# City furniture and mattress case analysis

City Furniture and Mattress has had a great deal of success for several years up until recently. However, due to several external and internal challenges, Rajeev Singh, the majority owner of the company needed to take a step back and look at the factors threatening the business in order to secure the company's future and fortune. For instance, externally, the company's sales were continually growing, however Singh needed to consider CFM's profitability due to the local competition and big-box stores. There were some possible ways that CFM could choose to address these challenges such through expanding global outsourcing, capital investment, and store network expansion, or vertical integration. The past attempt at vertical integration and the manufacturing of domestic product did not have the success that Singh had hoped for in part because Singh had hoped that his father would be able to leverage his relationship in acquiring the necessary equipment and raw materials to get the business up and running. However, Singh did not foresee the personal obstacle that would ultimately remove his father out of the manufacturing operations equation. This factor, coupled with the recent legal battle with the building owner over rent increase at the Pickering location further exacerbated the challenges facing Singh and CFM. Thus, Singh began to evaluate the possibility of closing some stores to solve the short-term problems and even considered leaving the furniture business altogether.

Internally, the company also faced some major hurdles. For instance, Singh and his father Baskar Singh had ventured into the import wholesale furniture market. However, Singh lacked the experience in large-quantity product selection, internal product management, and business-to-business sale, and as a result had some difficulties. This, in addition to some poor decision making left the company in jeopardy. For instance, Singh had ordered ninety dining rooms sets from a Chinese manufacturer. When the product was received it was not what Singh felt was presented when the products were purchased. What was actually received required additional space and labor; however, the shipment was accepted anyway. This left CFM with excessive inventory that was not very marketable due to its size and it forced Singh to take alternate actions, including opening a new location for an entirely new venue.

At this point, Singh had to address the very necessary problem of profitability and the competition the company faced from local competitor and big box chains. Singh needed to make several decisions that could make or break the business they have been building over the years. This included closing the manufacturing facility and returning back as just a furniture retailer, closing locations such as Pickering, staying in the wholesale business entirely, and even leaving the furniture business entirely. In order to make this decision, Singh would have to take a closer look at the critical and glaring issues facing the company.

CFM’s Pickering location was not currently profitable. The sale was low and directly affecting the company’s overall profitability. The company also recently faced a rent increase at this location which made the potential for making a profit even less likely. Competition was increasing CMF’s pressure in the marketplace. This factor was making it even more difficult for CFM to find long-term financial stability and success. There was significant margin erosion due to Toronto’s decline in the furniture industry pricing, which was due directly to declining prices. The company had to address the issue associate with the manufacturing facility as well. The quality control issues were a huge obstacle in the manufacturing facility. In addition, the company had failed to be able to manufacture quality replica designs for the complicated models, creating a financial strain on the company and creating a negative effect on the retail side.

Yet, CFM was not only facing an issue with its locations and products, the company had to also assess its employees. The company had run into complications finding and hiring full time skilled labor. This was a problem in the warehouse and showrooms alike. The lack of quality employees also played a role in the company’s inability to produce product in a timely manner. The product essentially was delayed in hitting the retail stores, which was costing the sales side revenue as well. CFM was being forced to purchase product from other manufacturers to have the necessary product in its retail stores, however this was costing a significantly greater amount of money, reducing the profit margin even more.

Singh had to consider alternate routes for the company to remain in business. He had to consider opening new stores for economies of sales. This could reduce the overall production cost by increasing the revenue coming in. The better the placement of stores, the more traffic would enter, and the more potential opportunity for sales. Additionally, the company could purchase the product via indirect globally sourced product which would save costs as well. This would elevate some of the stress on the manufacturing that was currently being utilized. This would also provide the necessary product for the retail stores without sacrificing the profitability margins as CFM was doing previously.

Moreover, since Singh was inexperienced in many faucet of this business, he would need to do his due diligence to ensure he would not fall victim to potential issues that could ultimately eliminate CFM. For instance, Singh had previously run into issues with the locations. It would important for Singh to find the right location to market the products. Location alone would play a big role in the amount of revenue he would be able to obtain. Singh would also have to consider the size of the locations. The new site would require a significant amount of new inventory, which would be an increased cost to the company. The concern prior was the ability to find quality employees. The new, bigger location would also require additional staffing. Therefore, if Singh had no luck previously in the area, it would need to be addressed prior to taking on this much larger facility.

CFM also had the option to not exit the furniture market, but simply change directions. This would mean closing the retail stores and focusing on the manufacturing side of the business. The company has had success with manufacturing and wholesale. This would allow Singh and his father the opportunity to use his past experiences and relationships to obtain the needed raw materials and equipment. The margin gains would be significantly higher, proving a better overall profitability. Of course, Singh would still have the staffing obstacle as he had previously at the manufacturing facility, which would need to considered. For instance, if there were constant delays and quality issues prior, Singh would need to consider that this would be the same issue if he were to change direction in the business. This needs to be evaluated prior to making a change in order to have the potential for a significant profitability increase.

Singh’s original decision to pursue vertical integration was the best option for the business. Indeed, the biggest obstacle he would need to face would be that he is inexperienced in many of the areas. However, in order to fully utilize the potential benefits from using vertical integration, Singh would that need to have a better operating knowledge of the areas he would be tackling. For instance, purchasing the container from a Chinese manufacturing company could have been a great profit potential if Singh had more experience in this area. Instead, Singh simply saw the product at a market and liked the appearance but failed to notice the table did not have a leaf it and that the size displayed was the size the consumers would get, which was too large for most homes. As a result, CFM had ninety tables that needed to mark down in order to get rid of. Experience in this situation would have prevented this type of mishap from ever occurring. Another option would be to hire C-level manager perhaps a COO with manufacturing operations experience as Singh had hoped his father would provide to spearhead the vertical integration strategy.

Ultimately, CFM does have the potential to reap a significant profit through vertical integration. However, the company would need to cut the areas that are costing the most money in order for that to happen. The retail stores would need to be evaluated and the unprofitable locations would need to be closed. Finding a better market and location would be essential in the success of the retail stores. Next, the company would need to address the manufacturing facility. The continual delays, lack of quality employees and quality control issues could be fixed if the right type of management with proven track record of success in this area. In this way the manufacturing area would have the potential for a profit. Lastly, the company would need to find qualified buyers. Singh could still participate in this process, but having someone with experience would certainly prevent problem purchases from occurring.

Of course, CFM would need to face increasing competition regardless of what area of the business ventures into. The good news is that CFM has already made a name in the market, and the company would need to continue on in the avenue it has been traveling. Making the necessary previsions would ensure that CFM has the profitability and growth that Singh had hoped for. In light of the potential lawsuit, Singh would need to ensure that no future legal ramifications surface as well. Vertical integration and reevaluating the entry into the furniture market would certainly provide the opportunity for CFM to have success in this business.