

Janmar coatings case analysis

Business, Marketing



Janmar Coatings, Inc. | To:| Ronald Burns| Subject:| Janmar Coatings, Inc. Suggestions| Comments:| The problem facing Janmar Coatings, Inc. is deciding where and how to execute corporate marketing efforts in the southwestern United States. Janmar Coatings is currently marketing to 50 counties, their main focus area so far has been the 11 counties in the Dallas-Fort Worth area. The main issue Ronald Burns, the president of Janmar Coatings, is having is trying to come up with a solution to market his company in the most cost effective way during 2005.

After 2 long meetings with his executive team he still has no clear direction. He has gathered an approach from each of his team members, including: VP of Advertising, VP of Sales, VP of Operations, and VP of Finance, and now has four solutions to consider. The VP of Advertising has proposed to increase corporate advertising with a large emphasis on television. The VP of Sales proposed hiring a new field representative to help generate new accounts. The VP of Operations has proposed a 20% price cut on all Janmar product sales.

The VP of Finance proposed that nothing be done; that the company continue with their current efforts and keep a 35% contribution margin. After looking at the company's overall goals and finances, I would agree with the VP of Sales. Based on his suggestion, I believe it would be a smart time to hire a new sales representative for Janmar. The cost attributed to company for hiring a new sales representative would be \$60,000 per year. And the amount of sales revenue needed to cover this expense is \$170,000.

However, if this sales representative position is correctly used, they will be able to make this margin back rapidly. Because by concentrating on only

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developing new retail accounts in the non-DFW area, the company could generate lots of sales to a brand new buyer market. Janmar has realized that they need to focus more energy on the ‘ Do-it-yourselfers’ as they say, or DIY population, and the non-DFW area seems to be where most of these consumers are located. It was mentioned that product prices would need to be lowered 40% in order to attract contractors, but that is not an immediate worry.

Janmar needs to focus all their current energies on the DIY consumers and professional painters. Hiring a new sales representative would be the smartest decision right now because they will know every detail of the products and have the ability to market that properly to each of those consumer segments. However, I have also considered the Vice President of Advertising’s suggestion that they should increase advertising expense by \$350, 000. While initially, increasing advertising expenses sounds like a good thing to do, this decision would almost double the current advertising expenditure.

Janmar is spending around 3% of revenue on advertising and sales promotions efforts; which comes out to nearly \$360, 000. And while it may be By increasing advertising expenses by \$350, 000, an additional \$1, 000, 000 in sales will need to be recovered to make up for this expenditure. Mr. Burns makes a valid point by saying that 75% of the audience advertised too is not buying paint. With 25% of your audience only looking to buy paint, it would not be worth the risk of not increasing sales by \$1, 000, 000, to implement the extra advertising expense.

Also, I considered the Vice President of Operations proposal for a 20% price cut on all Janmar Coatings, Inc products. Price cuts are always something that needs to be entered into with extreme caution. Even the slightest 1-2% drop in price can lead to a huge drop in margin. In Janmar's situation, if they choose to implement a 20% price cut, they decrease their overall sales dollars by \$2.4 mm. And their variable cost will not be effected by this price cut to their cost of goods sold will be held constant.

In the end reducing their gross profit by 50%, which is extremely high. By implementing this price cut too, they would be lowering their contribution margin by almost 60%. While initially, a price cut may seem very appealing to the consumers, the overall toll it will take on the contribution margin and sales dollars generated by Janmar, it would not be a smart decision to move forward in making that a reality. Now, the Vice President of Finance suggested pursuing the current approach. His idea is that Janmar Coatings has always, and will continue, to be successful.

The contribution is high, just because an increase in costs doesn't mean there will be an increase in sales, so why do anything different? Although the VP of Finance has valid points, there is obviously something that needs to be done, or else 22 meetings would not have been necessary. Yes there is a great contribution now, but if things stayed the same, other companies may become more popular and generate more sales than we do and push us out. Based on information from 2004, Janmar currently has a 15% market share in the 50-county service area. If Janmar just stays where they are, they could lose market share as well. It is true that with any expenditure, sales have to increase to compensate for those expenditures, but a company cannot

merely stay “neutral” when something absolutely has to be done. There is a way to introduce a plan that will generate sales to compensate for the expenditure. In this case, simply adding a new sales representative seems to be the best, lowest risk, most probable solution in this case. Lastly, to do a more in depth review the Vice President of Sales suggestion to bring on a new field representative to the sales force.

The focus for this new representative would be to focus on developing retail account leads and calling on professional painters to gain new business through dealers. In the overall non-Dallas Fort Worth area, the penetration of Janmar is only 16%, so this representative would only concentrate in this area. Over the last 5 years, Janmar has focused most all of the actions toward the DFW area, while the non-DFW area has started to grow. The non-DFW area sales have grown 23% over those 5 years. DIY customers represent a higher percentage of sales than professionals in both areas.

However, DIY customers represent 90% of sales in non-DFW areas. Because our contribution margin is 35%, with the addition of a new representative costing \$60,000, about \$171,429 additional in sales would be needed to recover the expense. With the addition of a sales representative, though, this sales rep could be focused on the non-DFW area and create account leads with more professional painters. The company would need a price cut of about 40% to attract contractors, but if the company could also just create awareness among more professionals in the non-DFW area, more sales could be generated there.

Let's not focus on contractors right now, and get the professional sales in the non-DFW area up, and create more accounts with them. Sales in the DFW

area and non-DFW area in the last 5 years: Increase Advertising Spending (emphasis on television): Current advertising spending| 3% of sales= $03 \times 12\text{mm} = \$360,000$ | Sales needed to recover advertising expenditure| $\$350,000 / .35(\text{CM}) = \$1,000,000$ | 20% Price Cut on all Janmar products: Current: Sales Gross Profit CM| Sales: \$12mmGross Profit: \$4. mmCM: 40%| Sales, Gross Profit, and CM changes after 20% price cut| Sales: \$9.6mm (\$2.4mm change)Gross Profit: \$2.4 mm (\$2.4mm/50% change)CM: 25% (60% decrease)| | | Adding another Sales Representative to the work force: Current Sales Reps| 8 field reps that cost about \$480,000 +commission (assuming they receive the \$60,000 salary the new rep would receive)| Sales needed to recover new rep expenditure| $\$60,000 / .35(\text{CM}) = \$171,428.57$ | Janmar Market Share of architectural paint and allied products| 15%
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