture over competitor lines. • Monitor the activities of competitors and prepare contingency plans to deal with these, adjust strategies as necessary.	**Minimise weaknesses and avoid threats** • Evaluate ways to minimise the impact of increasing wages and materials (e.g. source alternative suppliers / materials, lock in contracts with exclusive suppliers to minimise costs of materials, outsource some parts of the manufacturing process, minimise distribution and delivery costs through exclusive contracts). • Consider options to merge with an existing furniture manufacturer to broaden the range and reduce the threat of competition. • Consider off shore manufacturing.

8. Strategies

Results of the SWOT and TOWS analysis have led to the development of the following three strategies for consideration.

Strategy 1: **E-marketing strategy** – Introduced to increase brand awareness, enhance Crestfield's brand image and educate consumers in 2004.

Strategy 2: **Push & pull strategy** – Balance between a push strategy focused on increasing sales force support and a pull strategy focused on increasing consumer advertising in 2004.

Strategy 3: **Conservative strategy** – No change from the 2003 promotional budget due to the possibility of not achieving the expected sales forecast in 2004.

For each of these strategies, the following has been developed:

- A tactical plan for 2004;
- Advantages and disadvantages of the strategy and tactics;
- Financial analysis based on available information;
- Risk assessment (refer to Appendix 10 for an explanation of the methodology and ratings used to assess the risk of each strategy).

8.1 Strategy 1 – E-marketing strategy

8.1.1 Tactics	
Positioning	Development and promotion of brand image using slogan: 'Crestfield, 100 years of Quality'
Website Development **($800,000)**	Divert funds from cooperative advertising budget to build fully integrated website. Website development includes: • 3 pages listing each item of furniture available sectioned by bedroom, dining room and living room • 1 page to list newly designed furniture available in retail stores • 1 page set up listing retail stores, consumer inputs their post code, to reveal closest retail store location • 1 page describing 'Crestfield, 100 years of Quality', covers quality considerations in the selection of raw materials, manufacture and delivery • 1 page describing 'Crestfield's History', promotes Crestfield as a traditional, family run business, providing quality wooden furniture for over 100 years • 1 page for consumers to create account by registering their name, location, email address, phone number, furniture consumer is interested in, reasons looking for new furniture (e.g. buying new house, buying first house, redecorating, need one new piece of furniture), facility to opt in to receive email updates. • 1 page dedicated to 'Design my new room' gallery, where consumer can put in dimensions of room, colour of walls etc then select furniture from drop down boxes divided by rooms. Furniture is placed in virtual room and can be moved around to fit consumer's choice. Creates an interactive picture of how the room will look from birds eye and 360 degree view, as actual furniture size & room size is scaled to fit computer screen dimensions. Click on individual pieces in room for pop-up box with item picture, dimensions, colour alternatives etc. Once furniture for the room is planned, the virtual plan is saved and sent directly to nearest retailer, who then contact consumer making appointment time to view furniture. • 1 page dedicated to weekly interactive chat forum, 'My new home'. Consumers can log in, ask sales reps questions about styles, furniture quality, delivery etc, reps can book appointments with consumers to meet retail store sales person at their nearest retail store. Specialist home

	decorator also available online during this time to give styling tips. • Website logins for end users gathers market intelligence about consumers, such as demographics, geographical location and products interests. • Direct marketing e-communications can be sent to these subscribed target groups, indicating when new furniture is available, new room configurations (including new piece each time), Crestfield promotions from closest retailer, time and details of weekly chat forum, to raise awareness about Crestfield and increase consumer spend. • 1 page for retailers to create account, place orders for new stock, request catalogues, request sales rep visit and see new furniture products. Orders sent directly to dispatch team. Requests for sales rep visit sent directly to sales rep email inbox. • Retailers login page to collect information on contact name, email, phone number, location, types of furniture they sell, opt in to receive e-communications. • Direct marketing e-communications can then be sent to retailers about new products, new 'gallery room' configurations ideas, visit Crestfield at upcoming trade show etc.
Consumer Advertising **($562,500)**	Consumer advertising budget remains unchanged in 2004. Consumer advertising continues monthly in nationally produced Shelter Magazines including *Better Homes and Gardens, House Beautiful and Southern Living.* • Advertisement design changed to include website address, pointers to visit website for 'Design My New Room' functionality, 'My new home' online chat, see new Crestfield range etc • Advertising also includes new brand slogan: 'Crestfield, 100 years of Quality'
Trade advertising **($467,000)**	Trade advertising budget remains unchanged in 2004. Trade advertising continues targeted at retailers and includes: • Promotion of new web facilities for retailers to view new furniture products, order new stock, request sales rep visits, request brochures, which should strengthen relationship with retailers. • To further encourage retailers, consumer web facilities will be promoted, since functionality allows for more information search, which decreases consumer uncertainty and is beneficial to retailers. Additionally 'Design my new room' gallery, self-selection involves consumer

	making decisions on their own products, in their own time, creating new room online, which is then sent directly to retailer. • Promotion in trade magazine advertisements aimed to entice retailers to visit Crestfield's display at upcoming trade show, call Crestfield to discuss retailer web capabilities, etc. • All consumer & trade brochures and leaflets adjusted to includes Crestfield website address to encourage website visit. • Advertising also includes new brand slogan: 'Crestfield, 100 years of Quality'
Cooperative Advertising **($1,150,000)**	Cooperative advertising with retailers reduced by 30% in 2004. • Cooperative advertising produced every 3 months rather than monthly in conjunction with retailers. • Cooperative advertising design changed to include website address, pointers to visit 'Design My New Room' and 'My new home' online chat, and see our new range etc • Advertising also includes new brand slogan: 'Crestfield, 100 years of Quality'

8.1.2 Strategy 1: E-strategy - Advantages and Disadvantages

Pros	Cons
• Use of Crestfield, 100 years of Quality'	• 30% decrease in cooperative advertising could disturb relationships with retailers putting them offside

• Development of a website will:
  ○ Increase brand awareness and brand image
  ○ Decrease consumer uncertainty and risk through increased product information
  ○ Increase traffic to retailers asking for Crestfield
  ○ Collect market intelligence on end users and retailers
  ○ Expedite ordering process for retailers
  ○ Provide competitive advantage as no other competitors of similar size are using web functionality
	• May cause disappointment if consumer is not close enough to visit retailer to inspect pre-selected furniture.

• Advertising 'Design My New Room' and 'My new home' online chat functionality will:
  ○ Increase brand awareness and brand image
  ○ Increase probability of purchase, as consumers' furniture selections are sent straight to local retailer
	• Should sales forecast not reach 6% increase, Crestfield may have to find funds from other budgets to meet existing commitments.

