

**THE RATIONALE AND BUSINESS PLAN FOR A
CANADIAN DESIGNER'S GUILD IN THE HOME
FURNISHINGS INDUSTRY**

by

Heidi Van Roon

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Approval

Name: Heidi Van Roon

Degree: Master of Business Administration

Title of Project: The Rationale and Business Plan for a Canadian Designer's Guild in the Home Furnishings Industry

Supervisory Committee:

Chair: Dr. Mark Selman
Associate Professor
Senior Supervisor
Faculty of Business Administration
Simon Fraser University

Dr. Carolyne Smart
Associate Professor
Second Reader
Faculty of Business Administration
Simon Fraser University

Date Approved:

August 10th, 2004

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ABSTRACT

Designers in the Canadian home furnishings industry face fierce competition from foreign manufacturers. The designers who are the focus of this study are by and large small business owners who have turned their skill for design and manufacture into a profitable business. While these designers create differentiated products of high quality and adequate cost, they compete directly with foreign cost-based manufacturers who generally market products of adequate quality at low cost.

This project examines the current state of the Canadian home furnishings industry overall and the nature of the individual firms participating in this market. With a continuous focus on the Canadian designers, this project explores the option of improving the strategic positioning of the firms typically operated by the designers.

With this in mind, the project arrives at a recommendation in the form of a business model that will serve a consortium of Canadian designers. This new venture will brand the individual and will provide professional agency services for the administration, sales, and marketing of high quality Canadian designs. Since these products by definition fall into the category for Canadian cultural activities it is possible to simultaneously consider branding Canada.

DEDICATION

The love of God is greater far
Than tongue or pen can ever tell;
It goes beyond the highest star,
And reaches to the lowest hell;
The guilty pair, bowed down with care,
God gave His Son to win;
His erring child he reconciled,
And pardoned from his sin.

Oh love of God how rich and pure! How measureless and strong!
It shall forever more endure – the saints', and angels' song.

Could we with ink the ocean fill,
And were the skies of parchment made;
Were ev'ry stalk on earth a quill,
And ev'ry man a scribe by trade;
To write the love of God above,
Would drain the ocean dry;
Nor could the scroll contain the whole,
Tho' stretched from sky to sky

Oh, love of God how rich and pure! How measureless and strong!
It shall forever more endure – the saints' and angels' song.

F.M. Lehman 1945
Public Domain

This paper is also dedicated to my amazing husband, Terry Van Roon for his constant support and encouragement. I have come to appreciate his tenacity to pursue the unconventional road and to find the hidden jewels in ordinary things. In doing so he has allowed me the pleasure to see beauty and art that might otherwise have passed me by. He has been a constant reminder for me to pursue all my dreams. For this commitment I am most grateful; what a wonderful partner he is.

I also want to include our children, Deanna and Karl because they truly make me rich. There are few joys more rewarding than to be observing them and the choices they are making as young adults. How fortunate I am to have them and how sweet the sound of their cheering!

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I want to thank the EMBA selection committee for allowing me this amazing opportunity of earning my degree. I want to thank my project supervisors for their professional input during this last stretch. With that I want to thank my cohort, all of whom I appreciate for the contributions they have made on this journey; "WEMBA 2002" will live on. I especially want to acknowledge my study group: Anthony Capuccinello, David Harris, and Darwin Statnyk. They have challenged me, and they knew when to push me and when to pull me along. These past two years are marked with great learning, great fun and great friends. Thanks to MJ Tessarolo, Jennifer Pickrell, Laura Davis, Tony Louie, Joanne Philley, John Kay, Cheryl Eckert and Leland Jay who made up the rest of the 'pub group'. What great fun we had slugging through this mess.

With colleagues like this I'm laughing!

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1 INTRODUCTION

1.1 Background for this Project

After spending six years as a designer in the Canadian home furnishings industry, Heidi Van Roon decided to take a hiatus from her cottage industry and embark on an Executive Master of Business Administration (EMBA) program. The primary driver for this decision was a desire to gain more understanding and education for the increasing growth challenges of her niche business. Though investors were ready to offer equity financing, the responsibility of such a generous gesture compelled her to seek a professional degree that would better inform the business decisions she would be facing.

As an entrepreneur she encountered numerous Canadian designers who not only shared the satisfaction of profiting from their own designs, but who also recognized as she did, the many challenges inherent in a fragmented industry. The most significant of these is that many comparable businesses are duplicating costs and efforts that dig deep into profit margins. When the cost and labour inefficiencies of small firms are compounded across the industry it becomes increasingly evident how these costs negatively affect the profitability of firms overall.

Another challenge for these designers is one of name branding. The ability to brand artistic talent is not just a function of good design and a marketable product, but also of professional representation and promotion of the artist or designer. A fragmented industry that has many designers operating under obscure business names as owner operators can therefore undermine the value of the product as well as the success in the industry of Canadian design.

As much as the EMBA was first thought to contribute value to a personal business agenda, it has become increasingly evident that value could be added to similar businesses across the industry that obviously face the same issues. It then

followed a simple logical progression to broaden the scope. For this reason the focus shifted from an attempt to improve one firm to the possibility of improving a sector of the industry.

Through networking with numerous designers it is evident that there is consensus around some of the issues that designers face as business builders. Designers share some underlying values that have shaped career decisions, such as the commitment to give creative expression to personal talents. For many designers the need to operate as a business entity is therefore the means with which to facilitate these quality of life choices. Some designers might go so far as to say that it is the necessary evil to accommodate the desirable.

The designers who are the focus of this study have first and foremost high design skills. For this reason the struggles in business can be perceived to be more onerous, since the natural intuition to solve business problems can be inferior to the natural intuition to solve design problems.

1.2 Parameters of Analysis

The purpose of this analysis is to understand the factors that shape competitive strategy and to test the viability of a business model that would support the business needs of artisans.

To arrive at a relevant recommendation it is necessary to consider the inherent nature of the small firm and the dominant forces that shape the industry environment. The intent of this analysis is to determine the validity of the proposed business model and to test this recommendation against the needs of designers and against the nature of the industry.

With this in mind the contextual framework shaping the analysis is:

- An illustration of a typical firm participating in this industry.
- A comparison of the two basic product strategies that are deployed by the competing firms in the industry.

- An examination of the industry and the predominant competitive forces that shape the market environment.
- An assessment of value creation contrasting the differences and advantages of domestic manufacturers against competing foreign importers.
- A study of issues inherent to firms owned by Canadian designers.
- A recommendation in the form of a business model that considers the factors discussed, including a sample of financial statements.

1.3 Objective of the Author

At a time in history when production capabilities and technology are standardizing products at unprecedented rates it is perhaps ironic that thousands of publications such as books, magazines, newspaper columns, as well as television programs are dedicated to personal and home style. Is this trend part of this grand movement or is it attempting to go against the flow? The answer is not entirely clear, but this project awards the benefit of the doubt to the latter. Certainly the concept to standardize the taste and persona of the individual would not be popular.

Home décor plays an integral part for the need, or desire to express personal style. Homeowners and decorators take pride in pieces that are meaningful and that become a conversation piece. The primary objective of the author therefore, is to elaborate on those aspects that nurture the need for authenticity in home style. The objective is to better promote objects that are cherished and which speak about the creativity of the designer and the individuality of the owner. The focus of this writing is to improve the marketing of this 'jewellery' for the home and to strengthen the brand of the artist who created it.

The underlying motivation for this focus is based on a strong conviction that Canadian products can be better positioned to compete more aggressively in national and international markets.

The popular business models with which these designers currently engage in this forum are limiting. A thorough analysis of the industry and its shortfalls may expose efficiencies and competitive strategies that might greatly improve the status of Canadian designs worldwide. Without question, Canada holds talent and marketing capabilities to engage in this market with more success. The key is in exploring the options and in setting a strategic course of action to leverage skills and competitive advantages on a macro level. The cultural contributions of these designers may very well be undervalued and insufficiently supported by the current infrastructure and market mechanisms.

1.4 Vision and Mission Statement

The author's vision is:

"To found a nationally and internationally recognized brand that will set the standard for the promotion of beautiful home furnishing products that are designed by Canada's most talented artisans."

The author's mission is:

"To found a dynamic marketing organization that seeks to encourage, promote, and market the best of Canadian culture in a professional manner and that will support the competitive positioning of successful designers in domestic and international markets by providing branding, sales, marketing, and administrative services to a substantive group of talent."

2 ANALYSIS OF THE TYPICAL FIRM

2.1 An Example of a Typical Firm in this Industry

To better understand the industry dynamics it is important to define the nature of the typical Canadian firm operated by designers. The author's company is a typical example of such a firm. Though the products across the firms are highly diverse, the business model as well as the generic strategy and the value chain, are generally identical. In this sample the company designs, manufactures, and markets specialty lighting. A brief understanding of the company and its history will help explain the nature of the many firms that comprise the industry for fine furnishings designers.

2.1.1 A Brief Company History and Overview

The company *heidi van roon* was founded in the spring of 1997 more so out of a need to recognize a business that had evolved, rather than a strategic plan to start a venture. The founder had enjoyed a career background in office management and administration. Ready for a challenge and with an opportunity to switch careers she shifted her focus towards her creative tendencies. Specifically, she had an affinity for home style and design. An area of intrigue and something she had not yet experimented with was the concept of unique lighting.

After a twenty dollar investment in a 'how to' video she went out to purchase the necessary supplies and to provide all the lamps in her home a much needed face lift. Within three months she had enough custom orders through word of mouth promotion that it came time to acknowledge a going concern. Recognizing a potential market niche she shifted her focus from the custom retail to the wholesale market and set out with a few samples, the SuperPages, and a map. Within one year she had sold her lamps to

forty specialty stores in the Greater Vancouver Area and participated in the Vancouver Gift Show¹ held twice annually at BC Place Stadium.

Through subsequent trade shows in Toronto and San Francisco she acquired sales representatives and agents who then promoted the product on her behalf. Their success secured some of the most prestigious US accounts. As the services of agents and sales representatives improved, she withdrew from trade show participation and relied solely on the sales generated through agents as well as through her personal efforts.

For the first four years she doubled sales revenue annually and achieved a sales volume equivalent to the top 3% of designers in this craft. Despite significant growth she has maintained a cottage industry model and trained additional production workers to provide contract labour and off site manufacturing services.

Though she entered the industry with a differentiated product and was able to capitalize on the unique style for some years, the style as well as those of other unique lampshade designers is now mass produced by foreign cost based firms. The product has followed a path that is so typical for this industry. A product is only differentiated until it is copied by mass producers. When this takes place cost-based product strategies displace the value of differentiated products.

In many ways this lighting company fits the profile of the typical designer's firm in the industry as it pertains to Canadian designers and artisans. It is owner operated; home based, has less than four employees, and most importantly, has turned a personal interest for design into a going concern.

It is for the purpose of promoting these types of designers and their products that this project is authored.

2.2 The Generic Strategy

In an attempt to work towards a set of suitable recommendations it is valuable to examine the parameters within which a typical firm operates. The inherent nature of the

¹ A wholesale trade show in the gift industry.

product and the disposition of the designer are the two most crucial variables that determine the firm's strategy.

Broadly defined, a firm's generic strategy can be identified by the type of product being produced and by the pricing decision. Firms manufacturing homogeneous products at low cost and adequate quality organize their generic strategy in markedly different ways than firms producing differentiated products at high quality and adequate cost (E. Bukszar, class lecture, EMBA 607, SFU, January 9, 2006).

In the Canadian home furnishings industry these two markedly different strategies can be fairly accurately attributed to imported products and domestic products. Off-shore manufacturing has a reputation for low cost and adequate quality; these furnishings are mass produced in factories and imported through cost-based strategies. Alternatively, domestic designers compete against this strategy with differentiated products that have a reputation for higher quality and adequate cost. The quantities these designers produce nowhere near reach the volume of imported products.

Canadian designers therefore target a market niche; the terms of engagement with the market are noticeably different in comparison to importers. To that end the generic strategy for these designs can be defined by the following factors as shown in Table 1 (each is weighted to illustrate the degree of fit):

Strategic Fit Analysis										
	Cost Based					Differentiation				
	Low Cost / Adequate Quality					High Quality / Adequate Cost				
	1	2	3	4	5	6	7	8	9	10
Product Strategy	Rapid Follower					Innovation				
							X			
R&D Expenses	Low					High				
	X									
Structure	Centralized					Decentralized				
	X									
Decision Making	Less Autonomy					More Autonomy				
										X
Manufacturing	Economies of scale					Economies of Scope / Flexible				
							X			
Labour	Mass Production					Skilled / Flexible				
							X			
Marketing	Comparative Push					High Cost /Pioneering/Pull				
								X		
Risk Profile	Low					High				
								X		
Capital Structure	Leveraged					Conservative				
										X

Table 1: Strategic Fit Analysis

2.2.1 Product Strategy

The product strategy of new designs is always highly innovative. Typically the products are a spin off from highly commoditized items around the home. Often these are functional items and other times, they are strictly decorative. A designer typically applies a unique interpretation to these items and thereby adds artistic merit and value.

Referencing the sample lighting company, for example, the product strategy can be identified as innovative in terms of lampshade design. That is to say, that though there is a strong existing market for lamps, these products have nevertheless become highly standardized. They are predominantly provided by domestic and off-shore mass producers and sold through typical channels such as lighting stores and furniture chains. The market niche that exposed itself was specifically lampshade design; at the time the company was founded this focus was a niche market. The price of the lamp was typically

correlated to the uniqueness and design of the lamp as opposed to the shade. In other words, the more unique the lamp base, the higher the price. Heidi differentiated her product by placing the primary value in the design and uniqueness of the shade. Her lampshades incorporated suitable fabrics found in home décor to introduce colors, patterns, and textures that in the end secured the buying decision.

To market a lamp that held its value in the lampshade was a unique approach at the time; the design was innovative enough to penetrate into a well established home furnishings industry. The product was also differentiated on quality defined by luxury fabrics (silks, jacquards, brocades, burned velvets) and trendy glass beaded fringes. The look that was achieved was overall quite opulent and gave each lamp a 'one of a kind' appearance which suited the target market of 'lifestyle retailers'. These retailers typically market niche products and are the primary target market for Canadian designers.

2.2.2 Research and Development Expenses

Research and development (R&D) expenses can be categorized as being minimal; the costs for new designs are incurred only by the sourcing of suitable input materials that emphasize trends in colors, styles, and textures of the home furnishings industry. Subscriptions to industry publications are relevant in so far as they are targeted to the trade. Seasonal trends are pre-determined on a strategic level and then communicated through these publications; it is the beat to which the buyers in this industry by and large march by. The furnishings industry is somewhat driven by need, though more propelled by the momentum gained through the trends of all the accessories. The primary R&D expenses for designers are therefore directly related to the sourcing of these trends and the application of these trends into the next season's sample mix.

For most products the creative component and the simple manufacturing of the product allow for low cost R&D expenses. The bulk of the cost for R&D is in accounted hours invested by owner / operators.

2.2.3 Structure / Decision Making

Most Canadian designers operate as a sole proprietorships or owner operators. The company structure is therefore clearly centralized. For all intents and purposes this does fit with the differentiation strategy primarily supported by the fact these products are targeted at a niche market and these firms are small. The competitive advantage in a specialized industry is sustained by the ability to adjust and respond quickly to market demand. Investment in large inventories, high fixed costs, and high sunk costs would prove prohibitive, not just as an entry barrier, but also in the ability to respond to market trends.

The key operations are performed by a small group of employees who have little to no autonomy and who are under the direction of the designer. These business owners contract casual labor for support services and independent manufacturers for production. They have little need to involve others in the decision making processes. Advice is readily available from mentors, suppliers, and customers. However, at the end of the day there is no need to be collaborative; decisions are made autonomously because all decision outcomes are the sole responsibility of the owner.

2.2.4 Manufacturing

Flexibility in manufacturing pertains to the ability to adjust quickly to the size of orders placed as well as to the inputs and supplies required. The former criterion is accommodated by having enough trained staff available to fulfill orders of various quantities within the industry standard time frame of six to eight weeks (in most cases shipments leave within three to five weeks).

The later criterion is supported by the flexibility with which inputs can be switched. Since each order is custom manufactured and pre-sold, it is possible to provide economies of scope defined by a varied supply mix at no additional cost. Each piece is handcrafted by the designer or a trained work force and is not dependent on large machinery and/or large input requirements. For designers, this option translates into a rich diversity in design. The flexibility and simplicity of the manufacturing process allows for quicker than expected response times contributing positively to customer

satisfaction and loyalty. All material inputs for the manufacturing are ordered on a 'per need' basis. In other words, only the actual supplies required are ordered eliminating the need for warehousing. Inventory obsolescence is therefore almost non-existent.

