

# Jabwood international essay sample

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Problem statement: After reading the case study I believe that despite other issues, the main problem that exists for this company is the lack of revenue, which lead them to make a decision on expansion to the relatively unknown. There are several issues that caused this problem. The first and most influential was the fact that a political uprising had occurred in Syria. Consequentially, the borders from Lebanon to Syria were closed. Once the sales numbers fell, a crucial part in the company's supply network, Tanita decided to take its business elsewhere. According to the data, Tanita constituted 60-70 percent of total revenue, which is an absurd amount to have invested in one venture but the withdrawal also created an additional problem.

Not only does the withdrawal directly hurt the company's bottom line, it also created a lower barrier for competition to enter which in turns means more competitors in the market and ultimately the potential loss of Jabwood's competitive edge. One last problem to consider would be the small management board, lacking of outside influences, and their inability to foresee trouble ahead while only relying on one joint venture to pull in the majority of revenue. Therefore the issue is the unwillingness to change managerial structure. I understand that the company wanted to keep the firm in the family, but had they maybe had some other idealistic analyst on staff, this expansion could have been dealt with before it was a necessity. In order to solve this issue of generating revenue I believe there are three alternatives that should be reviewed. 1. The first of these alternatives would be to expand into China. Forecast:

Year 1 Max: 100 thousand CBM\*2% = 2, 000 CBM\*US\$300=\$600, 000

Year 2 sales growth 0% therefore \$600, 000

Year 3 sales growth 100% therefore 4, 000 CBM\*\$300 = \$1, 200, 000

Strengths:

With China's laws it allows a high bargaining power for suppliers, which is a positive for Jabwood. This means that China, one of the largest countries is in dire need of the timber resource. With China, it's also easy to get cheap parts from Canada to compliment the company as well. In terms of the bargaining power of buyers, the grade is low. This means that suppliers, like Jabwood are able to charge a higher price due to the high demand for timber. China is one of the biggest construction markets in the world and thus the demand will be at an all-time high. One other fact is that China is the second largest importer of wood in the world. There was a recent regulation in Shanghai, one of the biggest cities in China, which allows sloppy rooftops to be replaced by sawn wood. Weaknesses:

Since China is in dire need of the timber resource, Jabwood would not be the only supplier in the competition for sales. This could be a potential issue but not one that inevitably swings the pendulum either way. However, the issue of time is one that worries me. It takes 38 business days to start a business in China, and that's time the company can't afford to lose. Along with start date comes a 24 day time period to import, which again is not ideal given the company's current state. Along with time, there exists strict administrative procedures, which ultimately could derail efforts initially.

Although wood is a necessary resource, China has a propensity to use other materials like steel and concrete and may be hesitant to use wood for

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infrastructure. With that being said, there may also be a lack of skilled workers that can handle the wood resource for building. 2. The next alternative would be to expand into the Saudi Arabian marketplace.

Forecast:

Year 1 Max:  $100 \text{ thousand CBM} * 10\% = 10,000 * \$300 = \$3,000,000$

Year 2 sales growth 100% therefore  $20,000 \text{ CBM} * \$300 = \$6,000,000$  Year 3

sales growth 50% therefore  $30,000 \text{ CBM} * \$300 = \$9,000,000$  Strengths:

If the company chooses to expand into the Saudi market, the main benefit will be that wood is a primary material used for furniture making and construction. To go along with the aforementioned statement is the fact that locals lack experience working with steel and concrete so wood importation is extremely valuable. The time factor is a positive as it only takes 5 days to start a business and the time to import is a relatively low 17 days. For suppliers there also exists an exempt import duty which saves the company money. Another positive is that the market is prospering and recent regulations have lowered costs for wholesalers such as Jabwood. Ultimately, the demand for wood is still high because there is no direct wood supply for Saudi Arabia, so sales would increase almost instantly. Weaknesses:

Since the demand for the wood resource is extremely high, the competition in the region will also be relatively high. This in turn leads to intense price competition amongst suppliers and may have to worry about well-stocked lumber yards under cutting the price set by Jabwood. Unfortunately, the bargaining power is low due to the fact that top companies are owned by wealthy SA families as well. 3. The final option would be to expand into both

countries, Saudi Arabia in the short term, then China in the long term.

Strengths:

Expanding into Saudi first allows early entry to start generating revenue and sets up a R&D situation to evaluate how to expand ultimately into China. The company can immediately become intermediary between Western suppliers and Middle Eastern customers. Since they have a loyal customer base, the firm has a unique ability to ship global orders immediately in the thousands of CBM. The firms can use quality as a source of competitive advantage and differentiation. Weaknesses:

High energy cost, high costs of living and expensive workforce can be the drawback of making this decision. There also may be some government resistance initially in both countries but shouldn't be a long term issue. The firm depended on one supplier so they may need to diversify in order to prevent future woes. The business structure may cause issues as the firm is still family owned. The end-users in these countries are not familiar with Jabwood products. No longer has exclusivity to sell Tanita products in China. There may be competition of cheaply imported materials by China. Cultural differences may cause a riff as well, especially pertaining to the Chinese government. Recommendation:

The option I recommend would be number 3. I'm fond of the idea of generating revenue as soon as possible because it solves the problem. Generating 3 million in the first year is a huge uptick and sales and it will increase to the 9 million mark after year three. The ease of starting a new business in Saudi Arabia is another reason why I decided on 3rd option. With

only 5 days to start a new business in the company and only 17 days for importation it's the best option that suits the company in the short term. I feel that the weaknesses of starting the business are far outweighed by starting in SA and then once revenue and customer base is increased, the ability to expand into China will make the transition that much easier. The first step would be to start the business in SA and let it develop for the first three years.

This way revenue and market share will increase with little resistance from government. After the third year and plenty of R&D, Jabwood should then begin plans to expand into China. By this time, the company will have enough generated revenue to expand and do it with little drawback from the Chinese government as sales results and quality will be sales pitch that the firm can showcase. Now if the Chinese expansion fails, the firm could easily rely on the current production that exists in the still growing market of SA. If everything fails in the SA market, the firm can choose to directly attack the Chinese market but because of the lesser revenue generated relative to the SA market, I'd advise on reconstruction of the company, which means possible selling of shares to outsiders. This could be far more costly in the long run, but because of the customer base and high quality of products, more revenue may be generated in the short term to cover the loss of exclusivity from Tanita.