8.1.3 Strategy 1: E-strategy – Financial Analysis

Table 8.1.3.1: Promotional expenditure in 2003 and 2004

Promotional Category	2003 promotional expenditure	Proposed 2004 promotional expenditure	Change	% change
Sales expense and administration	$995,500	$995,500	0	0%
Cooperative advertising	$1,650,000	$1,150,000	-$500,000	-30.3%
Trade advertising	$467,000	$467,000	0	0%
Consumer advertising	$562,500	$562,500	0	0%
Website development	$0	$800,000	+$800,000	+100%
Total Promotional expenditure	$3,675,000	$3,975,000	+$300,000	+8.2%

To support the development of Crestfield's interactive web site, it is proposed that the promotional budget be allocated as shown in table 8.1.3.1. This assumes that the forecast 6% growth in sales in 2004 is achieved thereby enabling a total promotional budget of $3,975,000 in 2004 (5% of company sales). This strategy allocates 3.7% of Crestfield's forecast sales to advertising in 2004, slightly higher than industry average of 3.5%.

Table 8.1.3.2: Break even sales and ROI

Breakeven sales (to maintain a 5% net profit margin)	$ Return on promotional investment
$3,975,000/(0.10-0.50) = $79,500,000, a 6% increase in sales in line with the forecast growth	$7,950,000 - $3,975,000 = $3,975,000

Assuming no change in the variable cost rate from 2003, the breakeven sales to maintain the net profit margin is shown in table 8.1.3.2 as well as the $ return on the promotional investment.

Table 8.1.3.3 Sensitivity / what if analysis

	Sales increasing, gross profit margin steady			
Sales % increase	6.5%	7.0%	7.5%	8.0%
Sales $ (million)	$79.875	$80	$80.625	$81
Gross profit margin	10%	10%	10%	10%
Net profit margin	5.02%	5.05%	5.07%	5.09%

	Sales steady, GPM decreasing			Sales increasing, GPM decreasing			
Sales % change	6.0%	6.0%	6.0%	6.5%	7.0%	6.5%	7.0%
Sales $ (million)	$79.5	$79.5	$79.5	$79.89	$80	$79.89	$80
Gross profit margin	9.5%	9.0%	8.5%	9.5%	9.5%	9.0%	9.0%
Net profit margin	4.5%	4.0%	3.5%	4.52%	4.55%	4.02%	4.05%

	Sales inc. but < forecast, GPM steady			Sales inc. but < forecast, GPM decreasing			
Sales %chg	0.0%	2.0%	4.0%	0.0%	4.0%	0.0%	4.0%
Sales $ (M)	$75	$76.5	$78	$75	$78	$75	$78
GPM	10.0%	10.0%	10.0%	9.5%	9.5%	9.0%	9.0%
NPM	4.7%	4.8%	4.9%	4.2%	4.4%	3.7%	3.9%

	Variable(s) adjusted for 'what if' analysis		**Outcome resulting from change in variable**

Table 8.1.3.3 shows the outcomes of various scenarios to determine the impact on the net profit margin under various changes in the gross profit margin (pending changes to variable costs) and sales (pending changes to volume and or price).

8.1.4 Strategy 1: E-strategy – Risk Assessment

Factor	Risk	Likelihood Rating	Impact Rating	Inherent Risk	Control	Control Rating	Residual Risk
Competitor	Some manufacturers already have well developed promotional websites to showcase their range to customers and link to retailers and therefore have a competitive advantage and will continue to invest in their site and use to build brand awareness and loyalty, reduce uncertainty and develop stronger relationships with retailers	likely	severe	**high**	Build a superior web site to competitors utilising interactive capabilities to increase consumer awareness and confidence and the ability to direct sales leads to retailers there by strengthening relationships with retailers	excellent	**low**
Consumer	Target market not on line or prefer traditional forms of shopping / browsing when considering furniture purchases	possible	modest	**low**	Use off-line advertising (Shelter magazines) to draw consumers to web site; encourage retailers to direct consumers to Crestfield web site as an alternative / supplement to in store browsing prior to purchase	good	**low**
Retailer	Retailers not convinced that Crestfield's website will deliver value to them	highly likely	severe	**high**	Involve retailers in the website design; emphasise the benefits through additional sales leads, ability for consumers to locate closest retailer, and automatic access to new Crestfield range etc	very good	**medium**
Management	Crestfield culture not ready for technology; management won't commit $'s to web development	highly likely	severe	**high**	Review / analyse existing successful use of e-strategies in the industry and learn from this (e.g. Ethan Allen); seek expert advice	very good	**medium**
Resourcing	No company resources to develop and maintain the website; insufficient knowledge to design appropriately	highly likely	severe	**high**	Engage contract or permanent web development resources; train existing staff to assist in support roles; review other manufacturer sites for ideas	very good	**medium**
Financial	Drawing investment away from co-op may not leave sufficient funds for local advertising with retailers particularly if web site is not as successful as anticipated	possible	major	**high**	Ensure remaining co-op advertising is well targeted; include web site promotion in all advertising to raise awareness	Very goog	**low**

8.2 Strategy 2: Push and pull strategy

8.2.1 Tactics	
Positioning	Development and promotion of brand image using slogan: 'Crestfield, 100 years of Quality'

Sales force support and administration
 	
($1,130,500)
	To push sales through to retailers and end user, sales force budget increases to:
	• Service 50 new accounts and provide additional support
	  ○ Additional $70,000 allocated to employee new sales representative including salary & expenses.
	• Provide for expected increase in sales expenses and administration costs
	  ○ Additional $65,000 allocated
	• Existing funds allocated to current sales reps salaries, selling-expense reimbursements, fringe benefits and clerical/office assistance
	  ○ $995,500 allocated
	• Sales force focus to be moved towards more effective personal selling and the use of the term the 'Crestfield Team' when referring to sales reps. This will foster positive perceptions that the *Crestfield Team are knowledgeable on all things Crestfield,* e.g. products, innovative merchandising and displays, inventory management, planning of galleries etc.
	  ○ The Crestfield Team will be encouraged to:
	  ▪ Establish regular training sessions with retailers, to educate retail sales teams on Crestfield's products, the 'Crestfield, 100 years of Quality' concept and setting up retail displays.
	  ▪ Build stronger relationships with retailers, through regular contact via telephone and email, encouraging and assisting in the development of more galleries, and promote benefits gained by retailers through stocking entire Crestfield line in store.
	  ▪ Attend more furniture trade 'marts' across the country, and personally call retailers in the area encouraging them to visit the Crestfield stand and the Crestfield Team at the 'mart'.
	  ▪ Promote 'Crestfield, 100 years of Quality' concept, as a key point of difference.
	  ○ When a new sales rep is employed, they will spend first month shadowing the sales managers and sales personnel, to ensure the new