Furthermore, flexibility in the manufacturing of samples all but eliminates sunk costs. Minimal amounts of material are required to produce samples for order taking. If a particular sample does not translate into significant orders, then only that one sample is considered a loss in cost if it cannot be sold.

2.2.5 Labour

The labour strategy is quite uncomplicated and is supported by easily trained staff with flexible availability. Most employees in this industry are hired on a contract basis to allow for the seasonality of production and the uncertainty of demand. Aside from the designer, the skill sets required are support staff, production staff, shipping services and sales representatives.

2.2.5.1 Labour Strategy for Support Staff

General office procedures as well as accounting responsibilities are performed by part time employees. They are typically hired on an hourly basis.

2.2.5.2 Labour Strategy for Production

The skills required for duplicating a design are often easily taught and only require basic tools. This employment opportunity attracts individuals who require a flexible work schedule, who want to work out of their home, and who don't want to clock their hours of work. Workers come to a central location to pick up all the materials required and generally have a set production time during which to complete the orders before delivering them back to the central location where the product is packaged and shipped. These workers are paid on a per piece basis.

2.2.5.3 Labour Strategy for Sales

A designer is oftentimes directly involved with both wholesale and retail sales activities. Wholesale activities are further supported by sales representatives who are selected based on recommendations from within the industry. These sales representatives have an established customer base and perform sales support for several manufacturers and importers that supply complimentary products.

2.2.6 Marketing

Designers often start the marketing strategy in their warm circle (i.e. friends, acquaintances, word of mouth, and stores in close proximity). Designers will sometimes use the responses from personal sales and from word of mouth advertising as an indicator of more far reaching potential. This is likely associated with the notion that designers are sensitive about the acceptance of their product, because the design is a personal expression of their creativity. It is therefore unfortunate that so much personal and product confidence rests on the initial response from friends. Conversely, when there is a good initial response, designers are more readily motivated to extend the promotional activities beyond the warm circle.

In the case of Heidi van Roon, the marketing activity in the beginning days was very much a pioneering approach. In the absence of any marketing experience the agenda was a personal selling strategy solely performed by the owner (designer). As time progressed and the backyard sales were exhausted² the marketing strategy took on some more sophistication. Product had to be photographed and promotional material printed. Also, a website was developed that allowed for seasonal updates at a relatively lower cost than producing printed material.

Trade show participation requires professional company literature, a display booth, and a large selection of samples. Also, it requires a financial outlay to pay for booth rental, travel, and accommodation. The marketing expenses are discussed in greater detail in Chapter 6. At this point it is important to note that marketing strategies

² Niche products can only be marketed to a limited number of stores in a geographic area. For example, the specialty stores in the Greater Vancouver area know of each other and the proprietors are particular about exclusivity. The niche market in Vancouver is small and is easily saturated within a short time.

beyond the warm circle are costly and time consuming. For designers that expect to promote their products beyond this immediate reach the right marketing strategy becomes of paramount importance.

The marketing reach is extended through the participation in trade shows and through the sales services of agents and sales representatives. The services of agents and sales representatives have advantages and disadvantages. While much benefit is gained by the extended exposure, the marketing strategy suffers through attrition. The less committed the principal-agent relationship is, the more susceptible to disruption. Again and again, the most effective sales representatives leave because they are recruited to more stable positions for other, often larger companies. This turnover in sales staff is detrimental and incurs additional costs as replacements have to be sourced and trained.

2.2.7 Risk Profile

The focus in this section centers on the factors that may jeopardize the firm of the designer. Risk is not as much tied to fixed assets, such as investment in high overhead, as it is to personal skill and market conditions. Risk to the sustainability of the firm is high because the designer is dependant upon three key requirements to sustain business operations. If one aspect begins to fail, then the business is jeopardized.

The three key requirements for a designer to remain in business are:

- The ability to innovate consistently.
- The market receptivity to new innovation
- The business savvy to compete in an intense market environment

The ability to innovate consistently is likely the least burdensome requirement for designers. It is possibly the core reason why the designer entered the industry in the first place. The need to innovate consistently is perpetuated by the short product life cycles in this industry. A general time frame for marketing a product is considered to be between six to twenty-four months. In most cases however, products only sell for a period of six to twelve months.

The additional two factors, while equally important, can be seen as the larger obstacles to sustained success. It has been established that new innovation is not difficult to sustain, however, the new innovation needs to hold market value. Since this industry is driven by style trends it is imperative that new product continues to be fashionable. Market acceptance is the one piece among this list that is outside the control of the designer. It can be somewhat anticipated and targeted by new product strategies, but it is by far the least predictable. Designers might be well served by the gathering of market intelligence and by gaining understanding of trends on macro levels. These might include industry and economic forecasts and trends initiated by European counterparts. To do so might infuse more confidence into innovation and product strategies.

Risk is further increased by the highly competitive nature of a fragmented industry. For example, the Department for Foreign Affairs and International Trade (DFAIT) study on *The Giftware and Craft Market in the US* (2003), states that the gift industry is served by tens of thousands of manufacturers. The largest manufacturer holds only less than 5% share and its closest competitors 1%. The competitive environment works overtime for Canadian designers who have small firms. These firms must exercise intense assertiveness to remain viable, and they must maintain business savvy to manage growth. If the first two factors are satisfied, in that the designer is able to innovate consistently and the market is receptive to the product, then the natural outcome is the need for the designer to manage growth. Managing growth requires a greater commitment to engage in competition. For a firm to be successful over the long term requires skilful management. Failure to manage growth adequately can inhibit the firm from reaching domestic potential and from participating in extended markets such as the US and abroad. (The risks posed by the competitive forces are further elaborated on in the Industry Analysis section.)

2.2.8 Capital Structure

The financial risk profile for these firms is low for a few key reasons. Since the manufacturing and labour strategies are highly flexible there is not much at stake should the demand decline. Consequently, capital structures are often not highly leveraged as designers tend to be risk averse entrepreneurs.

For this reason, as well as the reason that financing is difficult to access for small businesses, the capital structure is decidedly conservative. Fixed costs are kept to a minimum; all variable costs are secured through confirmed sales. Profitability is secured as long as there are sales; however, income fluctuates throughout the year and annual selling seasons. The seasonal attribute of this industry sometimes implies a feast or famine in revenues and earnings. Save a small operating line of credit, designers tend to remain conservative in their capital structure. To be more leveraged would require more commitment on the part of the designer. A designer, by nature, tends to maintain the option for easy exit if the market is no longer receptive to his/her products. If a positive cash flow strategy does not prove itself within a short period of time, then a designer may exit the industry and simply find other means to earn income. Some designers tend to be modest in their standard of living and make decisions based on maintaining autonomy and career self reliance.

2.2.9 How the Product Strategy May be better Supported

In relation to Table 1 (Strategic Fit Analysis), this analysis suggests an approximate fit of 65-70% to the generic strategies that define differentiation supported by high quality/adequate cost. Though the product is originally differentiated by style and quality, the life cycle tends to be extremely short. Quality of service does assist in differentiating the product against mass producers; however, this incurs greater costs and must be compensated through increased sales and/or higher prices. Style and service qualities perhaps help these firms keep the foot in the door, but it will be interesting to see if these can be sustained in the long term. The question is how much more can designers deliver as small business owners in a market environment that is highly fragmented and where size is of competitive advantage.

It is apparent that the low R&D expenses do not reflect any commitment to better understand the industry and the drivers behind it. Expenses mentioned in this category only pertain to product development, yet these firms would likely benefit from dedicated R&D spent on industry analysis. For example, it may be useful and informative to ask: "Who are the niche retailers now? Who is the target market and what do these retailers require, or expect? What is the economic forecast and how can firms best respond?" The gained understanding through the gathering of market intelligence

could further inform strategic decisions pertaining to the other variables that currently weaken the overall generic strategy of differentiation and contribute positively to more confident decisions regarding marketing and risk.

More strategic marketing could capitalize on potential untapped markets, or expose other sales options that are more dependable and consistent in the existing target market. An improved marketing budget combined with a better defined pull strategy might be a better allocation of investment and likely deliver improved return.

Having discussed the nature of the typical firm and the product strategy that is exercised by these designers it is now necessary to shift the focus to the nature of the industry.

3 INDUSTRY ANALYSIS

3.1 Defining How the Term 'Home Furnishings Industry' is Used

For the purpose of this analysis it is important to explain how the term 'home furnishings' is used in this discussion. Though it is easily associated with all items belonging in and around a home, it is important to clarify that in this writing the term specifically applies to decorative pieces used in home décor. This includes all ornate accents such as cushions, bedding, lamps, candlesticks, sculptures, trunks, baskets and decorative ceramics, just to name a few.

The term is particularly intended for those products that hold artistic value. For example, a generic glass vase available through big box retailers is not included in this discussion, yet a mouth blown glass vase that incorporates unique etchings and an interesting use of color would be considered part of the study. In fact, the purpose of the study is intended for those artists who design and craft such valuable pieces.

The industry term is therefore applicable to domestic manufacturers and importers who directly supply these goods at wholesale prices to Canadian retailers. The focus of this study is on the business to business (B2B) aspects of the industry. The customers for this industry are retailers. These include but are not limited to: giftware stores, home concept stores, furniture galleries that sell home accessories, museums, catalogue companies, or any retail entity that has a department for fine home furnishings (such as department stores). Alternatively, big box retailers, national generic retail chains or retail stores that operate under cost based strategies are therefore not included in the industry analysis.

Mention needs to be made that many designers also engage in business to consumer (B2C) strategies. These are facilitated through a combination of staged retail shows, through the designer's own retail store, or through consignment arrangements

with galleries. While these are very much a part of the market activity of designers, the primary focus of this analysis is intentionally targeted at a B2B strategy.

3.2 Sources for Industry Information

The activities of Canadian designers span three different industry sectors. Designers participate in the gift industry, the crafts industry as well as the home furnishings industry. As a result, industry information was accessed from a variety of sources, and these include:

- Government websites: www.strategis.ca, www.statcan.ca, www.infoexport.gc.ca, www.dfait-maeci.gc.ca
- Market Reports issued by government of Canada
- Canadian trade show data
- Canadian Craft Federation (CCF/FCMA) websites and reports
- Canadian trade publications
- Retail Council of Canada
- Interviews with industry participants such as:
 - Government representatives
 - Canadian designers
 - Canadian importers
 - Retailers (customers)
- Personal experience from participating in the industry for six years.

While this list is by no means exhaustive, it became increasingly obvious that the industry information from these sources is difficult to apply in a project of this nature. Since each industry encompasses many other categories that are not included in this study and that would significantly skew data, it is important to treat the statistics with caution and to state the assumptions when this data is quoted.

For example, Industry Canada (n.d.), in the *Definition of the National Industry* on the *Strategis* website, classifies the home furnishings industry into several North American Industry Classification System Numbers (NAICS). The category for “other wood household furniture” (NAICS 337123) which is a subsection of the home furnishings industry (NAICS 337), includes the manufacture of free standing kitchen cabinets and many case goods such as bedroom suites and dining room suites. It is suspected that few of these categories include Canadian designers who are the target of this writing. Designers may be participating in this industry category by creating unique handcrafted accent pieces such as an end-table that might feature carvings, or a unique structure, or which is manufactured from unusual woods such as driftwood or bird's eye maple and which are therefore significant in our study.

To illustrate the point further, Table 2 charts the three industries side by side and lists some of the segments belonging to each of these industries. The shaded area identifies the segments across the industries that Canadian designers participate in.

Segments	Crafts Industry ³	Gift Industry ⁴	Home Furnishings Industry	Canadian Home Furnishing Designers
	Fine Glass	Accent Furniture	Home Décor	
	Accent Furniture	Home Décor / Style	Lighting	
	Quilts	Bed Bath / Linen	Wood Household furniture	
	Ceramics	Gourmet Housewares	Other Household furniture (not wood)	
	Sculpted objects in various materials	Garden Accessories	Area Rugs	
	Musical Instruments	Decorative Accessories (candles, etc.)	Flooring – wood, laminate, carpet	Other Canadian Manufacturers / Designers
	Unique Textiles	Stationary Party & Paper	Window Coverings (Blinds)	
	Clothing Items	Fashion Accessories	Plumbing Fixtures	
	Jewellery	Gourmet Food Fair	Outdoor Furniture	
	Unique Textiles	Canadian Gift / Souvenir	Case Goods (Sofa Sets)	
		Holiday Floral	Kitchen Cabinets	
		Jewellery		

Table 2: The Activity of Canadian Designers in the Gift, Crafts, and Furnishings Industries

Further to Table 2, Figure 1 positions Canadian designers as a subset of the gift industry, the home furnishings industry and the crafts industry. Figure 1 illustrates that all three industries compete against importers and that they are all involved in retail strategies as well as wholesale strategies domestically (domestic wholesale) and internationally (exports wholesale). The figure attempts to illustrate the scope of the competitive environment and form an appreciation for the need to form strategy.

³ Department of Foreign Affairs and International Trade (2001)

⁴ Canadian Gift and Tableware Association (2003).

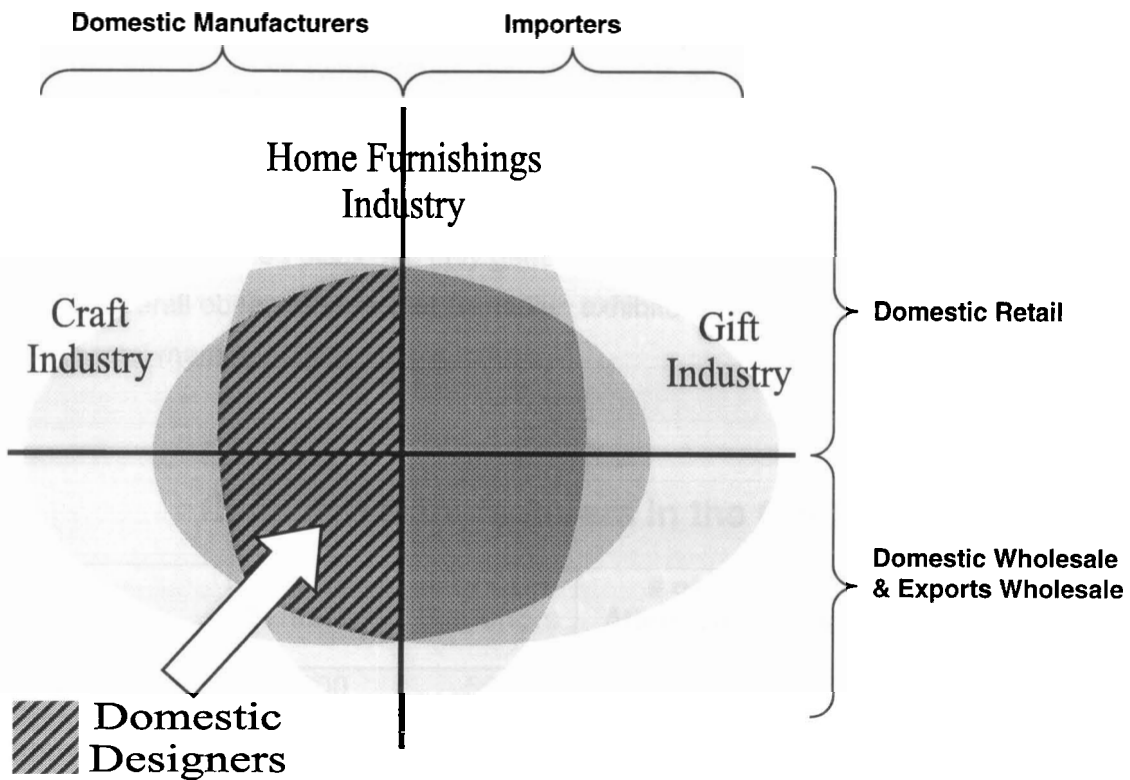


Figure 1: Canadian Designers as a Subset of Three Industries

Arguably the firms in question could be considered to participate in other industries defined by government sources to some extent, such as the lighting industry for example. However, for all intents and purposes, data from the three industries mentioned above is considered to be sufficient to form an understanding for the market that Canadian designers participate in.

3.3 The Size of the Canadian Design Industry

3.3.1 Estimated Number of Designers

By gathering the data from the three stated industries it is possible to extract information that begins to point towards a market size.

The Department of Foreign Affairs and International Trade (DFAIT) (2001) in the *Study of the Craft Sector in Canada*, indicates that the Canadian Craft Council has

approximately 18,055 members of which about 5,880 consider themselves to be engaged full-time. Although these figures were taken from a survey performed in 1995 and are arguably somewhat dated, they do provide an approximation that will be useful in the calculations.

