Business strategy analysis of fantastic holdings marketing essay

\n[toc title="Table of Contents"]\n

\n \t

\n[/toc]\n \n

Fantastic Holdings Limited (FHL) is a genuine national furniture manufacturer, importer and retailer of " quality value for money" furniture at the price sensitive or " lower end" of the market. Combined with its manufacturing and distribution capabilities, FHL is Australia's largest vertically integrated furniture company. Fantastic Holdings had 122 retail stores within the Group at 30 June 2010. During the year, 13 new stores were opened and the Port Macquarie Plush franchise was closed. Fantastic Furniture had 69 stores, Plush 28 stores, Original Mattress Factory 14 stores, Dare Gallery 9 stores and LeCornu 2 stores.

1 Industry Analysis

The last five years, affected by global crisis, volatile housing market, real household disposable income, interest rates, changes in consumer tastes for the furniture, as a result, brought 0. 2% fall per annum in sales within the furniture industry. As the furniture retailing industry is well into the mature phase of the life cycle, furniture retailers have remained able to spring back quickly by offering consumers the latest trends in furniture fashion via catalogues and clever store presentation.

1. 1 Rivalry among Existing Firms (Considered as MEDIUM)

In 2009-10, this industry generated revenue of $3. 59 billion. In current prices, the trend estimate for Household goods retailing rose 0. 1% in August 2010. The seasonally adjusted estimate rose 0. 5%. By industry subgroup, the trend estimate rose for Furniture, floor coverings, housewares and textile goods retailing (0. 4%).[1]The growth rate thus far has been encouraging but only because it reflects several favourable factors including a strong housing market, migration, employment and consumer focus on the home. All these factors are unlikely to remain strong. Hence, if firms grow more rapidly than the industry itself in the future, competition for market share will most likely spark off intense price wars, innovation and branding efforts.

The furniture market in Australia is highly fragmented with a large number of independent operators. The industry has a low level of concentration with the top four players estimated to account for less than 40% of the available market share in 2009-10. Major competitors include Harvey Norman, Freedom Furniture, Super A-Mart, Forty Winks, IKEA, Fantastic Furniture and Domayne. Operators compete on the basis of price, product range and quality, promotions, customer service and store location.

Levels of product differentiation vary within the industry. A number of industry players specialize in retailing one type of merchandise. Kresta Holdings for example only retails window treatments whilst Capt’n Snooze retails bedding. On the other hand, players such as Harvey Norman and Freedom choose to stock a wide range of furniture.

1. 2 Threat of New Entrants (Considered as MEDIUM)

While operations in this industry are considered to be largely labour intensive, prospective entrants still require substantial capital to penetrate the market. Initial capital required includes a franchise fee and/or the cost of establishing a new store. Another major deterrent is finding suitably sized premises that are well located and can cater to customer parking needs.

The pre-existence of distribution networks between operators and suppliers may in some cases be viewed as a barrier to entry. Existing players operate with better lines of credit in comparison to players just entering the industry. On top of that, established competitors possess economies of scale, successful brands and an extensive chain of stores. An entrant has to be large enough to fend off any competition in its territory. Small entrants with little working capital face the risk of larger competitors marketing around it, undercutting prices and eventually starving it of any profit avenues.

Although operators must ensure that relevant council licenses are obtained. In most cases this is a simple process and not an issue to be concerned about.

1. 3 Threat of Substitute Products (Considered as LOW)

There are no close substitutes for furniture as a product. However, there are methods of furniture retailing that could substitute the conventional way that furniture is bought. Department Stores are viewed as substitutes for buying products from pure furniture retailers. On top of that, a handful of online retailers and furniture importers equipped only with catalogues have emerged in an attempt to provide a different shopping experience to consumers. Nevertheless furniture in broad-spectrum is not cheap, and majority of consumers are more inclined to buy something they can physically see and touch, hence these substitute methods of furniture retailing do not pose a substantial threat.

1. 4 Relative Bargaining Power of Input and Output Markets

1. 4. 1 Bargaining Power of Buyers (Considered as MEDIUM)

Buyers in the furniture retail industry refer to the general public which includes property investors, people renting, people furnishing second homes/holiday homes, students, etc. Switching costs are low relative to the price of the product. However, because furniture is a long term investment, buyers are generally prepared to pay a premium if the product is differentiated in terms of improved design or quality. Then again, because of its durable nature, price elasticity of demand is high. One form of bargaining power consumers have is to delay purchase of furniture if prices are high, consequently depriving the industry of a high turnover rate.

1. 4. 2 Bargaining Power of Suppliers (Considered as LOW)

As the industry players are bulk buyers of either raw material or imported finished goods, the bargaining power of suppliers are generally quite low. Some major inputs such as wood, glass and metal are homogenous and the process of switching suppliers is uncomplicated. Also, to a certain extent, furniture manufacturers have control over its raw material usage. For example, if steel suppliers were to increase prices substantially, the industry would simply respond by producing more wooden furniture designs instead.

2. Competitive Strategy Analysis

A business that attempts to achieve both sustainable cost leadership and differentiation advantage runs the risk of achieving neither. However, Fantastic Holdings is one of the few operators, who have, to some degree, have managed this feat. Through its in-house manufacturing, the company is able to control costs associated with its product line more efficiently, thus maintaining an overall cost leadership position. The production facilities operate on a Just-in-Time basis and do not hold large quantities of raw materials or finished goods stock. Savings from economies of scale, lower input costs and efficient production is trickled down to benefit customers via lower prices.

At the same time, Fantastic Holdings has successfully differentiated itself by keeping its 69 Fantastic-branded stores at the budget end of the market when other retailers chased consumers into higher price brackets. To ensure that Fantastic Furniture's image and branding efforts as a budget retailer would not be diluted by the introduction of more expensive leather products into its product range, management set up a separate business entity, Plush to concentrate on the more up-market consumer segment.

3. Corporate Strategy Analysis

Fantastic Holdings has been quite bullish about growth. The opening of Fantastic Furniture's Tasmanian stores in Hobart signalled that the company is getting ready for foreign expansion to the New Zealand market. A substantial amount of resources have been spent on perfecting logistics for sea freight across the Tasman and the opening of the Tasmanian outlets doubled up as a useful testing ground. Hence, we can expect to see Fantastic Holdings aggressively expanding into New Zealand should operations in Tasmania run smoothly.

Additionally, Fantastic's management is planning to add a new store every eight weeks as it attempts to double its 69-store stronghold especially in NSW and Victoria. In past three years, many analysts believed this to be a good move as demand for furniture was high as a result of with the Australian property boom. It is believed that advantage that Fantastic Holdings has over its competitors is a well-structured business model that will be just as successful even in periods of low economic growth. Fantastic Holdings operates at the price conscious end of the furniture market which allows its products to remain competitive in times of economic uncertainty.

4. Particular Risk Factors

4. 1 Exchange rate.

The Australian dollar has been appreciating over the past 2 years and Fantastic Furniture imports a substantial amount of merchandise from China. Earnings growth rate forecasts based on these figures might be distorted as the exchange rate is unlikely to remain favourable forever. In the absence of hedging policies, should the Australian Dollar depreciate, inventory purchased will be more expensive than expected. This decreases profit margins and subsequently net profit even though the company meets its sales target.

4. 2 Property Market

At the end of 2009, there was speculation about a potential “ second peak” slowing down or even “ crash” of the Australian property market. Despite operating at the lower end of the market, FHL’s sales growth may be vulnerable to such a downturn.