	rep is well trained on Crestfield's product range, equipped with market intelligence on retailers and end users and are equipped with the skills to successfully sell Crestfield's products, motivate and train retail sales personnel, set up in store displays, develop relationships with retailers to introduce the full Crestfield line and encourage and facilitate the set up of galleries.
Consumer Advertising **($727,500)**	Consumer advertising budget increased by $165,000. Pull strategy to increase consumer awareness for new Crestfield range, build quality brand image and encourage consumers to ask for Crestfield furniture at retail stores. • Additional funds allocated to existing consumer advertising expenditure, focused on creating increased consumer awareness for new product range and to promote 'Crestfield, 100 years of Quality'. • Crestfield consumer advertisements focused on new range will appear in Shelter Magazines including *Better Homes and Gardens, House Beautiful and Southern Living,* for 2 months following launch. The advertisements will be entirely focused on the new Crestfield line, how to integrate the new products into rooms already decorated with Crestfield furniture, how to redecorate with the new Crestfield lines etc.
Trade advertising **($467,000)**	Trade advertising budget remains unchanged in 2004. Pull strategy using trade advertising targeted at retailers, including: • Promotion of well-trained and knowledgeable Crestfield Team • Use of new brand slogan: 'Crestfield, 100 years of Quality' • Promotion to entice retailers to visit Crestfield's display at upcoming trade mart, and to call the Crestfield Team to discuss product range, gallery concepts, how to reach your customer etc • All trade brochures and leaflets adjusted to include promotion of the Crestfield Team who are well-trained and knowledgeable on all things Crestfield.
Cooperative Advertising **($1,650,000)**	Cooperative advertising with retailers remains unchanged in 2004. • Pull strategy, advertising monthly in conjunction with retailers • Advertising also includes new brand slogan: 'Crestfield, 100 years of Quality'

8.2.2 Strategy 2: Push and pull strategy – Advantages and Disadvantages

Pros	Cons
• Use of Crestfield, 100 years of Quality'	• Additional tasks for sales reps may stretch resources too finely, ultimately decreasing sales and hurting relationships with retailers

• Promotion of the 'Crestfield Team' concept will
  ○ Create positive perceptions of Crestfield sales reps knowledge, reliability and good problem solving skills
  ○ Encourage retailers to call Crestfield Team for additional product training
  ○ Allow sales reps to develop strong relationships with retailers to increase the use of galleries and encourage retailers to stock entire Crestfield line in stores
	• Should sales forecast not reach 6% increase, Crestfield may have to find funds from other budgets, to meet existing commitments.

• Additional sales rep will spread the work-load among reps, allowing more time spent fostering/maintaining relationships and less time trouble shooting issues for retailers.	• Large amount of time and money spent training new rep will be lost, should rep leave Crestfield or be unable to meet sales expectations.
• Increased consumer advertising will allow sufficient funds to successfully promote new lines to increase awareness	

8.2.3 Strategy 2: Push and pull strategy – Financial Analysis

Table 8.2.3.1: Promotional expenditure in 2003 and 2004

Promotional Category	2003 promotional expenditure	Proposed 2004 promotional expenditure	Change	% change
Sales expense and administration	$995,500	$1,130,500	+$135,000	+13.6%
Cooperative advertising	$1,650,000	$1,650,000	0	0
Trade advertising	$467,000	$467,000	0	0
Consumer advertising	$562,500	$727,500	+$165,000	+29.3%
Total Promotional expenditure	$3,675,000	$3,975,000	+$300,000	+8.2%

Table 8.2.3.2: sales per representative

	2003	2004				
Sales growth		0%	2%	4%	6%	8%
Sales (million)	$75	$75	$76.5	$78	$79.5	$81
No. sales representative*	12	13	13	13	13	13
Sales (million)/ representative	$6.2	$5.8	5.9	$6	$6.1	$6.2
*Note: number of sales representatives includes 2 sales managers						

To support the push – pull strategy, it is proposed that promotional expenditure be allocated as per table 8.2.3.1. This strategy also assumes that the forecast 6% growth in sales in 2004 is achieved thereby enabling a total promotional budget of $3,975,000 in 2004 (5% of company sales). This strategy allocates 3.5% of forecast sales to overall advertising in 2004, in line with industry averages and historical trends.

As for the e-strategy, break even sales of $79.5 million (6% growth) is required to maintain the net profit margin assuming no change in gross profit margin (table 8.1.3.2 above). The sensitivity analysis shown above for the e-strategy in table 8.1.3.3 also applies to this strategy given that the overall increase in expenditure is the same for both strategies even though it is allocated differently.

Table 8.2.3.2 shows the sales / representative for 2003 and projected sales / representative with the additional representative for 2004 assuming various percentage increases in sales. If the same average $ sales / representative were able to be achieved in 2004, 8% growth in sales is possible (assuming no reduction in price and no change in gross profit margin).

8.2.4 Strategy 2: Push and pull strategy – Risk assessment

Factor	Risk	Likelihood Rating	Impact Rating	Inherent Risk	Control	Control Rating	Residual Risk
Competitor	Competitors already have an advantage due to size, full ranging options and larger promotional expenditure and co-op deals and will expand their position	highly likely	severe	high	Use brand slogan 'Crestfield, 100 years of quality' to differentiate from competition and strengths of own sales force (Crestfield team) to build retailer relationships	good	high
Consumer	Advertising not effective in reducing purchase uncertainty, or not directed at target markets; consumers not aware of new range	possible	major	high	Significant amount of advertising focused on new range following the launch; sales force work closely with retailers to ensure retailers are well educated in Crestfield range and able to facilitate customer decisions and reduce uncertainty	very good	low
Retailer	Unable to secure contracts with new chains and unable to expand in store range with retailers for gallery option	possible	major	high	Take advantage of dedicated company owned sales force to build commitment and trust with retailers by offering superior service delivery, merchandising, logistical management and education'	very good	low
Management	Poor planning for effective utilisation of promotional expenditure	highly unlikely	severe	low	All proposed tactics support a balance between push - pull strategy to ensure effectiveness and efficiency	excellent	very low
Resourcing	Unable to attract suitable new sales staff	highly unlikely	modest	low	Use company reputation to make Crestfield an employer of choice; offer ongoing training and support and excellent working conditions to staff	good	very low
Financial	Forecast sales $'s may not be achieved in 2004, and will result in lower than desirable NPM, GPM may also reduce	possible	severe	medium	Funds redirected from other sources, seek to reduce cost of goods and use quality image to maintain price	good	low