The gift industry does not have easily accessible data. Personal contact with the administrating offices disclosed only general information which is summarized in Table 3. The overall observation is that Canadian exhibitors amount to approximately one third of the total membership in the gift industry.

Canadian Manufacturers in the Gift Industry					
	# of Exhibitors	# of CDN Exhibitors	# of Attendees	% of CDN Manufacturers	# of attendees /exhibitor
CGTA Toronto	1600	500	27,000	31%	17
Edmonton Gift Show	1000	311	20,000	31%	20
Toronto Gift Show	600	197	10,000	33%	17
Vancouver Gift Show	450	170	10,000	38%	22
Montreal Gift Show	450	150	20,000	33%	45

Table 3: Canadian Manufacturers in the Gift Industry

In summary, the gift industry has approximately 1,328 Canadian manufacturers participating in key domestic events. This number must be treated carefully since some exhibitors will be double counted because they participate in more than one trade show. Conversely, many manufacturers who no longer exhibit may go uncounted even though they are still active through a combination of personal sales, manufacturer's reps, and/or exports to the US.

The home furnishings industry is a rather broad category and in terms of volume, the largest of the three. It is almost impossible to determine the numbers of designers that participate in this sector who create the type of products that are targeted in this study. There are several provincial associations, none of which have been accessed for data because most of the members manufacture case goods, appliances, flooring, and

window coverings (items that are not included in this study). Government websites provide some relevant data on the size of these firms and their economic activity. Since our focus is on small businesses that are operated by Canadian designers, a possible starting point is the number of entities in this sector that have less than four employees. Industry Canada (n.d.b) provides some figures in the category for *Furniture and Related Products Manufacturing 2003*, the statistics cited in this table are 2,217 or 48.9% of the total number of firms.

Although it is difficult to determine the exact size of the industry in terms of designers, it is recognizable that there is sufficient activity in terms of numbers of participants. Table 4 summarizes these findings and states the assumptions.

Estimated Number of Designers in the Gift, Craft and Furnishings Industries			
Industry	Total # participating	Potential # of CDN designers	Assumptions (referring to segments in Table 1)
Gift	1,328	664	50% of trade show participants are manufacturing home furnishings products. Some might be double counted, but this might account for those who no longer exhibit but still participate in the market.
Craft	5,880	3,920	2/3 of the crafts industry manufactures home furnishings. Only full time craft persons are counted.
Home furnishings	4,530	110	1/3 of the segments in the Home furnishings industry fall into the category that is manufactured by designers. These categories are significantly smaller in scale and scope than in the other segments. Only 5% of the 2,217 (firms with 1-4 employees) is suspected to be categorized as a designer targeted by this study
Totals	11,738	4,694	

Table 4: Estimated Number of Designers in the Gift, Crafts, and Furnishings Industries

Therefore, the best estimate of the total groups under consideration is between 4 and 5,000 designers, the vast majority of whom appear to participate in the craft sector.

3.3.2 Potential Market Size:

In terms of dollar values for annual revenues there are some indicators in each of the industries.

According to the publisher of *retailnews*, a Canadian publication targeted at the giftware industry, statistics for all members of the CGTA indicate that 33% have less than \$500,000 annual revenues, 15% between \$500,000 and 1million, 10% 2.5 to 5 million, 6% 5 million to 10 million, 9% 10 million plus, 7% did not respond (T. Foran, email, April 21, 2004). It is important to note that these numbers include the sales activity of importers and distributors (members who are cost based firms) and sales agents (members who represent both, importers and Canadian manufacturers).

It will be necessary to assume a different distribution of the annual revenues since there is a substantive size difference between these three types of firms. A likely distribution of the annual revenues for Canadian manufacturers is probably in the range of 30% having less than \$500,000, 11% between \$500,000 and 1million, 5% 2.5 to 5 million, 1% 5 million to 10 million, .2% 10 million plus, 7% did not respond. This is only an educated guess and is arrived at through the assumption that the curve attained through the annual sales of all members would likely illustrate that smaller annual revenues are more heavily represented by domestic manufacturers and the higher numbers likely more representative of importers. This is summarized in Table 5.

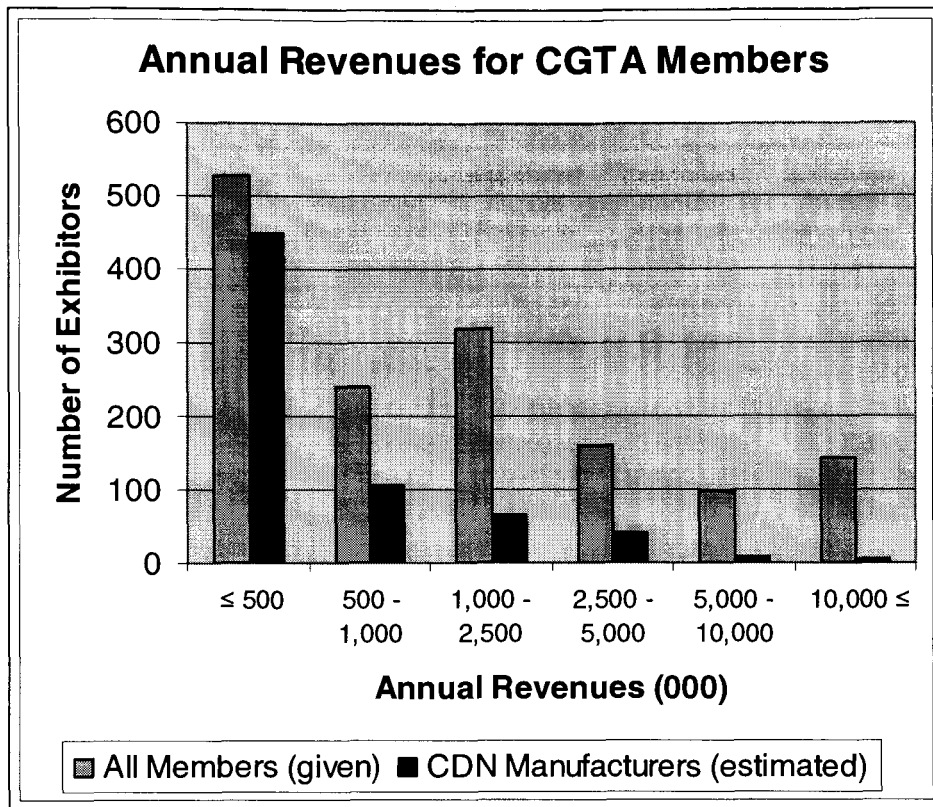


Figure 2: Estimated Annual Revenues for Canadian Manufacturers

DFAIT (2001), in *The Study of the Craft Sector in Canada*, indicates that the crafts industry in Newfoundland and Labrador generated \$25 million in 1998. This amount averaged over the 500 businesses that participated in the count produced average annual revenues of \$50,000 per business. Similarly, the same report provides statistics for the province of Quebec and indicates that the average craft business in Quebec generated \$69,000 annually (or 70% have revenues greater than \$50,000) while 15% made more than \$100,000.

Turning to the home furnishings industry on the Industry Canada (n.d.d) website, *Total Revenue Principal Establishments (NAICS 337) 2001*, quantitative information indicates that annual revenues for all 4,530 establishments totalled 14 billion.

A calculation that might indicate the range of economic activity within each of the three sectors is summarized in Table 5. This table combines the information from Table 4 and Figure 2. The assumptions are stated below.

Estimated Range and Market Size						
Industry	Estimated # of Designers	Estimated Percentage	Estimated Annual Revenue (low)	Estimated Annual Revenue (high)	Weighted Annual Revenues (min.)	Weighted Annual Revenues (max.)
Gift	664	0.25	100,000	500,000	16,600,000	83,000,000
		0.09	500,000	1,000,000	29,880,000	59,760,000
		0.07	1,000,000	2,500,000	46,480,000	116,200,000
		0.03	2,500,000	5,000,000	49,800,000	99,600,000
		0.02	5,000,000	10,000,000	66,400,000	132,800,000
		0.01	10,000,000	12,000,000	66,400,000	79,680,000
Total for Gift					275,560,000	571,040,000
Craft	3920	0.7	50,000	100,000	137,200,000	274,400,000
		0.15	100,000	200,000	58,800,000	117,600,000
Total for Craft					196,000,000	392,000,000
Home furnishings	110		1,500,000	3,090,507	165,000,000	339,955,770
Total furnishings					165,000,000	339,955,770

Table 5: Estimated Range and Market Size

The assumptions for this calculation are:

- The smallest category for annual revenues in the gift industry is \$500,000 to establish a conservative estimate; annual revenues of \$100,000 are used as a 'low' indicator.
- For the crafts industry 15% reported annual revenues greater than \$100,000; to remain within a conservative estimate \$200,000 was used as an upper limit.
- The furnishings industry reported 14B of annual revenue among 4,530 firms. This amount was averaged and used as a 'high' estimate (\$3,090,507); a low estimate of \$1,500,000 (50% of the 'high' estimate) was used to remain within a conservative range within this category.

Taking this one step further, the minimum and maximum revenue totals from Table 5 may be added up in the following manner. A bottom-up and top-down approach would imply the range of economic activity for Canadian designers to be between

\$636,560,000 and \$1,302,995,770 annually. Figure 3 charts these results and allocates the totals among the three industries of interest.

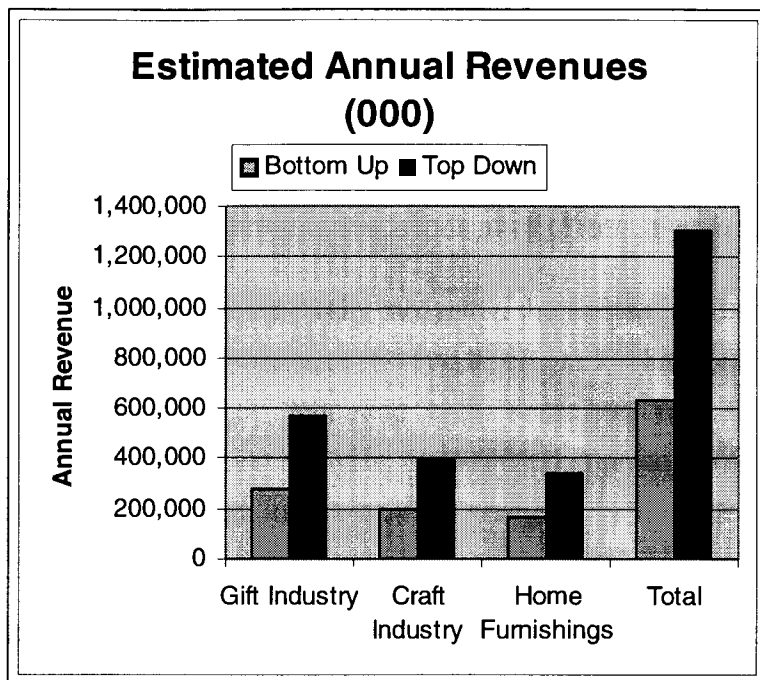


Figure 3: Estimated Market Size of Canadian Designers in Annual Revenues

If these revenues are distributed among the potential 4,694 individuals participating in this industry, it would suggest that the average annual revenues are between \$135,612 and \$277,587. Figure 2 (Estimated annual revenues for Canadian manufacturers) demonstrates that the distribution is heavily skewed to the left, and for this reason it would be incorrect to use average values in estimating the designer’s revenues. A median value would obviously supply a more accurate figure; for the purpose of this project a median value for annual revenues for a Canadian designer who has participated in this industry for at least three years is estimated to be \$90,000⁵.

3.4 Defining the Rivalry Mix

In the wholesale market Canadian designers face tough competitors. A brief explanation will serve to give more meaning to the industry analysis that follows. Since

⁵ This figure is speculative. Thorough research is required to determine the actual median value.

this project is targeted at B2B activities, the industry analysis will focus on the gift industry for several reasons. First, the gift industry appears to hold the largest number of designers; secondly, the gift industry is the most familiar to the author; and thirdly, it provides a reasonable amount of data for a project of this nature.

The main market mechanism for B2B activity takes place at national trade show events. Trade shows are to the wholesale trade what the Christmas season is to the retail trade. Trade show sales performance is indicative of annual sales performance.

It is reasonable to define the rivalry mix within the context of trade show exhibitors. The exhibitors can be categorized into three predominant groups that describe the types of firms directly competing for the same customer: Each is discussed in greater detail in the Value Chain analysis; the description given here is sufficient to support the contextual framework for the industry analysis.

3.4.1 Designers / Manufacturers

The exhibitors who participate as designers or manufacturers have generally turned their hobbies and artistic skills into a business venture and are the typical firms owned by Canadian designers. They have a reputation for innovation and for leading design. Their differentiated product strategy has already been explained in Chapter 2. Designers rent their own booth, display their own products and take their own orders.

In contrast to importers, designers return to their workshops after the trade show and manufacture the products that have been ordered. Importers return and ship the product that is ready and waiting to leave the warehouse. Approximately 30% of the exhibitors are Canadian manufacturers (designers).

3.4.2 Importers

These exhibitors display product that has been manufactured and sourced offshore. These firms are generally medium to large in size and have imported and warehoused large quantities of inventory. Product strategies are typically cost based and opposite to those of Canadian designers.

Exhibitors take orders at a trade show and upon return to company headquarters start shipping immediately from the warehouse. Approximately 60% of the exhibitors are importers.

3.4.3 Sales Agents

These exhibitors display product that is provided to them from the group of domestic manufacturers and importers they represent. They generally have no input into the product selection for a trade show; instead their function is simply to display the product and to take orders. After a trade show, product samples and orders are shipped back to the respective firms. Agents charge a fee for the booth space that is required for display purposes as well as a commission for sales that are generated. Agents have no involvement with manufacturing, warehousing, shipping or invoicing. The respective firms fulfil all these functions.

Larger sized agencies employ a group of sales representatives assigned to different geographic areas in Canada. These sales representatives follow up on clients throughout the year and provide very valuable 'on the road' sales services outside the trade show seasons. Approximately 10% of the exhibitors fall into this category.

3.5 The Five Forces Shaping Competitive Strategy

Porter (1979) is frequently referenced for his article on the forces that shape competitive strategies. His model is popular because it is generic enough to be easily understood while at the same time being relevant across many industries. Likewise it can be applied in this context and provide a model with which to identify the nature of the industry environment. Porter proposes that it is in identifying and in understanding the market forces on the industry level that successful strategies can be formulated for firms.

The purpose of the Industry Analysis is therefore to accurately identify the competitive forces that impact participating firms, particularly Canadian designers. The recommendations in Chapter 5 and 6 partially rest on these findings and attempt to respond to the issues.

In Figure 4 which follows, each factor is weighted with symbols: a “+” symbol suggests that the factor contributes to the competitive intensity; and a “-“ symbol suggests that the factor lessens the intensity.

Competitive Forces Shaping Strategy

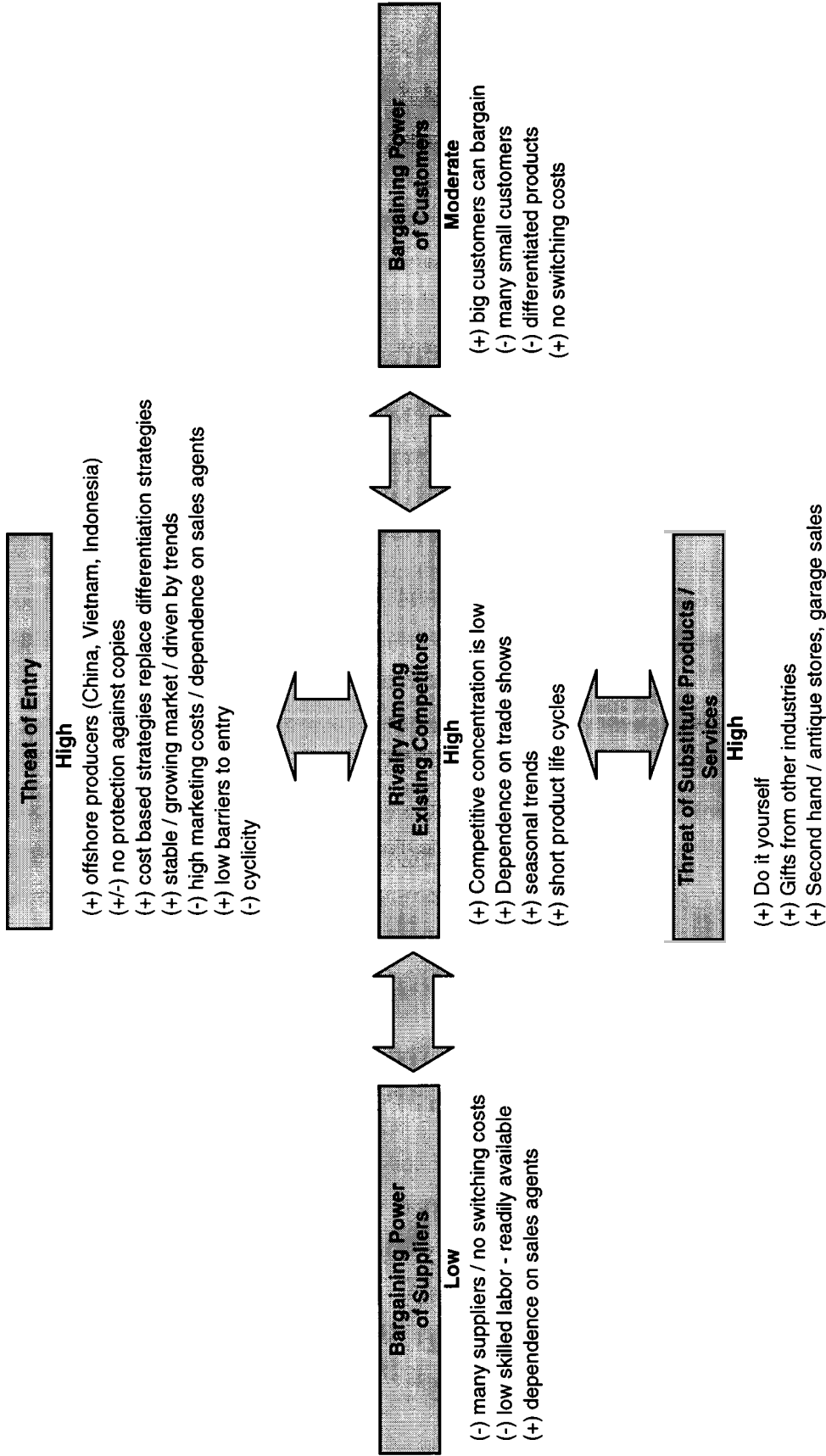


Figure 4: Competitive Forces Shaping Strategy⁶

⁶ Adapted from Porter, M. 1979

3.5.1 Threat of Entry - High

3.5.1.1 Offshore Producers (China, Vietnam, Indonesia) (+):

Asian manufacturers play a dominant role in the furnishings industry. The statistics of Canadian trade shows substantiate this dynamic in that 60% of the exhibitors are importers (Table 3). Though there is attrition, the size with which these firms enter is larger than those of new domestic firms. This trend has been consistent and would not be maintained if these importers could be easily displaced by domestic manufacturers.

3.5.1.2 No Protection Against Copies (+/-):

The furnishings industry attracts domestic designers and craftspeople attempting to capitalize on their innovation, as well as importers who look for their margins in volume orders. Since it is not possible to protect designs by copyright, product is continually knocked off. For example, a famous brand may design an occasional chair in medium brown leather; however, as quickly as it can be copied, cost leaders will reproduce this item. The only proprietary equity is the label; if it is a trend setting item, then it will generally be copied and available at a lower cost within a few months. This phenomenon has a mostly positive yet sometimes negative effect.

It is mostly positive and increases the threat of entry because designs originating from high end brands can be easily duplicated by a new entrant under a cost based strategy. This is an attainable strategy for firms who don't need to charge the brand premium, but who instead want to capitalize on the design.

The lack of copy protection also has a somewhat negative effect on the threat posed by entrants in that designers and innovators who might have superior product are discouraged to enter because of the inability to protect their designs in the long term. It is conceivable that a share of innovation in this industry never reaches the market because of the widespread practice of design theft, unless original design is produced and solely

marketed under a cost based strategy. (IKEA⁷ is an example of an innovator able to sustain competitive advantage by simultaneously being a price leader.) The scale required to secure exclusivity to a design would prove to be prohibitive for most new entrants.

3.5.1.3 Cost Based Strategies Replace Differentiation Strategies (+)

Entrants who focus on a differentiation strategy based on quality and style are successful in so far as they continue to differentiate with each market season (spring and fall). This reputation would preserve a sustainable competitive advantage targeted at buyers who shop only for the latest trends. Product life cycles for differentiated products range from six to eighteen months. The easier it is to copy a product, the shorter the product life cycle, especially if it is a popular product.

Entrants who focus on a cost based strategy can do so by copying the trend setters in the industry and by marketing to those buyers who are content to be close followers of style. Generally these retailers are stores who carry product six to twelve months after a product is launched. The Asian manufacturing market plays a significant role in that it is adept at feeding the latest designs into mass production capabilities and then distributing these through established channels. Likewise domestic producers are able to knock off products fairly quickly, though not with the same scale and scope as Asian counterparts.

3.5.1.4 Stable Growing Market / Driven By Trends (+)

The shifting demographic of aging baby boomers spending increasing amounts of disposable income on homes and furnishings is making this industry attractive for new entrants. While this demographic is spending more money on their own homes, they are simultaneously inclined to assist adult children in setting up their first living quarters (Ljucovic 2004). The home furnishings industry is also correlated to the construction industry, in that the more homes are built, the more furniture is required⁸ (Canadian Gift and Tableware Association (n.d.)). Again, trends play a role in that furnishings are

⁷ The example of IKEA is used to illustrate the scale and scope required to deploy both cost based and differentiation strategies simultaneously over a long period of time.

⁸ The construction industry is in turn closely linked to interest rates. Low interest rates fuel new housing starts and this subsequently increases home furnishings purchases.

replaced long before they wear out. The pride placed in home décor further encourages new entrants to participate.

3.5.1.5 High Marketing Costs / Dependence on Sales Agents (-)

Manufacturers and importers who don't acquire the services of sales representatives depend on the above mentioned trade shows to reach the national customer base. Marketing costs are incurred through trade show participation, direct selling, websites, printed material, and through sales agents. The ongoing high cost of advertising and marketing is a deterrent to new entrants.

3.5.1.6 Low Barriers to Entry (+)

Domestic designers face a constant wave of new domestic firms who enter the industry with differentiated products. New designers to the gift industry typically exhibit in the popular trade shows. The DMG shows across Canada designated a specific section for new exhibitors that drew particular attention from retailers. In BC this program was entitled 'Uniquely BC', this program was supported by corporate sponsors and it allowed first time exhibitors to participate at reduced rates.

The former directing office (Impact Communications) provided some of the following statistics (email Brittany Mowatt, April 27, 2004). For the 15 year duration of the program it hosted a total of 10,000 new exhibitors. Each year the program facilitated 700 to 800 designers and manufacturers across Canada to enter the market. 65% to 71% of the exhibitors returned to exhibit at least twice. The shows in 2000 generated a wholesale dollar value of \$4,240,393.

The dollar value divided among the 800 exhibitors does not pose a substantial threat (\$5,300 average per exhibitor), however, this illustration does explain the ease with which new designers can enter (and exit) the industry.

3.5.1.7 Cyclicity (-)

Decorative home furnishings are considered an accessory as opposed to a necessity. The industry is dependent on the buoyancy of the economy; consequently, a decrease in disposable income adversely affects the market size of the industry. This

correlation is a deterrent to new entrants as fluctuations in the economy are difficult to predict. During downturns rivalry intensifies, and importers are particularly inclined to flex their muscles to gain market share, thereby compounding the downturn for the domestic designers. The Retail Council of Canada report (n.d.) charts the positive correlation of retail spending and disposable income.

3.5.2 Rivalry among Existing Competitors - High

3.5.2.1 Competitive Concentration is Low (+)

There are many competitors which increases rivalry. Customers in the home furnishings industry can readily switch between firms since many offer similar products. The rivalry mix discussed earlier already points to the notion that a designer competes against many firms of similar size and power of domestic origin, as well as powerful large sized firms who are importers. So whether competing with many small firms who engage in differentiated product strategies, or competing with a few large firms who engage in cost based strategies, the competitive concentration is low.

3.5.2.2 Dependence on Trade Shows (+)

Since the wholesale market is serviced by key trade shows that take place only twice a year, there is a certain 'slugfest' that happens when the bulk of sales and promotional activity takes place in a very concentrated time period (i.e. 3-5 days twice a year). Designers are highly dependent on the wholesale market, and these intense trade shows place significant performance pressure on all exhibitors. In fact, it can be frequently observed that during the set-up stage for these shows, many exhibitors will completely mask the booth to stop anyone from seeing what the product mix is and what the display looks like for fear that ideas could be copied in the few days it takes to set up.

The rivalry at trade shows is intensified by the population distribution in Canada. Since it is difficult for designers to market well across the country, the need to participate and perform well in trade shows is all the more vital. In terms of an efficient marketing mechanism, it does make sense to have everyone in one place at set times. Therefore, annual sales projections and sales performances rest heavily on trade shows.

3.5.2.3 Seasonal Trends (+)

Since this industry is driven by fashion trends and because trade shows occur in six month cycles, there is a distinct seasonal flavour to the product mix that is displayed and sold at a given show. Though products among designers are highly differentiated, each designer competes aggressively to have his/her design outshine the rest. Though the first to market does enjoy the pricing advantage, it does not take long in this industry to have product copied and sold a year later at substantially lower costs.

marketpulse (2003), in a survey of over 1600 retailers in this industry states that buyers make their decisions based on: price/cost, design, availability, exclusivity, and margins respectively. Rivalry is intensified by many small manufacturers with overcapacity exercising slightly varied differentiation strategies.

3.5.2.4 Short Product Life Cycles (+)

The success of the domestic market is highly dependent on new innovation. The competition among manufacturers, sales agencies, and importers all vying for attention is intense. Each firm hopes to present the 'cat's meow' and sets its hopes high that at least some of the product will prove to be the season's cash cow. A rule of thumb for a product line is that one third of the product rotates out each trade show, leaving an eighteen month opportunity for a product life cycle. This trend increases rivalry, therefore, the opportunity to capitalize on a product innovation is short lived.

3.5.3 Bargaining Power of Suppliers - Low

3.5.3.1 Many Suppliers / No Switching Costs (-)

Input products in this industry are readily available from various suppliers and in abundant supply. Materials such as wood, textiles, resin, glass, and metals are easily sourced and the cost leader is awarded the sale. There are no switching costs and this further eliminates the bargaining power of suppliers. Suppliers generally set up accounts with manufacturers, and other than establishing a minimum order amount and shorter payment terms for new customers, suppliers don't have many more options for exercising their power.

3.5.3.2 Low Skilled Labour (-)

According to Industry Canada (n.d.c) data for *Salaries and Wages Furniture and Related Product Manufacturing (NAICS 335) 2003*; the average salary paid to a production worker in 2001 was \$27,133 CDN. The labour force is low skilled, easily trained, and in excess supply as long as the unemployment rate is positive.

The annual income mentioned in the DFAIT (2001) report, is even lower; average earnings in 1995 for a full-time artisan were \$16,943 CDN. This figure likely represents net income and must be treated with caution. Small businesses benefit from tax advantages and actual earnings enjoyed by proprietors may be higher than reported earnings in the form of net income.

3.5.3.3 Dependence on Sales Agents (+)

Sales agents provide the customer interface in a market that is widely spread out across the nation. Sales agents have some bargaining power, but it is rarely exercised. Agents provide vital industry information, customer feedback and the benefit of selling complimentary products to the retailers. Even if a firm has its own exhibits at a trade show it will engage sales agents in other provinces to perform 'on the road' sales.

By and large they abide by the industry standard of charging a commission on the orders they take. The contractual relationship with the agent tends to be loosely structured and non-committal.

3.5.4 Bargaining Power of Customers - Moderate

3.5.4.1 Big Customers Bargain for Extras (+)

It is almost uncanny how frequently the 80/20 rule can be applied to this industry. Whether in sales where an expectation of selling to 2 out of 10 customers is realistic, or whether in sales volume where 80% of revenues are generated by 20% of the customers. This ratio is a safe approximation when applied to the degree to which a firm depends on large customers. In this instance the interests of the firm are supported by extending payment terms and/or volume discounts; the combination or degree to which

these transaction favors are negotiated may depend on the desperation of the firm making the sale. Payment terms are extended from 30 to either 60 or 90 days and discounts on wholesale prices are negotiated anywhere from 5-15%.

Another commonly exercised term by large customers is free freight. The firm making the sale attempts to anticipate these expectations placed by the large customers by building a cushion into the quoted wholesale prices; however, in the end the product still needs to be priced competitively in order to secure the sale. The large customer thereby has the bargaining power to negotiate aggressively.

3.5.4.2 Many Small Customers (-)

Reference has already been made to the 80/20 rule, applied to the small customer this infers that 80% of the firm's customers provide 20% of the revenue. While this ratio brings to question why any focus would be placed on this segment at all, it is still a significant priority to supply these customers. The reasoning is that new customers will most often only place the minimum order to 'test' new suppliers and their business integrity. The industry is dominated by private enterprises; easy entry for both suppliers and customers allows much inexperienced practitioners to wreak havoc on the necessary trust between the parties to a transaction. To circumvent the risk, a customer will typically place a minimum initial order; in this industry that accounts for sales as low as \$250.

Several other factors tend to never change the proportion of the number of small customers. Most lifestyle stores and boutiques range in size from 1500 to 4000 sq/ft. per store. A store size of 1500 sq/ft. for example, will feature product from as many as 40-60 vendors. The product mix is purposely kept highly diversified to continually attract consumers who expect an ever-changing product scope and price mix. The bargaining power of a small customer is diminished in that it only represents a small percent of revenue and is easily replaced by another account.

3.5.4.3 Differentiated Products (-)

The factors defining monopolistic competition work overtime in the home furnishings industry. For example: products are differentiated, many firms can enter and

exit easily and buying decisions are fuelled by want (taste) rather than need. A customer has little power to negotiate once s/he sees a product that fits the buying strategy. Though there may be countless other products that fulfil the same purpose, few, if any will match the price, look, color, and quality. Capitalism rejoices over helpless shoppers, retail consumers, and wholesale buyers alike, who must succumb to the desire of the moment. The bargaining power is further diminished when a customer makes an emotional buying decision. Keeping in mind the originality offered by Canadian manufacturers, the likelihood that an identical product can be purchased through another source is highly unlikely and may not be worth the search.

3.5.4.4 No Switching Costs (+)

Good customers place value on long-standing relationships with vendors and exercise loyalty for their investments in quality service. However, aside from loyalty there is no binding agreement that secures the business relationship. There is no telling when a new entrant or an existing rival offers a better value. The function of changing staff, changing trends and lower prices plays a significant role in the attrition of customers. Since the industry is predominantly trend driven, an incumbent firm must constantly introduce fashionable designs that secure the ongoing buying relationship. Missing a beat in this rhythm is detrimental because without fail, a rival or new entrant will rise to the occasion, and the once established relationship shifts instantaneously. The smaller the customer, the easier it is to make the decision to switch vendors. A larger customer is less inclined to switch, because a better product also needs to be coupled with reliable delivery.

3.5.5 Threat of Substitutes - High

3.5.5.1 Do it Yourself (+)

Since some home furnishings products are not that complex to manufacture, it can occur that skilled consumers get ideas while they shop and then decide to replicate products on their own. For example, a beautiful cushion in velvet and chenille may be easy to duplicate. The consumer only needed the idea of combining different fabrics and colors and can therefore purchase the necessary inputs at fabric outlets. Proprietors of

specialty furnishings stores will echo the frequency of this scenario, it is amazing how bold some consumers are in admitting that they are simply in the store to gain ideas they can replicate.

3.5.5.2 Home Decor from Other Industries (+)

Decor for the home can take on many forms. Consumers who are looking to update the style of their home may be open-minded on how this might be achieved. The decorating budget may be spent on any number of options. For example, rather than deciding on a piece of artwork from this industry, the consumer may choose to decorate by hanging wallpaper to achieve an equally satisfying outcome. Consequently, the purchase shifts to another industry, which is thus considered a substitute.

3.5.5.3 Second Hand Stores, Antique Stores, Garage Sales (+)

“Thriftling” has become a popular activity over the past years. Probably most influential in this trend is the “Shabby Chic” style founded by Rachel Ashwell in the late 1980s. She is a well publicized individual who founded a look and trend based on a very eclectic and stylish arrangement of garage sale and flea market finds. It is very fashionable to save money and at the same time create an amazingly individual style. These products are not considered to be direct competition because they are not new. However, they are named as direct substitutes because they perform a similar function. A new mirror with beautiful etchings may be easily substituted for an antique mirror with a very unique and distressed frame.