8.3 Strategy 3: Conservative strategy

8.3.1 Tactics	
Positioning	Development and promotion of brand image using slogan: 'Crestfield, 100 years of Quality'

Sales expense and administration
 	
($995,500)
	Sales expense and administration budget allocation remains unchanged in 2004.
	The sales force continues to service 1000 retail stores and the additional 50 retail store accounts are absorbed by the team, increasing effectiveness from approx 84 accounts per sales team member, to approx 88 accounts.
	• Sales reps continue to
	  ○ Foster relationships with retail stores
	  ○ Attend trade 'marts'
	  ○ Assist in the development of in-store displays
	  ○ Encourage and assisting in the development of galleries
	  ○ Promote benefits gained by retailers through stocking entire Crestfield line
	  ○ Promote 'Crestfield 100 years of Quality' concept, as a key point of difference

Consumer Advertising **($562,500)**	Consumer advertising budget remains unchanged 2004. • Advertising design focuses on increasing brand awareness and improving Crestfield's quality brand image through the use of the 'Crestfield, 100 years of Quality' concept as a key point of difference. • Consumer advertising will continue in Shelter Magazines including *Better Homes and Gardens, House Beautiful and Southern Living.*
Trade advertising **($467,000)**	Trade advertising budget remains unchanged in 2004. Trade advertising continues targeted at retailers and includes: • Promotion focused on enticing retailers to visit Crestfield's display at upcoming trade show, and to contact Crestfield to discuss product range, gallery concepts, how to reach your customer, etc • All trade brochures and leaflets include 'Crestfield, 100 years of Quality'

Cooperative Advertising **($1,650,000)**	Cooperative advertising with retailers the remains unchanged in 2004. • Cooperative advertising produced monthly in conjunction with retailers. • Advertising also includes new brand slogan: 'Crestfield, 100 years of Quality'

8.3.2 Strategy 3: Conservative strategy: Advantages and Disadvantages

Pros	Cons
• Use of Crestfield, 100 years of Quality slogan	• Sales forecasts of 6% may not be met, as costs for successfully launching new product range have to be found from within existing budget.
• Should sales forecast not reach 6% increase, Crestfield will have sufficient funds to meet existing commitments.	• New product launch may be unsuccessful due to lack of sufficient budget to launch, therefore costs associated with R&D become sunk costs.
• Existing sales force, trade/co-op/consumer advertising brought in enough sales in 2003 to keep Crestfield solvent, therefore the same strategies should do the same in 2004.	• Opportunities may be lost should consumer confidence increase enough to boost sales to 6% and Crestfield does not take advantage of this through insufficient marketing of existing and new product lines effectively.
	• Strategy does not effectively provide for desired increase in brand awareness.
	• Sales reps absorbing additional accounts may stretch resources too finely, ultimately decreasing sales and hurting relationships with retailers.

8.3.3 Strategy 3: Conservative Strategy – Financial Analysis

Table 8.3.3.1: Promotional expenditure in 2003 and 2004

Promotional Category	2003 promotional expenditure	Proposed 2004 promotional expenditure	Change	% change
Sales expense and administration	$995,500	$995,500	0	0
Cooperative advertising	$1,650,000	$1,650,000	0	0
Trade advertising	$467,000	$467,000	0	0
Consumer advertising	$562,500	$562,500	0	0
Total Promotional expenditure	$3,675,000	$3,675,000	0	0

Under the premise of lower sales volume and pricing pressure combined with increased costs to produce goods, the conservative strategy proposes no change to the 2003 promotional expenditure budget (table 8.3.3.1). Any increase in sales expenses / administration would need to be met through the existing advertising budget.

Table 8.3.3.2: Breakeven sales and ROI

Breakeven sales (to maintain a 5% net profit margin)	Return on promotional investment
$3575000/(0.10-0.50) = $73,500,000, a 2% decrease in sales	$7,350,000 - $3,675,000 = $3,675,000 (OR $3,825,000 if 2003 sales volume achieved in 2004)

The breakeven sales to maintain the current net profit margin before tax of 5%, assuming that the gross profit margin remains at the 2003 level (i.e. no change in the variable cost rate) and the return on the promotional investment are shown in table 8.3.3.2.

Table 8.3.3.3: sensitivity / 'what if' analysis for conservative strategy

	Sales increasing or decreasing, gross profit margin steady							
Sales % increase	**-4%**	**-3%**	**-2%**	**-1%**	**0%**	**2%**	**4%**	**6%**
Sales $ (million)	$72	$72.8	$73.5	$74.3	$75	$76.5	$78	$79.5
Gross margin	10%	10%	10%	10%	10%	10%	10%	10%
Net margin	4.9%	4.95%	5%	5.05%	5.1%	5.2%	5.3%	5.4%

	Sales steady, GPM decl.			Sales increasing and GPM declining					
Sales %chg	**0.0%**	**0.0%**	**0.0%**	**2%**	**4%**	**6%**	**2%**	**4%**	**6%**
Sales $ (M)	$75	$75	$75	$75.8	$78	$79.5	$75.8	$78	$79.5
GPM	9.5%	9.0%	8.5%	9.5%	9.5%	9.5%	9.0%	9.0%	9.0%
NPM	4.6%	4.1%	3.6%	4.7%	4.8%	4.9%	4.2%	4.3%	4.4%

	Variable(s) adjusted for 'what if' analysis		**Outcome resulting from change in variable**

8.4 Strategy 3: Conservative strategy – Risk assessment

Factor	Risk	Likelihood Rating	Impact Rating	Inherent Risk	Control	Control Rating	Residual Risk
Competitor	Competitors will invest in promotional spending more heavily and be able to lock in sale contracts with retailers, secure floor space and build brand awareness and loyalty	highly likely	major	very high	Use brand slogan 'Crestfield, 100 years of quality' to differentiate from competition and strengths of own sales force (Crestfield team) to build retailer relationships	good	high
Consumer	Insufficient promotional spending in target consumer market segments to launch new range	likely	severe	high	Allocate consumer advertising to target key market segments to increase brand awareness and use slogan to improve brand image and differentiate	good	medium
Retailer	Insufficient promotional spending within the retail segment; new chains not aware of Crestfield or buy from other manufacturers promoting more heavily; insufficient co-op spending to attract consumers to local furniture stores	likely	severe	high	Take advantage of dedicated company owned sales force to raise awareness of and promote Crestfield in the industry and work closely with retailers to ensure co-op $'s are used for maximum benefit	very good	low
Management	Management may see higher possible NPM as an attractive option but not consider long term implications of insufficient promotional investment	possible	severe	medium	Management need to plan beyond one year when deciding how to allocate funds and consider the longer effects of promotional investment	good	low
Resourcing	Insufficient sales representatives to adequately service all accounts and attract new accounts	likely	severe	high	Better territory planning and account targeting to enable more effective use of sales force	good	medium
Financial	Insufficient promotional investment to secure Crestfield's long term position in the furniture industry and increase sales and possibly share as competitors may have the advantage	possible	major	high	Funds redirected from other sources, seek to reduce cost of goods and use quality image to maintain price	medium	medium

Crestfield Furniture Industries, Inc

9. Recommendations

Of the three strategies considered, strategies 1 and 2 propose an increase in promotional expenditure in 2004, while strategy 3 proposes no change to the level of promotional expenditure. Table 9.1 shows the likely net profit outcomes of these two alternatives given the probable competitor response.