3.6 The Industry Value Chain

Another important aspect in formulating strategy for Canadian designers is to examine the process through which value is created by the competing firms. With this in mind the focus on the three members of the rivalry mix now shifts from how these firms compete in the industry to how they generate value for the firm. To do so can disclose some noteworthy characteristics that may be leveraged to further secure a sustainable advantage for Canadian designers.

The concept that Canadian home furnishings can be categorized into either domestic or foreign manufactured product has already been established at the beginning of the chapter. Products from these two origins reach the wholesale customer directly through the domestic designer and importer or indirectly through an agent.

An illustration of the value chain for each member of the rivalry mix reveals some noteworthy distinctions that can play significantly into the shaping of strategy.

3.6.1 Designers / Manufacturers

These companies have a very direct value chain (Figure 3) and are therefore, agile and quick to respond to market needs. Production times are short and delivery is quick because product does not go through complex and costly manufacturing processes or costly export liabilities.

Most products are made to order and excess inventory is kept to a minimum. These firms are owner operated and integrated along the value chain because one firm will perform every function such as the design, manufacture, marketing, and shipping of product. The discussion in Chapter 2 on the product strategy already elaborated how these functions all contribute to differentiation. Figure 3 illustrates the simplicity of the Value Chain. Designers are directly linked backwards to the suppliers who have very little bargaining power as identified in the industry analysis, and directly linked forwards to the wholesale customer who does have bargaining power.

Comparing this value chain to those of the competitors begins to clarify some strategic advantages that Canadian designers could leverage. Most predominant is the sheer simplicity of the model. This aspect coupled with the benefit of being a domestic producer who can respond with ease to market demand and trends begins to expose an opportunity that has likely been underrated.

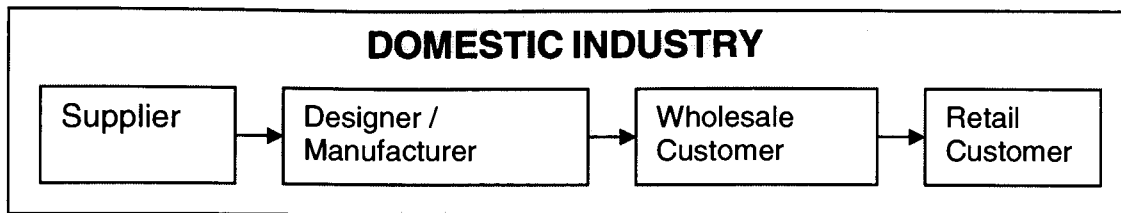


Figure 5: Value Chain for Canadian Designers

3.6.2 Importers

Importers travel regularly to Asia and source products direct from factories or indirect through trade shows abroad. An example of a popular large scale trade show is the Canton Fair. At these fairs orders are placed through distributors or agents in quantities large enough to fill container shipments.

As soon as the container leaves the manufacturing plant the product becomes the property of the Canadian importer. Shipping liabilities are protected through extra insurance during transit. However, at times the cost of insurance exceeds the value of the shipment; consequently, not all shipments are necessarily insured.

Shipping costs, insurance costs, freight damaged merchandise, and duties are expenses that an importer needs to factor into the profit margin. These expenses contribute to the decision for cost based product strategies that create value through scale effects.

Though importers do not manufacture and only rarely design⁹ the products they market, their value chain is more complex than the domestic manufacturer's. This lessens the agility with which they can respond to demand (Figure 6). They are rarely involved in the manufacturing process; if they are they are geographically far removed. Quality control becomes an issue and retailers will readily attest to the inconsistent quality of imported products, yet the attractiveness of a lower price will keep the business relationship in tact.

⁹ An importer will be involved in the design process if they have sufficient connection with the manufacturing firm abroad. In this event, the importer provides a prototype of what they would like to have mass produced. These may or may not be knock-offs.

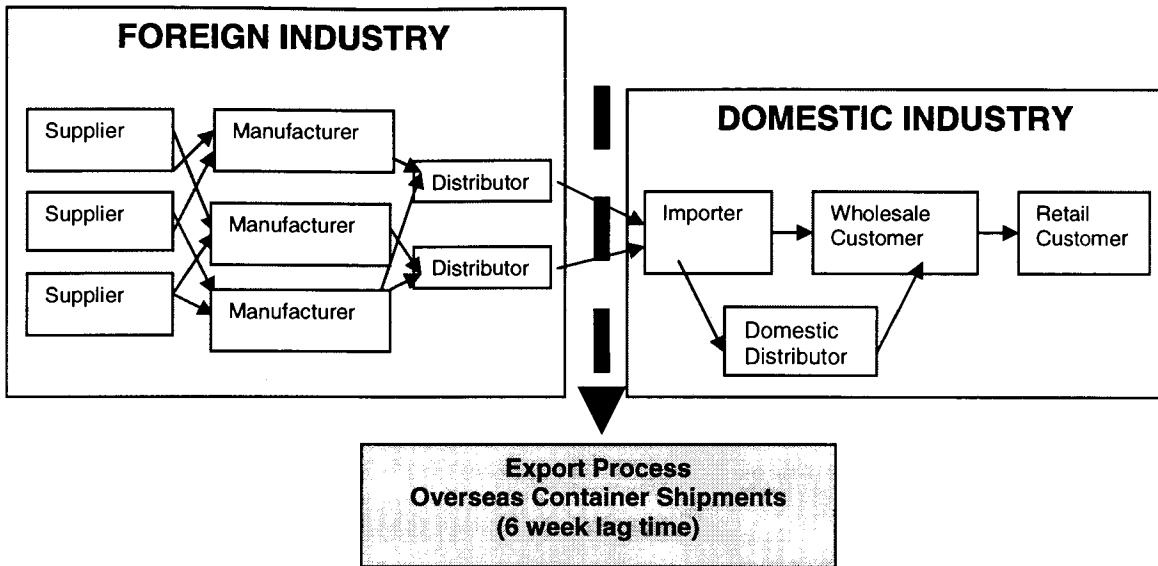


Figure 6: Value Chain for Importers

Figure 6 provides a visual representation for the process that takes place in the value chain before the importer can market a product to the wholesaler or domestic distributor¹⁰. Instead of being linked backwards directly to the supplier there is a whole web of processes that need to take place that incur costs, risks, and time.

The importer must also deal with complex inventory management on large quantities of product. Since it is impossible to predict the potential demand for the product that is being imported, the importer faces either too much inventory on an item, or not enough. This results in discounts or write-offs for excess inventory and conversely, into a six to eight week waiting period for re-orders of new inventory¹¹. This has further repercussions in the retail market: specifically it is not desirable for retailers to see the products that have been sold in your store on the shelves of liquidators in the following year. Also, it is not easy to keep the shelves in a retail store well stocked if the importer cannot fill the order. Smaller retailers are typically lowest on the list of priority for receiving product. For example, if an importer has 5,000 units left of an item and would receive an order for 5,000 units from a mid-sized customer as well as ten orders

¹⁰ If a Canadian importer is large enough, then they also supply distributors at reduced prices for sufficiently large quantities. The distributor will in turn sell to the wholesale customer.

¹¹ Re-orders for product must be substantial in size to fill container shipments. If re-orders are not large enough, then orders are simply not filled and the wholesale customer does not receive the order that was placed. If an agent was used, the agent will not receive the commission on the sale that was generated.

for 500 units from small sized customers, the product will go to the large size customer and the ten small retailers will simply never receive the product they ordered.

3.6.3 Agents:

Agents provide sales services for a variety of different product lines (Figure 7). They use samples and promotional material that is provided for them to take the orders. They manage no inventory and have arms length information on availability of product. They are like brokers and typically sell complimentary products to wholesale customers with whom they have established relationship. Figure 7 illustrates the value chain for these competitors. In comparing this value chain to the models in Figure 5 and 6 it is evident that agents are simply an intermediary link between the designer / importer and the wholesale customer. It is important to remember that the value chain from Figure 7 is attached to the importers that are represented by these agents.

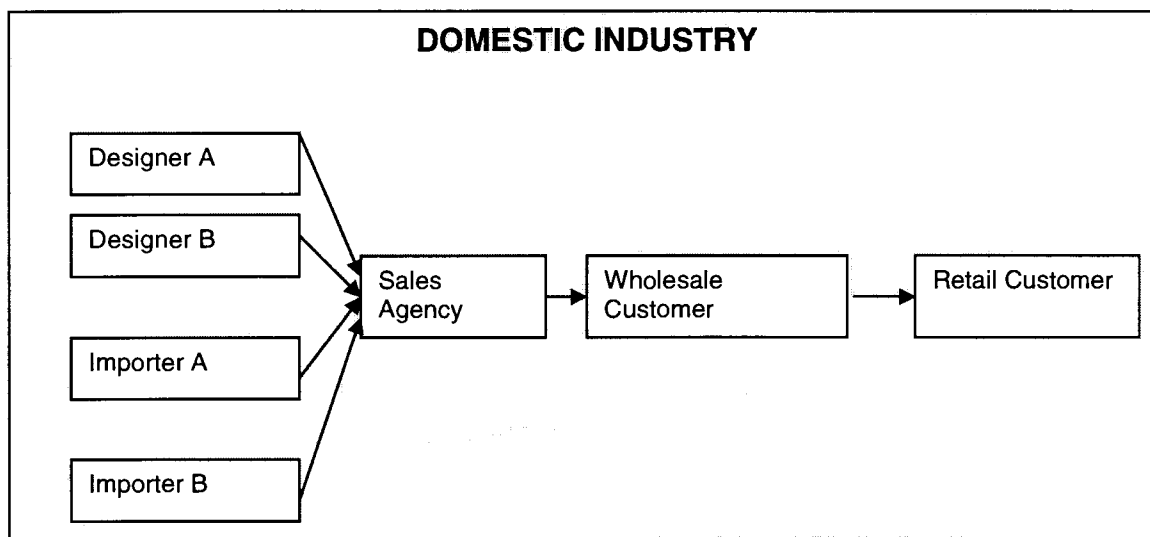


Figure 7: Value Chain for Sales Agents

The principal-agent problem prevails in this category. Through contractual agreements these exhibitors sell on behalf of many firms, though information asymmetry allows for very little monitoring of the quality and quantity of sales activity. For this reason there is attrition in the lines these agencies represent because the 'fit' of the working relationship and/or the product mix is not a given.

Canadian manufacturers and importers who access the services of these brokers do so specifically for the domestic market, additional sales agreements with US Agents are in place for sales targeted there. For example, a Canadian sales agency may be one of ten North American agencies that a fair size importer will have selling agreements with. Agency agreements specify the geographic area targeted by the agency. Areas are typically defined by the boundaries of provinces and states.

Sales agents are often the reason for a firm's success. When there is a good fit between product mix and a sales agent the business relationship is mutually very profitable. Agents can be an amazing distribution channel and achieve substantially higher promotional penetration in an area than a manufacturer or importer could achieve on their own.

A study performed by the author in 2002 on a focus group of seven US agencies and a total of 50 sales representatives revealed that agencies represent between 30 to 50 'lines'¹² and that they consider anywhere from five to ten lines as top performers.

3.7 How Industry Factors Begin to Shape Strategy

3.7.1 How Attractive is the Industry?

The threats posed by the competitive forces can be daunting for Canadian designers when considering the cost based strategies exercised by the importers who hold greater market share. The question remaining is why a Canadian manufacturer would want to participate in this industry given the potential 'no win' outlook for gaining any significant portion of the market share. The high threat of entry, the lack of proprietary protection (design theft), and the constant churn of new entrants emerging, and disillusioned incumbents exiting, do not paint a sustainable picture for the long term. Though the bargaining power of suppliers is low and contributes to a slightly more optimistic outlook, the threats posed by customers seem to quickly outweigh the benefits.

¹² A 'line' is the industry term used to describe the firms of manufacturers and importers. An agency representing thirty lines is in fact representing an assortment of thirty firms who are either manufacturers or importers.

The answer to the question on why Canadian designers are participating likely rests on more than economic reasoning and financially rational choices. Canadian designers choose to participate not just for economic reasons but also for quality of life reasons. In some cases this may entail the decision to cut profits and wages. The payback for a designer is not only fulfilled by monetary reward, but also by personal reward. This motivation is an important factor in the discussion about the industry and in the setting of strategy; it intensifies rivalry among like firms because the behaviour can be motivated by non-economic reasoning.

In light of Porter's (1979) competitive forces, the overall attractiveness of the industry is discouraging in its present state, especially when observing the trend of increasing import presence. A carefully calculated and executed strategy may combat the overwhelming forces and address the diminishing presence of Canadian authenticity. To do so may be more than presumptuous for many firms who are small in size, unless an innovative business process finds a way to re-organize the current market activity of these small firms into an agenda that purposely takes advantage of the opportunities that are presented. Ideally, such a strategy supports not only the financial expectations of designers, but also supports the quality of life decisions vital to designers.

3.7.2 Factors that Might Make the Industry More Successful for Canadian Designers

Success factors contributing to the firm's sustainable competitive advantage must build on all the reasons why a customer may prefer dealing with domestic suppliers. Referring back to Figure 5 (Value Chain for Canadian Designers) it may be possible to consolidate the link of designers and manufacturers to form a more dominant market presence. Consolidating designers immediately creates a size advantage without complicating the value chain and thereby benefit the designer as well as the customer. Figure 6 illustrates this recommendation.

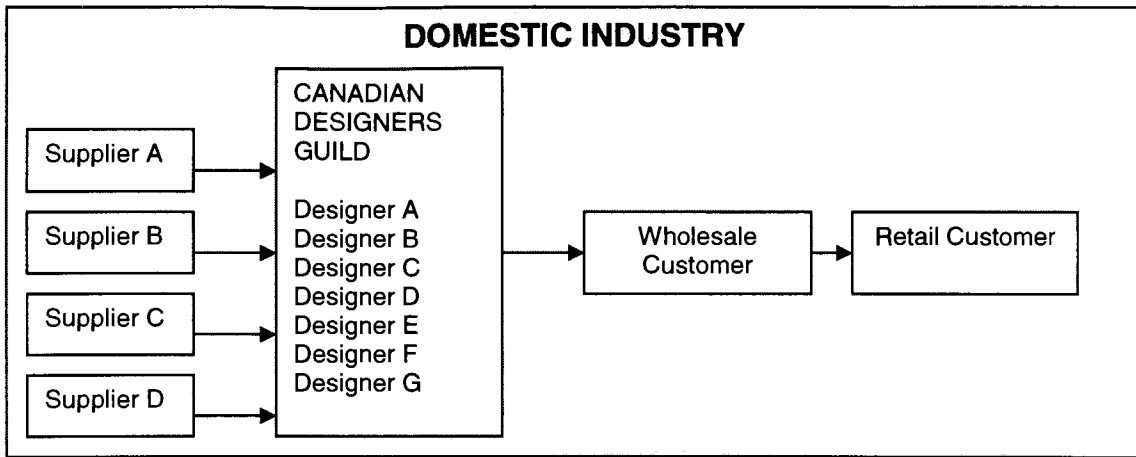


Figure 8: Value Chain for a Potential Success Strategy

The sustainability for an individual firm can potentially be achieved by the consolidation of the best designers who would recognize the synergies created when gathering around a common marketing agenda. The unique selling proposition from such a group would be that they can provide a constant stream of the best, fashionable design originating in Canada through one point of contact. The customers can benefit by dealing with one supplier who simply administrates the supply of product from a diverse group of talent. The designers can benefit by the momentum gained through numbers. For example, a group of thirty designers can accomplish much more targeted marketing as a group than thirty individuals attempting to each accomplish their own marketing strategy.

In addition, a committed group of Canadian designers might meet the criteria to qualify for funding designated federally and provincially for the support and promotion of Canadian culture. Though this focus does not need to be a primary objective, it may be a welcome consideration when preparing for export strategies.

After gaining an understanding about the nature of the firm and the competitive forces that shape the industry it is now possible to identify some of the issues facing designers.

4 ISSUES FOR DESIGNERS

The Industry Analysis in Chapter 3 highlights the intensity of the competitive forces. In review, these forces can be categorized in the following manner:

Competitive Force	Level of Intensity		
	Low	Moderate	High
Threat of Entry			√
Bargaining Power of Suppliers	√		
Rivalry			√
Bargaining Power of Customers		√	
Threat of Substitutes			√

Table 6: Intensity of Competitive Forces

The underlying theory of this model recommends that while it is virtually impossible to completely hedge a firm's strategy against all the threats imposed, it is possible to apply this model and identify a strategy that would lessen the vulnerability of the firm. Furthermore, the model suggests that the most dominant forces will highlight the strategic priorities in forming a sustainable competitive advantage.

Following this model would provide Canadian designers with a strategic response and the means to:

- Lessen the threat of entry
- Strengthen, or increase strategic positioning against rivals
- Decrease the threat of substitutes

In theory these recommendations are straightforward; in practicality, however, the execution of these recommendations is greatly limited by the size and skill set of a typical firm. To better understand the resources within a firm that would combat the competitive intensity in any one or all of the above mentioned factors, it is beneficial to perform an analysis of the firm's strengths, weaknesses, and the industry's opportunities

and threats (S.W.O.T. analysis). This preliminary exercise will help shape a response that best engages the resources within the firm.

The setting of strategy need not only answer the question: “What is it that is being targeted?” To do so, would be analogous to engaging in a battle by only knowing the enemy without understanding the weaponry. And so the focus shifts to the firm and poses the question: “What are the resources?” This second question will be answered by a closer look at the firm’s strengths and weaknesses. The observations of potential opportunities and threats will provide additional industry information. The gained understanding will prepare the reasoning for the strategic response presented in Chapter 5 (Recommendation).

4.1 Strengths

4.1.1 Good Reputation / Good Design

Canadian designers are gaining a reputation among domestic retailers for quality product and unique design. The DFAIT (2001) *Study on the Crafts Sector in Canada*, attests to this claim. In this study mention is made that the crafts sector is gaining increasing recognition among retailers for the economic relevance of Canadian crafts producers. Perception is changing as designers are recognized for their craftsmanship and as the link to high quality production for gallery and art markets is recognized. “There are signs that there is a growing demand for the unique products made by artisans and craftspeople, and significant economic value-added is generated by this activity”. The article goes on to state: “The contemporary crafts sector produces highly valued functional as well as artistic items such as fine glass, musical instruments, furniture, unique textiles and clothing items, quilts and fine jewellery, ceramics and sculpted objects in various materials” (p.1). In fact, the ceramics and the glass sector of the crafts industry have not only gained in reputation, but have also achieved good international sales. Large workshops are maintaining the originality of the designs as well as high quality standards.

Canadian manufacturers also have established a strong reputation in the US gift industry. The DFAIT study (2003) *The Giftware and Craft Market in the United States*

makes mention that “Canadian giftware and craft products have earned a reputation for high quality and artistic merit in the United States. The Canadian industry provides a vast array of products to the United States, ranging from one-of-a-kind, handmade items to ... home and garden articles.” (p.28).

The Generic Strategy discussion in Chapter 2 identified the positioning statement for Canadian products as being differentiated by quality and price. It is of paramount importance that domestic designers recognize the advantage they have, founded on their reputation for strong design, both in domestic and international markets. Once this recognition has been made, it can be seen that a strategy of differentiation is far more appropriate for Canadian designers than the cost-based strategy employed by importers. Clearly differentiating their design-based value is essential to improving the strength of individual companies and the industry as a whole.

4.1.2 Short Value Chains

Chapter 3 has described the value chain for Canadian designers and importers. From that study it is evident that domestic manufacturers have several distinct advantages, one of them being the simplicity of the value chain.

To focus on the proximity advantage means to recognize that there are a number of key strengths at the disposal of domestic manufacturers that importing companies can never access. For example, in a highly trend-driven retail environment it is a distinct advantage for a manufacturer to be close to the customers. The pace at which trends change is easily serviced through domestic manufacturing abilities. Designers here can quickly adjust to changes in the market and respond to customer requests. Furthermore, the manufacturing process is typically less sophisticated (i.e. less technologically dependant) than the mass production processes deployed by importers. Therefore, designers are not only responsive in terms of time, but also adaptable to trends. These two factors are additional key attributes and direct outcomes of a short value chain that allow designers to set an assertive marketing strategy. The entire value chain is uncomplicated because designers do not need to deal with the complex web of the import process in order to deliver product to their customers.

These three factors: the close proximity, the responsive manufacturing process and the simple value chain can be combined to form the basis that will support the rest of competitive strategy formulation.

A simple value chain also means that the designer is the key link along the process where value is created. The raw materials coming from suppliers are of little value to the wholesale customer. The designer, through skill and creative talent applies significant value to a given product and therefore benefits from not needing to share profits along the value chain. Referring back to Figure 6 (Value Chain for Importers) and Figure 7 (Value Chain for Agents) it is evident that there are significantly fewer links before the product reaches the customer. An importer that isn't directly involved in the manufacturing plant abroad acquires product that has had to travel through more businesses than a product of Canadian origin. In short, the price of a product only needs to generate profits for one person along the domestic value chain, where for an importer; the selling price needs to recoup costs and profits for many links along the value chain.

4.1.3 Low Overhead Costs / Low Risk

Domestic manufacturers have another distinct advantage in that there are few costs associated in getting the product ready for market. The costs prior to marketing activities (which are the same for importers and domestic manufacturers) for the domestic designer entail the costs for supplies, labour, and operating expenses of a small workshop. Alternatively, the importer needs to recoup costs for the sourcing of product (two trips per year of at least two week duration), exporting (cost for freight and insurance of container shipments), and warehousing (forklifts, pallets, etc.).

If the market is not receptive to a product then the sunk costs for a domestic manufacturer are substantially lower than the sunk costs for an importer. In this case the loss for a domestic manufacturer is the price of producing the product sample. Conversely, the cost to an importer is the price for travel, exporting, and inventory equivalent to a container shipment. The domestic designer is favourably positioned when it comes to cost and inventory management.

4.2 Weaknesses

Although the Canadian manufacturer enjoys much strength; there are also significant weaknesses that can impact the firm's ability to engage in the market to full extent. Weaknesses such as the size of the firm, the limited business skills of proprietors, the inability to grow a strong brand, and the disposition of the artist can inhibit the full potential that designers can exercise.

4.2.1 The Size of the Firm / Limited Resources

The first and foremost weakness for the domestic designer is the small size of the firm. Most other weaknesses are a direct outcome of this limitation. With many designers working in small studios as sole proprietors there is not just a sense of isolation, but also little hope for creating synergies that could reduce operating costs. For example, to operate a business a designer needs to designate time to design and manufacture as well as to marketing and administration. The cost and time designated to marketing and administration could easily be reduced if several designers grouped together and consolidated efforts and shared costs.

The DFAIT (2001), in the *Study of the Crafts Sector in Canada*, points out that one of the reasons the industry has likely remained fragmented is that from an economic point of view "there is no great advantage to be gained by any one producer actively working to develop markets on behalf of the whole group" (p.41). This fact is true when the products concerned derive their value from their originality and quality.

For many the marketing activity has remained as the responsibility of the designer. Yet, promotional activities are expensive. Whether attending retail or wholesale events, the cost for each designer renting a booth, shipping product, and producing promotional material is a substantial percentage in terms of sales revenue that is generated. Though promotional events such as trade show are a great means through which to reach customers, the model might be improved upon through a collaborative effort.

Discussions with exhibitors at trade shows have provided some anecdotal indications that a large percentage of designers find trade shows very costly in terms of

time, energy and money. Exhibitors also indicate that they would rather not personally participate in the trade show, but that there are currently few suitable options.

A typical budget¹³ for participating in a trade show in Toronto is illustrated in Table 7.

Typical Expenses for Trade Show Participation	
Expense	Amount
Freight cost to and from the trade show	1,000
Booth rental (100 sq.ft. electrical, cleaning, etc.)	1,500
Hotel (7 nights)	1,000
Meals, entertainment (9 days)	500
Travel (plane ticket, taxes, cabs, misc.)	1,000
Promotional material (catalogues, invoices, office supplies)	5,000
Total	10,000

Table 7: Typical Expenses for Trade Show Participation

The cost of approximately \$10,000 is incurred twice a year and does not include the cost of fixed assets such as product samples and booth furnishings such as flooring, walls, lighting, and shelving. Though these are assets, they incur expenses because these fixtures need to get shipped to and from each trade show event. Wholesale shows take place twice a year, and noteworthy retail shows are annual¹⁴ or semi-annual events. In addition to the economic costs, the opportunity cost for a designer to participate in a Toronto trade show is at least equivalent to three weeks of time¹⁵. Taking the median annual revenues for Canadian designers of \$90,000 as an indicator, suggests that the cost of \$20,000 of annual trade show expenses account for 22% of annual revenue. This figure does not include the opportunity cost of six weeks of labour (three weeks per trade show).

¹³ All numbers are approximations from personal experience.

¹⁴ The Circle Craft Show is an annual B2C event held at Canada Place every November. It attracts 500,000 per show. *Circle Craft Co-operative*, retrieved from <http://bcics.uvic.ca/galleria/bc.php?tourtype=1&group=4&story=27> on May 11, 2004.

¹⁵ 3 days of packing up product and booth display, 1 day of personal and family preparation, 1 day for travel, 1 day for set up, 5 days for the actual trade show, 1 day for take down, 1 day for travel, 2 days to unpack the freight.

This illustration is only one example of the costs and efforts that go into larger scale events. Aside from wholesale trade shows, designers are often directly involved with sales to customers in their immediate vicinity. It is not unusual for a designer to make sales calls to 10 or 20 customers (retailers) within a reasonable driving distance¹⁶. This type of sales activity is personalized and time consuming, the designer will load up the car with samples and travel to the appointments scheduled for that day. At each location the designer is showing samples, writing orders, and building relationship with the proprietor. Though this could easily be identified as a strength for the domestic manufacturer (because retailers enjoy the direct sales approach), it is a time consuming effort for both parties involved. A retail outlet sized at approximately 1,500 sq.ft. may have as many as 60 suppliers. A proprietor would be hard pressed to set up appointments (and time away from their customers) to see each supplier. Likewise a designer may have 20 stores within reasonable proximity to visit, but the accounting and opportunity cost of this type of marketing can easily be underestimated and not budgeted for when calculating total operating expenses.

4.2.2 Limited Business Skills

The Community Economic Development Corporation Victoria (CEDCO) (2002), published a report that lists some of the limitations identified by designers themselves. For a sole proprietor to be successful in this sector s/he must be able to perform many skills well. It is not likely that all the skills required are considered a core competence for the designer. The report lists some of these admissions by 100 interviewees, among them are:

- “Lack of business acumen” (p.3)
- “Need for support to market products” (p.10)
- “Recognition that they are artists first and not business people” (p.12)
- “Skill gaps in general business, particularly in marketing, finance and pricing” (p.26)

¹⁶ Better customers receive at least 6 sales calls per year, otherwise at least 4.

- “The artistic nature and strengths of craftspeople is in conflict with the requirements for linear and logical thinking, required to succeed in business” (p.19).

Anecdotal evidence by the author from colleagues further supports these conclusions.

4.2.3 Inability to Grow a Brand

This point is likely the most overlooked aspect of building value into products designed by Canadians. Designers place much emphasis on quality and uniqueness and have historically depended on these two factors to create the most value. However, as in other creative industries it is apparent that much value can be added to a product by additionally focusing on brand creation to increase the awareness for authenticity of a design. For example, the fashion design industry is well accustomed to the practise of name association with a particular garment. A label in this industry increases the value of a product and protects against design theft at least to the degree that the label cannot be copied. Business activities in other cultural and artistic sectors follow the same format. For example, the music industry depends on agents to promote the artists, as does the film industry, performing arts industry and the visual arts industry.

On that note, perhaps branding is an untapped potential of revenue creation and value ad in the design Industry for fine home furnishings. Possibly this focus has been difficult to pursue simply because of the nature of the industry. Designers operating small businesses may be less inclined to self-promote their full name.

It may be worthwhile to explore the option of professional agents working directly for designers and promoting talents on their behalf. The gift industry is well accustomed to Sales Agents who in a general sense promote a brand; however, this branding activity is often more an afterthought than a strategic priority, since an agent represents many brands. Therefore it would be a conflict of interest to show preference to one particular brand.

4.2.4 Inertia to Aggressively Engage in Business

It is with caution that this factor is included in the discussions concerning artists and designers. It does not imply that designers are not motivated or perceived lethargic in terms of staying active in their profession. On the contrary, designers are typically quite engaged in maintaining a network of resources that inspire the creative temperament. The term in this context is referenced to the business responsibilities of sales, marketing, accounting and administration. How these tasks are prioritized in relation to the development of artistic skills on any given day does pose an important issue that deserves consideration. Particularly in the factor discussion of weaknesses that contribute to the competitive disadvantages of designers and how they engage in the market. This active engagement is not only required to design products but to also bring products to market. To do so effectively it is beneficial to also understand the larger issues facing the industry (i.e. market trends, disposable income, etc.)

Markets are not stagnant and economies are not frozen in time. The competitive environment is constantly changing and with that business strategies need to keep pace. Failure for a firm to adapt and failure to engage is likely the greatest weakness of Canadian designers. On both the domestic and international stage, firms can easily become invisible and ill-adapted in a short time. Perhaps the industry on the whole is already perceived as such. The DFAIT (2001) study, quotes the board chair for the Crafts Organization Directors Association (CODA) who referred to the industry as the “country’s biggest invisible industry” (p.34). It is this lack of visibility that is of consequence to the Canadian design industry. The ability and focus required to combat this perception can be difficult to rouse among many small firms that remain independent.

4.3 Opportunities

4.3.1 Branding Canada

Canadian designers have tremendous opportunities, not just in terms of branding their name, but also in terms of branding Canada. Historically, there are examples of

fragmented industries that have consolidated towards a national strategy for the purpose of global recognition.

Porter M. (1990) in his publication *The Competitive Advantage of Nations* uses the Italian ceramics industry to illustrate how fragmentation can result in successful place branding. For example, in 1987 356 Italian firms generated \$3.2 billion dollars in revenue. "The largest firm accounted for only 5.3% of revenue and the top 20 firms for only 37.2%" (p.221). "Virtually all of these firms were privately held and most were family run" (p.216). Most of these firms belonged to an association Assopiastrelle established in 1967, which among other functions planned a strategic promotional agenda. In the mid 1980s this association responded to a mature home demand by organizing elaborate trade shows in locations ranging from Bologna, Italy to Miami, Florida, and by printing expensive advertising in popular trade publications. Assopiastrelle also opened trade promotion offices in New York, Germany, and France. The text mentions a figure of \$8 million which was spent on US promotional activities in the period from 1980 to 1987.

The fragmented nature of the Italian ceramics tile industry contributed to the geographic clustering of talent, knowledge and production of related industries. This was an outcome of many privately held firms competing intensely in the Sassuolo area, the text suggests that sustainable competitive advantage for the Italian ceramics industry grew through dynamism and change rather than through static or historical advantage. This resulted in a subculture of world class industries that were so well interlinked that on a global scale this reinforced the Italian strength in tiles (Porter, 1990). The Italian ceramics industry is quite complex and more factors contributed to the name branding for Italy than are mentioned here. However, one of the keys for the industry, at least for a period of time, appeared to be the consolidated marketing strategy.

DFAIT (2001), lists more examples of countries that have branded themselves in similar ways; among them are the Czech Republic which has become known for its glass and Switzerland which has become known for its watches. In much the same way Canada has an opportunity to gain global recognition for design through the strategic marketing (national and international).

On a domestic note, the wine industry in Canada, though operating as many individual family owned vintners, has been most successful in forming the Vintners Quality Association (VQA). The VQA label has become a well recognized brand in international markets signalling high quality Canadian wine, particularly ice wine. Though a different industry altogether, the concept of gathering around a common agenda has served Canada as well as the industry while maintaining the benefits of autonomous operations.

4.3.2 Market Size

The same report by DFAIT (*The Study of the Crafts Sector in Canada*, 2001) states that the domestic market size for crafts is estimated at \$750 million (excluding exports). This figure is not qualified and appears to be retail value; in that event the wholesale value to the Canadian designer would translate into approximately \$250 million to \$300 million for the crafts sector. Table 5 (Estimated Range and Market Size) shows that a speculative value for crafts in Canada is in a range of \$196 to \$392 million.

In the DFAIT (2003) study on *The Giftware and Craft Market in the United States*, states that though the US industry is highly fragmented with 70,000 independent retailers, these retailers account for five times the market share of department stores for giftware. Comparatively speaking it may be possible to extrapolate that Canada may have 5,000 to 7,000 independent retailers. According to the Retail Council of Canada (n.d.) in *Retail – The Heart of Every Community*, the domestic retail sector in 1997 consisted of 173,500 stores (p.117) and was dominated by small businesses. 35% of the 1682 furniture and home furnishings stores had less than four employees. This sector may be extended to include the 5,482 stores that are categorized as “General Merchandise Stores and Miscellaneous Stores” (p.118); it is likely these numbers include the gift and crafts stores which are of interest in this study. (The sum of 7,164 in these two categories is close to the figure of 7000 extrapolated from the US figures.), 57% of these stores have less than four employees

marketpulse (2003) is a survey of 1630 Giftware retailers and indicates that over half of the stores surveyed have less than three employees. 33% have less than \$100,000 in sales, 54% have annual gross sales of \$100,000 – \$999,999, and 11% have

sales between 1 – 3 million (2% did not respond). 73% stock Canadian – made products and 34% stock handmade products.