Table 9.1: Payoff table

	Crestfield Net Profit	Competitor response	
Crestfield alternatives	Increase promotional $	Competitors increase promotional $ (probability 0.4)	Competitors don't change promotional $ (probability 0.6)
		$3,675,000 net profit (assumes 2% growth in sales)	$3,975,000 net profit (assumes 6% growth in sales)
	No change to promotional $	$3,750,000 net profit (assumes 1% decline in sales)	$3,895,500 net profit (assumes no growth in sales)

The expected net profit from the two alternatives is therefore:

Increase promotional $: (0.4)*($3,675,000) + (0.6)*($3,975,000) = $3,855,000

No change to promotional $: (0.4)*($3,750,000) + (0.6)*($3,895,500) = $3,837,000

An increase in promotional expenditure is expected to result in a slightly improved level of net profit (assuming gross margins remain stable).

Crestfield Furniture Industries, Inc

Comparing the residual risk for each strategy, after control factors have been applied to mitigate the likelihood and impact ratings it can be seen that both the push – pull and the conservative strategy carry a greater competitor risk as these strategies do not differentiate sufficiently to the degree that the e-strategy does, thereby creating a strong competitive advantage. The e-strategy carries a greater risk in terms of retailer and management acceptance and resourcing as does the competitive strategy which runs the risk of too small a sales force to adequately perform all tasks (servicing existing accounts, expanding the in store range, generating new accounts etc).

Overall, the greatest risk with the e-strategy is lack of acceptance, the greatest risk with the conservative strategy is insufficient resources to generate growth and the greatest risk with the push-pull strategy is it being a 'me to' strategy and fails to differentiate significantly in an increasingly competitive environment.

Table 9.2 Residual risk comparison for each strategy

	Residual risk		
Factor	**Strategy 1: E-strategy**	**Strategy 2: push pull strategy**	**Strategy 3: conservative strategy**
Competitor	low	high	high
Consumer	low	low	medium
Retailer	medium	low	low
Management	medium	very low	low
Resourcing	medium	very low	medium
Financial	low	low	medium

Crestfield Furniture Industries, Inc

Should industry forecasts be revised, and the furniture industry predicted to remain flat in 2004, strategy 3 is the safest option and will result in net profit margins at or close to the 5% level desired by Crestfield. However, this strategy is not considered to invest sufficiently in promotional expenditure to generate growth and continue to compete in the changing furniture industry. Given that the wood furniture sector is expected to grow by around 6% in 2004, this strategy is *not recommended* as it fails to invest in the Crestfield brand for the future and build brand equity.

Strategy 2, the push-pull strategy supports Crestfield's traditional approach to servicing accounts, through hands on personal selling. With their own sales team, Crestfield has the opportunity to excel in all aspects of generating and servicing accounts, and build strong relationships with retailers. This strategy must be balanced through appropriate levels of consumer advertising so that as the Crestfield team pushes the range into the trade, customers are aware of and subsequently request Crestfield furniture from retailers. However, this strategy can become expensive if insufficient new accounts are able to be generated with additional sales representatives. Currently with 1000 accounts, the cost to service each account is $996 based on sales expense and administration. With the new sales person in 2004 and 50 new accounts, the cost to service each account will rise to $1077. The additional sales member will slightly alleviate the sales force pressure by reducing the average number of accounts / sales person (including the supervisors) from 83 to 81. But, to maintain the same cost / account at 2003 levels ($996), an additional 136 accounts are required and this would raise the number of accounts / sales person to 87, quite likely reducing the level of service able to be provided to each account. While this strategy is likely to improve Crestfield's reputation in the wood furniture industry, it fails to differentiate substantially from other manufactures using sales agents and personal selling and is *not recommended*.

Crestfield Furniture Industries, Inc

The e-strategy introduces a modern day approach to what is largely a traditional family run business. Currently only a limited number of furniture manufacturers have invested in their own web sites and with the exception of Ethan Allen these sites are used purely for promotional purposes. By developing a fully interactive web site, Crestfield has the opportunity to differentiate from competitor furniture manufactures, in particular other medium to small manufacturers who may not have realised the potential benefits of utilising technology. This strategy *is recommended* for 2004 and beyond for the following key reasons:

- It will reduce customer uncertainty and increase their confidence as they will be able to experiment with layouts and designs to suit their room.
- It will educate consumers about furniture style and quality and help them to understand the different offerings.
- It will enable better targeted marketing and therefore more efficient use of advertising and other traditional promotional expenditure.
- The key target market are growing users of the internet.
- It will provide qualified leads direct to retailers thereby increasing their store sales with minimal effort.
- It will provide a tool for sales people to use in the trade allowing them to showcase the Crestfield range to potential new accounts.
- Retailers will have access to information about new Crestfield styles / ranges before competitors increasing the likelihood of gaining floor space for these.
- The cost / sale will reduce and efficiency of the sales force increase as they will have more time to spend strengthening relationships with retailers and ensuring superior service standards.

The risks associated with this strategy can be minimised if not eliminated if the control factors identified are fully endorsed. An implementation plan for this strategy is shown in table 9.3.