In dollar values there is some indication on the Canadian retail trade by Statistics Canada (n.d.a) *Retail Trade 2003*. Excluding grocery and automotive, retail sales amounted to \$120.6 billion for 2003 of which \$3.9 billion is recorded for household furnishings (excluding furniture & appliances).

4.3.3 Exports to the US

The DFAIT (2003a), report on *The Giftware and Craft Market in the United States* cites figures that the US gift industry in 2002 was valued at \$113.7 billion and has experienced growth of 8.6% and 6.2% in 2001 and 2002 respectively. Of this number, the home decorative accessories segment is the fastest growing and constitutes the largest share of the overall market with 26.2% of the industry in value terms¹⁷. The giftware market is forecast to increase by 35.1% in market value over the next five years averaging a 6.2% growth annually. Performing those calculations means that the home decorative accessories segment in the US is valued at \$29.8 billion and is expected to grow to \$40.2 billion by 2007.

The DFAIT (2003b) study, *A Guide for Canadian Exporters of Aboriginal Arts and Crafts* is a US Market Report that quotes an August 2002 press release by Unity Marketing. The report predicted the future of the giftware industry to be positive for several years as “a consumer reaction against increasingly technology-driven culture” (p.4). It goes on to say that the giftware industry is meeting the consumer needs for products that “provide visual and spiritual enrichment and harmony in their lives” (p.4). While qualitative predictions are encouraging, the report adds some quantitative results that equally speak to the opportunity of exporting to the US. In 2000, 54% of total sales of the average US gift company came from products produced outside of the US of which 9% came from Canada. Most notably are the categories for exports included in this study such as: original sculptures, statues, ceramic products, clocks and glassware for tables and kitchens. The total for these categories is \$153 million. Again, this figure must be treated with caution, because the gift industry exports from Canada to the US

¹⁷ Other segments in the US Gift industry include stationary and paper products at 23.9% market share, general gift at 20.3% market share and collectibles representing 18.1% market share.

may be manufactured in Canada, but they may also be exported to the US from a Canadian importer who acquired the product in Asia.

The DFAIT (2003a) report on the giftware and craft market states that the gift industry is estimated to contribute \$21.6 billion to the US economy. From the DFAIT (2001) we are told that the Quebec's craft sector has recorded exports to the US in 1999 that reached \$217 million¹⁸. Again, this number needs to be treated with caution because the crafts sector includes so many segments not included in this study.

Though the figure of \$217 million appears to be somewhat dated, it does indicate that it has been worthwhile for the Quebec Craft Council to measure the economic activity of this sector. If exports by the province of Quebec were that active in 1999, then it is likely that the current total of Canadian exports is significant.

Canada is still the main economic trade partner of the US. Probably an understanding of the US market is the biggest advantage that Canadians have, relative to other exporters. Considering the collective reports from these sources seems to suggest that the US is a desirable target for international marketing strategies. The Canadian export initiatives from the gift and crafts sectors are already established to a measurable degree. The opportunities for Canadian designers are presented by the projected growth of the gift industry which is estimated at 35.1% over the next five years.

4.3.4 Consumer Trends

Ljucovic (2004), in *What do They Want?* summarized a series of interviews with leading Canadian authorities on such topics as: home style, global retail and consumer trends, economics, retail, consumer behaviour, and market research. Dominating the consumer trends are the 10 million Canadians who are labelled as the aging baby boomers. This demographic is of significant relevance as they are becoming empty nesters and are moving or remodelling and making more luxurious buying decisions about home decor. They are purchasing quality items in sophisticated styles and materials. This consumer behaviour has a direct impact on retailers and what they need to offer.

¹⁸ This figure likely represents wholesale dollar value since it is difficult for regulatory reasons for Canadians to perform retail sales in the US.

The article by Ljucovic (2004) also predicts that this demographic will rather redecorate their home than travel. The author suggests that this is an outcome of the “cocooning trend”, a trend that places high priority on home comfort and home style. This is accomplished by combining commodity items from big box retailers for the essentials and by adding luxury items from destination shops for those items that are “heart-pounders”. Heart-pounders are products that evoke emotion, feeling and touch and that drive the buying decision of this demographic. These products must have a sense of high quality, uniqueness and good craftsmanship that contribute to longevity.

The author identifies the second most important growth demographic as the “echo boomers” who are in their early 20’s. These are the children of the boomers who are leaving home and setting up their own living quarters. They have a well developed sense of style, disposable income, and are not likely to live with hand-me-downs.

These trends present some remarkable opportunities for Canadian designers to provide niche items for domestic consumers. The target market for the Canadian designer is not only the end consumer through retail strategy, but also the wholesale buyer of the retail outlet that needs to supply the end consumer. Whether wholesale or retail, Canadian designers have an opportunity to rise to the occasion and to leverage their talents and skills.

4.4 Threats to Domestic Designers

There are two significant threats posed by the industry that may become of consequence to designers. Awareness and responsiveness to these threats may contribute towards a sustainable competitive advantage for the firm.

The two most significant threats posed by the industry are those of foreign competitors and the lack of infrastructure. For a Canadian designers to plan strategically they must understand the implication of these looming threats that can hinder the growth or sustainability of the firm.

Increasing imports from Asia and Europe may gain sufficient market acceptance to impact products of Canadian origin. The differentiated product strategies from Europe may have the ability to replace the differentiated product currently offered by Canadians.

Likewise, improved product quality from Asia may blur the line between differentiated products from Europe or Canada.

4.4.1 Foreign Competitors

Mention has been made repeatedly of the cost based manufacturers who predominantly import from Asia. Since these products have a reputation for being mass produced and of lower quality they are not perceived as a direct threat because the products by Canadian designers are more unique and of higher quality. The threat posed by Asian manufacturers will likely become more significant as production processes improve and quality control issues are resolved. This is already taking place to some extent through importers such as Bombay Company who are integrated across the value chain. Bombay Company has a network of overseas contract factories that manufacture quality reproductions of turn-of-the-century mahogany products that are distributed through their own retail chain of 400 stores across North America (www.Bombay.ca). This is one example of how a cost based manufacturer has achieved a solid market presence. Others may emerge, and although it is not likely within the short term, it can be anticipated over a time span of five to ten years.

The most significant immediate threats are those posed by imports from European countries such as the U.K., Italy, Spain, Germany, and France. These products are known to be differentiated, high quality, and design savvy. Consistency in quality is not an issue and European style trends are well regarded in the global industry for home furnishings. Since the European Union continues to gain new members who are able to adapt to production capacities at reasonable labour rates, it can be anticipated that the threats posed by these imports will be significant for products of Canadian origin.

4.4.2 Lack of Infrastructure

The types of infrastructures that are in place to date seem to facilitate both B2C and B2B marketing activities on a limited basis. The crafts industry has provincial and regional associations that in varying degrees of effectiveness provide B2C distribution channels that target regional sales through retail shows. Some of these retail events

have become notable and quite profitable, such as the Circle Craft Association in BC operated by the BC Craft Association. The associations in the gift industry and the home furnishings industry are predisposed towards the B2B marketing needs. Contrary to the crafts industry, membership in these sectors provides exposure in trade shows and design centres that draw national and international buyers and thereby target the wholesale buyer.

However, whether wholesale or retail, designers are still left to manage their own marketing agenda, business administration, and promotional activity. The combined costs of these business processes incur expenses and time commitments that are not necessarily efficient if hundreds, possibly thousands of artisans need to perform these individually and on an ongoing basis.

An exception to the high cost for marketing is a consignment arrangement with a retail location. In this event, the designer provides the inventory for the portion of the retail space s/he is entitled to. Though this is a favourable arrangement and can be profitable, the reach for the product remains limited because a retail store is not engaged in national and international distribution strategies. An example of such a retail arrangement is the Circle Craft Store at Granville Island in Vancouver, BC

For this reason, it is important to note that though there are infrastructures for these designers, they do present significant limitations by either expecting the designer to still perform all their own business administration and marketing, or by providing only local distribution¹⁹.

Furthermore, infrastructure is limited in terms of provincial and federal supports that are necessary for the Canadian design industry to be recognized, supported and promoted. An underlying problem is one that already has been mentioned in Chapter 2. Specifically, Canadian designers are not well categorized in terms of industry or occupation because their skills and talents span a broad spectrum of definitions. Perhaps there is a misconception that the cultural contributions are possibly not as relevant as those of performing artists and visual artists simply because the activity of

¹⁹ The Quebec Craft Association appears to be fairly well organized and may provide supports that are not included in this list. Time constraints have not allowed for a thorough review of this association.

designers is difficult to measure. There has been little effort made to date that sufficiently measures the economic contribution and economic activity. The CEDCO (2002) article, *Community Promise*, identifies the most obvious gaps in infrastructure, such as: education, promotion, government policy, and financing.

At the time this report was written Canadian designers and crafters were not yet included in the definition of cultural industries such as publishing, film, music, or the visual arts. While these industries enjoy supports in policy, financing, and promotion, the benefits of government programs are not easily accessible to the Canadian designers (p.2, 3) and at best quite limited. The report goes on to state that “access to marketing services through government programs is irregular” (p.22). The report does not clarify what these programs are or what determines the availability.

An interview with the Cultural trade commissioner (personal conversation, Patricia Elliot, May 27, 2004) at the Vancouver office did confirm that on a federal level Canadian designers have been included in the definition since November 2002 and can now apply for funding allocated to this sector. One such program is entitled ‘Trade Route,’ this program assists export strategies and will supply up to \$100,000 for a firm who is approved.

Though awareness is beginning to grow, the CEDCO (2002) report does state that the craft sector is in need of “a long-term strategy ...to overcome years of neglect and to realize the crafts sector’s potential to contribute to economic, social, and cultural development of local communities” (p.4).

Approval for financing is difficult to obtain as small business owners have difficulty accessing data that will substantiate business plans and that is adequate to meet lending criteria. The report indicates that the small scale nature of the businesses and the low incomes are reasons why this sector may benefit from outside support and resources.

4.5 Forming A Strategic Approach

In an attempt to identify the issues for Canadian designers, such as the factor discussion on the weaknesses and threats, it is important to balance this information

with the discussion of strengths and opportunities. To do so allows for a balanced approach in setting strategy.

Referring back to the introductory paragraph of this chapter, we are reminded that the purpose of the S.W.O.T. analysis was to help form a very practical strategy that might better insulate the firms of Canadian designers against the competitive forces discussed in Chapter 3. This takes the focus back to the opening question of this chapter that enquired how Canadian designers may best:

- Lessen the threat of entry,
- Strengthen or increase strategic positioning against rivals,
- Decrease the threat of substitutes.

As long as an industry remains fragmented and is composed of many small to medium sized firms with easy entry and exit opportunity, it is not easy to hedge against new entrants. An advantage does accrue to a firm that begins to grow and gain a solid foothold in the industry. The size of the individual firm can create a competitive advantage and place some barrier between the threats posed by new small sized entrants. In other words, once a firm becomes mid-sized it is better positioned against small firms entering. Canadian designers may be well served to consider options that might consolidate small firms into a mid-sized firm that may better leverage its size.

The threat of entry can also be defended through improved business processes. In an industry where the core competence rests on creative capabilities, it would be logical to insulate against competition by equally developing business capabilities. However, designers by their own admission do not list business skills as a core competence. Designers may need to acquire training in business administration and marketing, yet this is sometimes difficult to access. Training in and of itself does not necessarily suffice for ongoing business intuition that is required over the long term.

Similarly, it is difficult for many small firms to reduce the threats posed by rivals of equal or larger size. For time being differentiated products, domestic manufacturing and quality control have helped the designer keep the foot in the door; however, financial

constraints and lack of business acumen render a firm fairly helpless when competing against like size firms or larger firms.

Threats of substitutes may be lessened through a strategy that helps to build a brand and that simultaneously helps to promote beautiful products. A strategy that focuses on both of these aspects will lessen the threat of substitutes. The reasoning would be that even though it may be possible to find an alternative gift for the home than something that is decorative, the options of substitutes are reduced when the consumer becomes more committed to a brand. In this case the buying decision does not rest on the product alone, but also on the designer who created it. The purchase decision for a gift may very well centre on a piece from a particular artist as opposed to a generic product of unknown origin that is not authentic.

Though Canadian artists have distinct strengths and very real opportunities, it is difficult for firms of their size to fully leverage these advantages given the inherent weaknesses and the current state of the industry. Without a consolidation strategy to circumvent most of the weaknesses it will be difficult if not impossible for the typical firm to build and sustain competitive advantage.

5 RECOMMENDATION

In response to the S.W.O.T. analysis of Chapter 4, this chapter will make a recommendation in the form of a new business entity. The purpose of this new venture is to support and to strengthen the competitive advantage of designers and to position these designers more strategically for the opportunities presented in the market. To accomplish this purpose the Canadian Designer's Guild will be founded to recruit the best designers who are currently active in the industry and to form a consortium. It will be a privately held for-profit business and pursue the following business plan:

5.1 Canadian Designers Guild (CDG)

5.1.1 The Business Opportunity

The Canadian Designers Guild (CDG) will professionally represent designers and provide the branding, sales, marketing, and administration backbone for national and international wholesale (B2B) activities. It will establish a cooperative marketing agenda to sufficiently promote Canadian talent in the US, Canada and in new markets abroad.

CDG is thereby supplying improved business processes to better facilitate the market activity that is already taking place. In so doing it will create competitive advantage for the members and will increase awareness for products of Canadian origin. CDG will benefit from first mover advantage and can therefore set a high standard that will create barriers to entry.

The core objectives of this venture are to:

- Provide responsible sales, marketing and administration services nationally and internationally
- Be an acting agent and professionally represent domestic talent

- Brand the designers
- Strategically brand Canada for design in Home furnishings
- Collect market intelligence and strategically chart growth for domestic and international expansion
- Form an infrastructure for its members that will
 - provide education
 - network communication
 - establish association
 - provide member benefits
 - set industry standards for quality of product
 - monitor integrity of design and push the standard for artistic merit
- Access private and public funding
- Lobby for policy improvements.

Much like a hub and spoke system, this agency will be the administrative center (the hub) of the consortium. Through technology, this hub will be connected to the various artists across Canada who will remain working in their current workshops (the spokes). It will hold contractual agreements with each designer that clearly list the services provided and the associated commission for services rendered. The fee structure for a designer with current annual revenues of at least \$75,000 will be approximately 30% of total sales.

5.1.2 The Market

Since this venture is an intermediary between the designer and the retailer (for B2B transactions) it considers both as customers. This business entity needs to prove its value first and foremost to the designer who needs to be willing to pay a commission to the agency for services rendered and secondly, to the retailers, who need to place orders with the agency.

5.1.2.1 The Designers

CDG will recruit the best Canadian designers who are currently participating in either the home furnishings industry, or the gift industry or the crafts industry. These designers will have been active for at least three years and will have annual revenues of at least \$75,000. These individuals are committed full time to their craft and to the development, design, and supply of differentiated products.

The targeted designers will recognize the inefficiency of the current market environment and will appreciate the value added benefits of operating through a consortium. These designers will welcome the opportunity to pass off the marketing and administration responsibilities of their business. They will also be able to identify that valuable synergies are created when cooperating as a group under a common marketing agenda. For example, if each designer submits a customer list into one common database, then the collective customer list from all designers will instantly increase the promotional reach for every designer. To compile the customer lists may be perceived as a downside for many designers who would view the need to share their database with others as a threat. This response is not unreasonable. On one hand sharing a database may be considered a loss; on the other hand gaining access to 29 new databases may be seen as a gain.

CDG will recruit a minimum of 30 designers with complimentary products and over the ensuing 48 months recruit at least another 40 designers to gain a substantive market presence. Though these numbers are considered conservative, it is believed that a start up size of 30 designers is necessary for a launch²⁰. The projected size of 70 members at the end of the fourth year is a conservative figure. It is conceivable that CDG can become the national organization to represent hundreds of qualified artisans.

The initial group of designers will also form the focus group for setting the marketing strategy that will target the retailers (their collective former customers).

²⁰ Market research will indicate if this number is grossly understated. There may be significantly more interest than what is projected at this time.