Table 9.3: Implementation Plan for Recommended Strategy: E-strategy	
Positioning **Sales expense and administration,** **Trade/consumer/ coop Advertising**	*Week 1* - Discuss concept of 'Crestfield, 100 years of Quality' with Hervey and Bernham Advertising Agency and discuss website development plan. *Week 2* – Draw up implementation plan to roll out 'Crestfield, 100 years of Quality', for all trade/co-op/consumer advertising, catalogues, booklets for consumers and point of purchase material available in retail stores. *Week 4* – Decide on implementation plan and notify Hervey and Bernham that new ads and collateral will need to be ready by Week 18. *Week 5* –Hervey and Bernham Advertising Agency to begin work on incorporating new slogan 'Crestfield, 100 years of Quality', web address, pointers to visit website for 'Design My New Room' functionality, 'My new home' online chat, see new Crestfield range etc, into all trade/co-op/consumer advertising and retail store collateral. *Week 18* – All new advertisements are complete and ready for insertion into publications. All new collateral is sent to Crestfield for storage.
Website Development	*Week 1* – Decide on web development team members at Crestfield. *Week 2* - Research 4-5 web design companies and set up appointments. *Week 3* – Provide each agency with general brief and obtain quotes for design for web and e-communications. *Week 5* – Decide on design agency. Pay initial deposit. *Week 6* – Further meetings with chosen design agency, to discuss brief in full, outlining all functionality required, various pages, linked in database functionality, online chat, virtual consumer gallery design and discuss design of e-communications. *Week 8* - Review wireframes (design schedule) for design of site, including major page headings etc. Confirm wireframes with design agency. *Week 8* - Commence work on content. Sourcing and collating pictures and descriptions of all Crestfield products, retailer names & addresses, as well as additional content for Quality & History pages etc. *Week 11* – Review test site with design agency providing feedback. Pay next instalment for web design. *Week 12* – Review test site with design agency again. Begin to provide content to agency. *Week 14* – Review test site with design agency. Provide final content to agency. *Week 15* – Design agency to begin testing main functionality areas, including 'My new home' online chat, 'My New Room' virtual gallery, logins and database, and direct ordering of products & brochures for retailers.

	Week 17 – Web development team members at Crestfield launch website internally to Crestfield execs and others. *Week 18* – Training reps on website use begins. Pay final amount for web design. *Week 21* – Web training for reps concludes. *Week 22* – One week to launch. Each retailer receives letter from their account manager/sales rep, promoting web launch and 'Crestfield, 100 years of Quality', as well as new design catalogues, booklets for consumers and point of purchase material for retail floor. Retailers are invited to trial and login to the new site. To induce retailers to trial, retailers are invited to join telephone link up and webinar explaining functionality. *Week 23* – Launch of website to consumers and retailers. Coincides with new look advertising being published for the first time in Shelter Magazines, newspapers (co-op ads) and trade magazines. *Week 23* – Begin to see first end-user and retailer traffic on website and first logins/subscriptions. *Week 24* – First 'My new home' online chat session commences. Continues weekly. *Week 28* – First e-communication sent to subscribed retailers and end-users. E-communications continue on monthly basis for end users, promoting 'My new home' online chat & 'My New Room' virtual gallery, Crestfield room configurations and new products. Retailers receive monthly updates on new products, new 'gallery' configurations ideas, visit Crestfield at upcoming trade show etc. *Week 29* – Functionality and web use statistics are reviewed, then re-reviewed fortnightly for improvements.

Appendix 01

Framework for Strategic Marketing

Situational Analysis

External - Remote Environment	External – Near Environment
Economic	Market Review
Socio-cultural	Competitive Review
Political-legal	Distribution Channels
Technological	End Users/Customers
Environmental	Supply

Internal Capabilities	Internal Capabilities
Non Marketing	Marketing
• Financial	• Marketing organisation
• Management & Leadership	• Market intelligence
• HR	• Marketing Planning
• R&D	• Marketing control & evaluation
• Operations – production & supply	

SWOT & TOWS Analysis

&

Problem & Opportunities Statement

Definition of the Problem

- Objectives
- Constraints
- Evaluation measures for assessing progress

Enumerate the Decision Factors

- Alternative Courses of Action (controllable factors)

- Uncertainties in the environment (uncontrollable factors)

Consider all Relevant Information

- Industry
- Competitive environment
- The Organisation
- Alternative courses of action

Identify the Best Alternative

- Decision Trees
- Payoff Tables

Develop an Implementation Plan for the Best Alternative

- List objectives against strategies
- Rate strategy against its ability to meet the objective
- Weight the objectives
- Evaluate outcome & choose best alternative

Evaluate the Decision and the Decision Process

- Is it accurate?
- Have all alternatives & uncertainties been identified?
- Logical assumptions?
- Was all considered information relevant information?
- Did I make appropriate recommendations?
- Did I provide for the implementation of the recommendations?

Appendix 02

Furniture industry attractiveness and competitiveness (Porters 5 forces)

Force	Assessment	Rating
Industry rivalry	• With over 1000 manufacturers, competition is fierce however 5 manufacturers control almost one third of sales. • Smaller manufacturers, particularly those outside of the top 25 may find it difficult to remain competitive as the industry changes, potentially favouring larger manufacturers with broad ranges.	High
Threat of new entrants	• Strong existing brand names with a good share of a competitive market; new manufacturers unlikely to secure large share of sales. • Expensive to start up from scratch due to high capital and production costs and supplier loyalty hard to establish. • Importers already enjoying economies of scale may see the U.S. market as attractive. • Existing manufacturers shifting operations off-shore to reduce costs may attract some new players.	Moderate
Threat of substitutes	• With increasing imports and widening price points consumers are faced with greater choice in furniture purchases. • Switching costs are low as customers are not locked into contracts (sales are transactional) although style compatibility is known to be important. • There are many other uses for disposable income (e.g. other household goods, cars, holiday, savings etc). Furniture, at least for replacement purposes is an optional purchase that can easily be deferred.	High
Bargaining power of buyers	• Retailers have considerable choice with over 1000 manufacturers and various styles and price of furniture available. • Consumers can choose from over 100000 stores and many different types of store depending on what shopping style they prefer. • Wide consumer choice for disposable income spending.	High
Bargaining power of suppliers	• To maintain the quality of the furniture, the type of wood used may be limited. • Trends towards off shore production may see local supplier prices increase to maintain margins as they lose customers.	Moderate – high

Crestfield Furniture competitor set

Category	Description
Product form	Other furniture manufacturers who like Crestfield produce medium to high priced similar styled wood bedroom, living room and dining room furniture
Product category	Furniture manufacturers producing cheaper priced alternative styles of wood furniture. This level of competition would most likely include the many imports from Asia
Generic competition	Furniture manufactures producing other types of furniture including upholstered, ready-to-assemble and casual styles. This would include both locally produced and imported ranges at multiple price points
Budget competition	Other items that consumers may choose to spend their disposable personal income on. This might include alternative household items, cars or holidays for example

Appendix 04

Competitor analysis (using Porters framework)

Competitor	Drivers	Ability	Implications
Furniture Brands International	*Objectives:* maintain leadership, increase share of sales	*Strategy:* dominate gallery and single vendor stores and securing terms with large retail chains	Economies of scale, high $'s and size gives F.B.I. the potential to aggressively grow their share of sales and push out smaller manufacturers
	Assumptions: serve multiple segments of the furniture industry	*Resource & capabilities:* industry leader; power of size & $'s; ability to secure better co-op deals	
La-Z-Boy, Inc.	*Objectives:* increase share of sales and try to move into first position	*Strategy:* dominate gallery and single vendor stores and securing terms with large retail chains	Economies of scale, high $'s and size gives La-Z-Boy the potential to aggressively grow their share of sales and push out smaller manufacturers
	Assumptions: serve multiple segments of the furniture industry	*Resource & capabilities:* industry leader; power of size & $'s; ability to secure better co-op deals	
Ashley Furniture Industries, Inc.	*Objectives:* minimise manufacturing costs, maximise economies of scale; increase share of sales and position in the industry	*Strategy:* secure deals with retailers through higher margins; look to shift all manufacturing off shore and import new lines	Off shore manufacturing makes Ashley a threat to the U.S industry due to ability to keep costs low and import new lines. Other manufacturers likely to follow possibly resulting in higher supply costs to local manufacturers
	Assumptions: customers are seeking better priced furniture options	*Resource & capabilities:* cheaper manufacturing costs (off shore) can be passed onto retailers and customers as well as ensuring better margins for Ashley	

Competitor	Drivers	Ability	Implications
Klaussner Furniture Industries, Inc	*Objectives:* increase share of sales or at least maintain position	*Strategy:* could look to purchase other smaller struggling manufacturers to expand range and improve bargaining power with retailers	Klaussner has a reasonably good position in the industry and could look to cement / increase this posing a greater threat
	Assumptions: probably holds a strong position in key segments	*Resource & capabilities:* economies of scale; ability to compete within the top 5	
Ethan Allen Interiors, Inc	*Objectives:* increase share of sales; expand franchised stores and online range	*Strategy:* continue to differentiate from other manufactures through own distribution and on line sales; expand geographical reach	Ethan Allen successfully operate a differentiated business model that other manufacturers are likely to consider as Ethan Allen continues to grow. This is a cost effective model that poses a potential threat to other competitors
	Assumptions: brand loyal customers will continue to purchase exclusively from Ethan Allen; consumer acceptance of online furniture purchasing will grow	*Resource & capabilities:* reduced costs (no sales force) and income through franchised model; low risk	
Imported goods	*Objectives:* increase share of sales, particularly wood bedroom suites	*Strategy:* expand range and secure deals with key retail chains and lower priced furniture stores	With 25% of the wooden bedroom segment, importers hold a strong position already and are a threat to local manufacturers with reduced prices and better economies of scale
	Assumptions: targeting more price conscious customers unable to afford the more expensive locally manufactured brands	*Resource & capabilities:* economies of scale through lower production costs and probable standardisation of range; therefore significantly lower costs	

Competitor	Drivers	Ability	Implications
Other U.S. furniture manufacturers in the top 25	*Objectives:* increase sales and share of sales, maintain or improve industry position	*Strategy:* look to lock in deals with retailers to secure floor space; differentiate to secure key segments; seek to minimise costs	These manufacturers like Crestfield compete for specific target markets within the furniture industry. Larger manufacturers and importers pose a threat due to their bargaining power as a result of size and reduced costs
	Assumptions: target key segments with specific ranges	*Resource & capabilities:* can be limited and economies of scale more difficult compared to larger manufactures	
Other U.S. furniture manufacturers outside the top 25	*Objectives:* survival	*Strategy:* possibly look to merge with other existing manufactures or significantly reduce costs	Limited threat from these manufacturers on their own but they could become a threat if they merge with other manufacturers thereby increasing their size and power
	Assumptions: serve niche markets with limited ranges and distribution	*Resource & capabilities:* limited, may find it difficult to continue to compete in the changing industry as large manufactures / importers use their power to dominate	

Appendix 05

Current financial status of Crestfield Furniture in 2003

Sales		**$75,000,000**
Variable Costs		
Total variable cost		$67,625,000
Gross profit		$7,375,000
Gross profit margin		**10%**
Fixed Costs		
Sales expenses & admin	$995,500	
co-op advertising	$1,650,000	
trade advertising	$467,000	
consumer advertising	$562,500	
Total fixed costs		$3,675,000
Net profit (before tax profit)		$3,700,000
Net profit margin		**5%**

Assumptions:

1. The proportion of sales paid as commission to representatives is unknown but commission has been included in the calculation of gross profit margin as noted on p. 276 of Kerin & Patterson
2. It is unlikely that the gross profit margin is as low as what is shown however there is insufficient information provided to determine the cost of goods and separate this from other variable costs and only promotional fixed costs have been provided for inclusion in the net profit margin. Presumably other fixed costs (e.g. salary VP sales etc) and other variable costs would alter this margin.
3. A contribution margin of ~20% is mentioned (p. 275 Kerin & Patterson) but it is not possible to calculate this with the information provided for fixed and variable costs without making assumptions that cannot be validated.
4. The gross profit margin and net profit margin have been rounded up in other financial analysis calculations in section 8 of the report.

Appendix 06

Analysis of Management and Leadership

To analyse the management and leadership capabilities of the organisation, a rating system was used to make assumptions on Crestfield's management and leadership capabilities in managing changes that may occur. The rating used are: 'high capability' (5), 'reasonably high capability' (4), 'significant capability' (3), 'reasonable capability' (2) and 'low capability' (1).

Economic forces	Significance of opportunity or threat	Management and leadership capabilities to manage change
Growing wood sector (6% growth forecast)	5	5
Strengthen relationships with retailers	5	4
Secure supply deals with retailer chains	5	3
Extend range with retailers to secure gallery / single vendor stores	5	3
Off shore manufacturing to reduce costs	2	2
Use of technology / website	4	3
Large baby boomer market with high disposable income	4	4
Larger manufacturers dominate furniture chains and gallery stores	5	3
Increased imported furniture and off shore manufacturing pushing down prices	5	2
Wide choice of options for consumer discretionary spending	2	4
Increase in supplier prices	3	5
Increasing wages (manufacturing)	3	5
Consumer uncertainly / lack of confidence	4	4
Manufacturers merging / purchasing others	4	3

Appendix 07

Indicator of market intelligence	Implication	Assumption
Knowledge that Crestfield sales are following industry sales	√	
Research into their target markets and how demographics reflect product purchasing	√	
Knowledge of the industry and identification of sub categories	√	
Knowledge of target market buyer behaviour	√	
Knowledge of how targets spend disposable income	√	
Knowledge of demographic segments spend in the category.	√	
Understanding target markets barriers to purchase & influencers affecting purchase decisions.	√	
Understanding of target markets ability to evaluate consideration set, in terms of price, quality and delivery aspects of the purchase.	√	
Recognises failed education attempt by furniture industry	√	
Knowledge of information gatekeepers	√	
Knowledge that target market search for information prior to identifying the need to purchase	√	
Knowledge of consumers browsing habits.	√	
Understanding of amount of contact with a sales person that is required in the information search stages	√	
Knowledge of industry retailers and trends affecting retailers.	√	
Identification that gallery concept is one of the optimal avenues to reach target market, along with upscale furniture & department stores.	√	
Knowledge that magazines on home improvement and redecorating are appropriate media channels for reaching the target market.	√	
Knowledge of approximate amount of expenditure by competitors on promotions.		√
Knowledge of optimal promotion strategies including consumer & cooperative advertising and trade shows.		√
Knowledge of specific media used by competitors and the associated targets for each channel.		√
Assumed lack of active scanning feedback from front line staff		√
Aware that most consumers still purchase based on price.	√	
Assumed lack of self-critical benchmarking practices		√
Assumed lack of continuous experimentation and improvement, due to lack of systems to improve productivity or increase customer satisfaction.		√
Assumed presence of informed imitation due to some study of most successful competitors.		√

Appendix 08

Indicator of market planning	Implication	Assumption
Identification of the need for more sales representatives	√	
Identification that projected sales forecast could be too liberal.	√	
Desire to increase exposure and communicate brand image of styling and quality to target market.	√	
Objectives set to increase brand awareness and enhance brand image		√
Employing appropriate number of sales staff to handle sales work load, and identifying costs associated with employing additional staff	√	
Identification of additional promotion budget available through increased sales forecast.	√	
Launch of new products in dining and living room furniture.	√	
Acknowledgment that the most appropriate media channel to promote product launch is magazines on home improvement and redecorating.	√	
Planning for possibility of not reaching sales targets by only increasing promotional expenditure by $225,000 instead of a possible $300,000.	√	
Using remaining $75,000 on stabilising bottom line to plan for increased fixed costs, variable costs and increased pricing pressure.	√	
Assumed lack of formalised marketing planning process where objectives are set, then strategies are mapped out with corresponding tactics to achieve objectives.		√
Acknowledgement that competition for floor space in retail stores requires retail sales training, innovative merchandising, inventory management planning and advertising.	√	

Appendix 09

Indicator of strategic planning	Implication	Assumption
Product		
Strategies need to be developed so full line is held in retail stores & more opportunities for galleries are present.	√	
New product development indicate strategies for increased market share	√	
Price		
Assumed strategies for competitive pricing, including a slight premium for a quality product.		√
Promotion		
Objectives set to increase brand awareness and enhance brand image		√
Presence of a structured sales force	√	
Lack of formalised strategies to motivate & educate retail sales personnel and to preserve brand image in in-store displays		√
Structured communications activities budgeted for and divided into specific groups.	√	
Cooperative advertising strategies focused on newspapers as media channel	√	
Trade promotions well mapped out and reasons for choosing this channel substantiated.	√	
Consumer advertising via magazine channels, to encourage consumers to purchase new product or purchase entire 'room' displayed.	√	
Marketing communication strategies do not include raising awareness through the internet.	√	
Use of trade shows to attract retail stores and confirm buying commitments.	√	
Strategies surrounding personnel selling in retail stores account for half of sales annually.	√	
Strategies surrounding trade shows developed to target retailers, including brochures with a focus on construction and raw materials.	√	
Strategies focused on consumer advertising directed at end user target markets.	√	
Strategies for cooperative advertising focus on increasing overall demand for the category.	√	
Proposed strategies to increase consumer advertising (for new products launch) to $225,000, particularly shelter magazine as the media channel	√	
Place		
Selectivity in choosing retail outlets, which match Crestfield's brand image of producing quality products.	√	
Assumed planned strategies surrounding delivery and return since highlighted as a barrier to purchase in industry.		√
Recognition that strategies surrounding obtaining more 'galleries' are key to success	√	
Initiated gallery strategies since allows consumer to shop, with limited competition and displays a room, which could be purchased.	√	

Appendix 10

Risk Assessment[1]

The risks associated with the three strategies considered were assessed in terms of the following: *consumers, retailers, financial, resourcing, management and competitor risks*.

An overall level of risk for each risk factor was determined by assessing the risks in terms of:

- Likelihood rating
- Impact rating
- Inherent risk
- Control rating
- Residual risk

Likelihood and Impact Rating

Each risk was assigned a *likelihood rating* based on the assessed probability of the likely occurrence of the risk and an *impact rating* based on the likely severity of the risk if it does occur. The likelihood and impact ratings used in the risk assessment are as follows:

Likelihood Rating	Impact Rating
Highly likely	Major
Likely	Severe
Possible	Modest
Highly unlikely	Minor

Inherent Risk

The *inherent risk* was derived from the combination of the likelihood and impact ratings as follows:

		Impact rating			
Likelihood rating		major	severe	modest	minor
	highly likely	very high	high	high	medium
	likely	high	high	medium	medium
	possible	high	medium	low	low
	highly unlikely	medium	low	low	very low

[1] The methodology to assess the risks was adapted from the AS4360 and REALM risk assessment tool used by Deakin University

Control rating

The *control rating* was assigned based on an assessment of the level of control as excellent, very good, good, medium, poor, or no control.

Residual Risk

The *residual risk* was derived according to the combinations of the likelihood, impact and control ratings as follows:

		Control rating	Impact rating			
			major	severe	modest	minor
Likelihood rating	highly likely	excellent	medium	medium	low	low
		very good	high	medium	low	low
		good	high	high	medium	low
		medium	high	high	medium	medium
		poor	very high	high	high	medium
		no control	very high	high	high	high
	likely	excellent	medium	low	low	very low
		very good	medium	low	low	low
		good	high	medium	low	low
		medium	high	medium	medium	low
		poor	high	high	medium	medium
		no control	very high	high	medium	medium
	possible	excellent	low	low	very low	very low
		very good	low	low	very low	very low
		good	medium	low	low	very low
		medium	medium	medium	low	low
		poor	high	medium	low	low
		no control	high	medium	medium	low
	highly unlikely	excellent	low	very low	very low	very low
		very good	low	very low	very low	very low
		good	low	low	very low	very low
		medium	medium	low	low	very low
		poor	medium	low	low	low
		no control	medium	medium	low	low