5.1.2.2 The Retailer

This customer is a North American buyer who regularly attends the trade shows that support the gift, craft, and home furnishings industry. This individual looks for differentiated products and values the benefits associated with domestic supply. This customer is very aware of style trends and makes the buying decisions for retail outlets that target niche markets. This customer looks for the creative and unique, the purchase decision rests on artistic merit, quality, and price respectively.

The focus in the first twelve months will be to properly serve the existing retailers and ensure that attrition through consolidation is minimized.

5.1.3 The Product and Service

CDG will operate under a differentiated product strategy for both the designer and the retailer. CDG will market a superior business service to the designer and a high quality Canadian product to the retailer. It will take pride in offering professionalism and expertise and market 'the best in class' of home furnishing designs in a manner that will exceed industry standards.

5.1.3.1 The Service to the Designer

Services to the designer will include the production of professional promotional material, development of a website, development of a brand, and labels that will identify CDG and the artisan. In addition CDG will perform the trade show marketing responsibilities such as order taking and processing, invoicing, and receivables. CDG will actively study untapped markets, gather market intelligence and establish new international markets.

5.1.3.2 The Product for the Retailer

The products for retailers will be high-end home furnishings of Canadian origin. These products will hold artistic merit and be of high quality. The retailer will benefit from one large vendor who will represent many complimentary products. The retailer will also benefit from all the advantages associated with domestic suppliers (for Canadian

retailers) or North American suppliers (for US customers). The retailer will have access to a talented design team that is responsive to market trends and market demand.

5.1.4 Competition and Competitive Insulation

The current options in the market are twofold. Designers either need to perform their own marketing or they may access the services of sales representatives. CDG is a unique business model for Canadian designers and differentiated on several fronts. The objectives of CDG have already been stated and the service products to designers have been outlined above. The services offered through CDG are superior to services that are currently available.

According to the Cultural Trade Commissioner in Vancouver (Patricia Elliot, personal conversation, May 27, 2004) there is no such consortium currently operating in Canada. There are however, small groups of designers who have formed a business partnership and who have been successful in exploring foreign markets as a localized business unit; however, there is no business entity that is operating on the scale presented by CDG, nor is there awareness of a business that is operating under this concept.

The competitive advantage in the domestic industry will be well hedged as CDG will have an immediate size advantage and contractual agreements with members. The designers that it will recruit will be small sized businesses of less than four employees; CDG can offer these designers marketing and promotional services that are beyond the reach of the individual firm. Once CDG begins operations its size advantage will provide a favourable position against competing Canadian firms that supply comparable products. The consortium at the start up stage will represent a business of 4 employees serving 30 designers. At the end of the fourth year CDG is projected to reach 9 employees and represent 70 designers. The competitive insulation is supported by the size of the firm and by the ability to be the first to approach designers and recruit the best of the best.

Foreign competition from Europe is already notable in the Canadian and US markets for fine home furnishings. The CDG will better position its members to compete against these imports as the advantage of size will allow for greater marketing power

and hopefully more thorough penetration. CDG will seek to increase the Canadian market share of home furnishings in the domestic industry and position Canadian designers to better compete internationally.

CDG provides a solution to the diminishing presence of Canadian content and will increase the competitive advantage for all domestic designers who are qualified through superior design skills and quality manufacturing.

5.1.5 Financial Projections

For a minimum start up size this venture will require \$400,000 of financing. For all intents and purposes this is presented as debt financing in the financials. Recognition is made that this financing may also be acquired through equity capital. The financial projections assume that the 30 initial designers will have annual revenues of at least \$75,000²¹ and that the additional designers added to the consortium will have annual revenues of at least that amount. Another assumption is that the transition from sole proprietorship to the consortium will not decrease sales for the designers involved. Also, it is anticipated that CDG will improve the annual revenues of at least half of the designers to sales volumes of \$100,000 to \$125,000 through international trade shows, increased exposure and through branding.

The financial statements below are a sample of how this venture may create profits. These statements are intended to illustrate the financing model for a sample size of 30 to 70 designers. The statements provided here anticipate the revenue stream and project the potential expenses that may arise from such an undertaking. Once more due diligence has been performed to determine the interest from designers for such a venture then it would be possible to establish a set of financial statements that more accurately reflect the actual response from designers as opposed to the predicted response.

The financial statements presented here have been prepared on speculation as opposed to thorough research. Pro-forma statements are prepared for four years, it is

²¹ Data from the CGTA trade show and from the DFAIT (2001) study both suggest that this amount is realistic and may actually be modest. While revenue of \$75,000 is assumed, it is likely that this venture will have 12% of members that produce \$100,000 to 125,000 annually initially and increasing to 60% by the end of the fourth year.

important to consider that an undertaking such as CDG will likely require a time frame of six to eight years to reach maturity and the return on investment should be calculated over that time period. Though CDG would reach break even and positive cash flow in the third year, it is anticipated that positive net income would be heavily re-invested back into promotion and growth for at least eight to ten years.

5.1.5.1 Start Up Expenses

The start up costs are generous as there is still outstanding due diligence that should be considered before the implementation of this plan. A \$35,000 budget is allocated for travel to trade shows, research, and wages to get an accurate indication about the interest for such a venture from designers. The \$30,000 which is allocated to the marketing campaign would be a budget that allows for the recruitment of designers. Part of this budget is to allow for the networking of knowledge and for creating the much needed buy-in from designers. Without buy-in, this venture would rest on a shaky proposition; the reality is that time and money invested to achieve the necessary commitment should not be sidestepped.

\$20,000 has been allocated to the cost of incorporation, logo design, legal advice, and other procedural responsibilities such as the set up of accounting procedures and administration policies.

More due diligence is required for projecting the information technology and Information system (IT/IS) expenses. It is uncertain if the amounts stated are sufficient to perform the required tasks. The IT infrastructure is detrimental to the success of this venture and for this reason these amounts need to be confirmed.

Start up expenses also includes the acquisition of assets such as office furniture, equipment and trade show fixtures.

Canadian Designer's Guild Startup Expenses

General expenses	Cost	Totals
6 months of market study & due diligence	35,000	
Initial business plan	5,000	
Develop web site	10,000	
Hire staff	5,000	
Incorporation, legal advice, logo design	20,000	
Initial marketing campaign	30,000	
Stationary		
Letterhead	500	
Business cards	200	
Pens, paper...	200	
Total general expenses		105,900
Office fixed assets	Cost	
Equipment and furniture		
Fax and photocopy	1,500	
Phone	1,000	
Microwave / coffee maker	200	
Furniture	10,000	
Kitchenware	500	
PCs	6,000	
Software	10,000	
Printer	600	
Total Canadian office		29,800
Trade show fixed assets		
Flooring	6,000	
Lighting	1,500	
Shelves / display furniture	20,000	
Equipment (PC / printer)	5,000	
Total trade show assets		32,500
Total start-up expenses		168,200

Table 8: Start Up Expenses

5.1.5.2 Pro-Forma Income Statements

Income statements for four years show positive net income in the second year despite substantial increases in sales and marketing expenses at the 18 month mark. The expected increase in sales generated from targeted sales and marketing efforts

offset the costs and produce positive net income in the second, third and fourth year of \$69,327, \$314,298 and \$423,381 respectively.

The long term debt obligations are met in the third year and the savings of the obligatory interest and principal payments further support positive cash flow. It is also expected that operating expenses will be more efficiently allocated as the number of designers increases to 70 at the end of the fourth year.

The income statement reflects sales volume of the gross amount, with the cost of goods being the 70% of revenue that will be passed on to the designers. Gross margins on sales are therefore 30%.

Start up expenses are 100% allocated into the first year of operations except for the cost of fixed assets. These assets are recorded in the balance sheet (Table 10) and depreciated straight line over a five year period. The first year depreciation amount of \$12,460 for fixed assets is recorded in the initial year of operations.

Taxes are estimated at 30%, this figure is likely aggressive and perhaps should be more accurately stated around the 20%-25% range for small businesses. The intent of the financials is to state expenses aggressively and to state revenues conservatively. Revenue will be proportionately higher if an initial group of eighty designers is recruited prior to start up. However, for the purpose of this exercise, it is necessary to show that even a small number of designers can collaborate around a potentially lucrative business relationship.

Canadian Designer's Guild
Pro-forma Income Statement for Years I through IV

	Year I	Year II	Year III	Year IV
REVENUES				
Sales*	2,445,833	3,331,250	4,816,667	5,841,667
Cost of goods sold **	1,712,083	2,331,875	3,371,667	4,089,167
Gross profit	733,750	999,375	1,445,000	1,752,500
EXPENSES				
Operating expenses				
Offices	59,400	59,400	60,600	61,800
Advertising	422,210	482,210	542,210	622,210
Wages	213,600	327,600	371,400	451,200
Startup expenses	105,900	-	-	-
Total expenses	801,110	869,210	974,210	1,135,210
Operating income (EBITDA)	(67,360)	130,165	470,790	617,290
Interest expenses L.T. Debt x 7%	28,000	18,667	9,333	0
Depreciation (straight line, 5 years)	12,460	12,460	12,460	12,460
Income before taxes (EBT)	(107,820)	99,038	448,997	604,830
Taxes on income (30%)		29,712	134,699	181,449
Net income	(\$107,820)	\$69,327	\$314,298	\$423,381

Table 9: Pro-forma Income Statement for Years I through IV

5.1.1.3 Balance Sheet

The balance sheet is the product of the income statement, the cash flow statement, the liabilities statement and the statement that reflects operating expenses. Cash of \$300,000 in the first year indicates that \$100,000 of the \$400,000 loan have been allocated towards accounts payable. Accounts receivable are 80% of the first year sales revenues of \$733,750, the balance of the 20% will be collected in the second year and is cumulative with 80% of second year revenues.

The low value for fixed assets reflects the service nature of this venture. One way to increase assets and reduce operating expenses is to explore the option of purchasing the real estate required for the operations. In the long term the lease payments of \$60,000 annually may be better invested in the purchase of a plant.

The amount of \$400,000 start up capital is reported as a liability in the form of a three year loan. This approach results in a smaller return on invested capital than an equity investment of \$400,000. The interest and principal repayments would lower the values for the internal rate of return (IRR) and net present value (NPV) calculations, since the cost of the interest on the loan would negatively contribute to these ratios.

The income statement presented here does not reflect the tax savings of the losses posted in Year I. The projected loss in the first year will lower the taxes payable in the following year(s) depending on the permissible tax deductions at the time of the undertaking.

It would be desirable to raise equity capital to alleviate the obligatory payments of principal and interest in the first year of operations. The initial five years may prove to be particularly challenging as the firm will focus on meeting the expectations of designers, customers and financiers. The relief afforded by an equity investment would therefore be a welcome solution to the financial model presented here.

Canadian Designer's Guild
Pro-forma Balance Sheet for Years I through IV

	Year I	Year II	Year III	Year IV
ASSETS				
Current assets:				
Cash	300,000	166,666	183,333	350,000
Accounts receivable	146,750	199,875	289,000	350,500
Fixed assets:				
Offices and other fixed assets	49,840	37,380	24,920	12,460
Total assets	496,590	403,921	497,253	712,960
LIABILITY				
Current liability				
Accounts payable	204,410	175,748	88,115	13,774
Current portion of the l.t. debt		133,333	133,333	-
Non-current liability				
L.t. debt	400,000	133,333	-	0
EQUITY				
Shares				
Retained earnings	(107,820)	-	38,493	275,805
Total liability and equity	496,590	403,921	497,253	712,960

Table 10: Pro-forma Balance Sheet for Years I through IV

5.1.5.4 Cash Flow Statement

The method for calculating cash flow has already been alluded to above; the collections are expected to be 80% of the annual gross profit. Consequently, the collections in year I are 80% year I gross profit, the collections for year II are the balance of year I collections (20%) and 80% of gross profit for year II, and so on.

Again, the amount for taxes is overstated, as are the cost of operating expenses. This approach results in a conservative cash flow trend. The initial year of operations charts positive cash flow from the injection of cash through the long term loan. Cash flows are negative in the second and third year as marketing costs and international expansion strategies are explored and implemented. The expansion into the US market contributes to increased sales volume in the third and fourth year and consequently to positive cash flow of \$16,667 and \$166,667 respectively.

As the firm becomes more familiar with the industry and with marketing options it will focus on redirecting funds that are designated towards operating expenses towards capital expenditures. To do so would contribute more positively to the firm in the long run. The \$1.1 million of operating expenses in the fourth year can likely be invested more wisely as the firm explores more favourable options for this outlay of cash.

Canadian Designer's Guild Cash Flow for Years I through IV

	YEAR I	YEAR II	YEAR III	YEAR IV
Collections	587,000	799,500	1,156,000	1,402,000
		146,750	199,875	289,000
Total collections	587,000	946,250	1,355,875	1,691,000
L.t. debt	400,000	-133,333	-133,333	-133,333
Interest	-28,000	-18,667	-9,333	0
Taxes	0	-29,712	-134,699	-181,449
Change in Accounts payable	-596,700	-897,872	-1,061,843	-1,209,551
Capital assets	-62,300			
Net cash flow	300,000	-133,333	16,667	166,667

Table 11: Cash Flows for Years I through IV

5.1.5.5 Liabilities

Table 12 details the liabilities pertaining to start-up costs, wages, rent, and sales and marketing activities. Wage expenses are itemized in Table 14 and operating expenses are broken down in Table 16.

The liability of the \$400,000 loan is calculated over a three year term at an annual interest rate of 7%.

Canadian Designer's Guild Liabilities

Accounts payable:	Year I	Year II	Year III	Year IV
Start-up expenses	168,200	-	-	-
Wages	213,600	327,600	371,400	451,200
Rent	59,400	59,400	60,600	61,800
Sales and marketing	422,210	482,210	542,210	622,210
Total account payable	863,410	869,210	974,210	1,135,210

Long-term loan: (Dec 31 of the year)	Year I	Year II	Year III	Year IV
Current portion of the principal		133,333	133,333	133,333
Current interest		28,000	18,667	9,333
Total current		161,333	152,000	142,667
Non-current portion of l.t. debt	400,000	266,667	133,333	0

Table 12: Liabilities

5.1.5.6 Sales Projections

With 30 designers as a start up size and with adding five additional designers within 12 months the venture could generate revenues in the first year of \$2.4 million. Of this amount 70% will be paid to the designers and 30% retained as a fee for service. Table 13 illustrates the progression of revenue growth over a four year period as more designers are added throughout each year. Beginning in year one with 30 designers and projecting a membership of 70 designers by the end of year four, the revenues in year four will reach \$5.8 million of which \$1.7 million will be retained for services.

The commission amount is justified in comparison with sales representatives who charge a going rate of 15%. The services of this agency are superior and significantly more advantageous to the designer. The additional services provided for the added 15% by far double the value add to the designer. Services such as the production of all the promotional material, the collection of receivables, the development of a website, the execution of trade show responsibilities, and the branding activities all validate the

higher cost of commission. For example: Circle Craft is a well established co-operative in BC that facilitates B2C marketing strategies. The fee for this service is 40% to the designer. Notably the 40% is a commission charged on the retail amount. The 15% typically charged by sales representatives is charged on a wholesale price. The reasoning for the commission rate is explained in detail in Chapter 6.

Canadian Designer's Guild Sales Projections for Years I through IV

		YEAR I			YEAR II		
Month	Designers	Annual Revenue (\$)		Month	Designers	Annual Revenue (\$)	
		Sales	30% Commission			Sales	30% Commission
		75,000	100,000	75,000	100,000	125,000	125,000
		Average Monthly Revenue				Average Monthly Revenue	
1	30	187,500	56,250	13	32	2	227,083
2	30	187,500	56,250	14	32	2	227,083
3	30	187,500	56,250	15	32	2	227,083
4	30	187,500	56,250	16	33	3	241,667
5	30	187,500	56,250	17	33	4	260,417
6	30	187,500	56,250	18	34	4	266,667
7	32	216,667	65,000	19	35	4	272,917
8	32	216,667	65,000	20	24	12	312,500
9	32	216,667	65,000	21	25	12	318,750
10	32	216,667	65,000	22	25	12	318,750
11	32	227,083	68,125	23	26	12	325,000
12	32	227,083	68,125	24	26	13	333,333
Total year I:		2,445,833	733,750	Total year II:		3,331,250	999,375

Table 13: Sales Projections for Year I through IV

Canadian Designer's Guild
Sales Projections for Years I through IV (cont.)

YEAR III										YEAR IV									
Month	Designers		Annual Revenue (\$)		Month	Designers		Annual Revenue (\$)		Month	Designers		Annual Revenue (\$)						
	75,000	100,000	Sales	30% Commission		75,000	100,000	Sales	30% Commission		75,000	100,000	Sales	30% Commission					
Average Monthly Revenue										Average Monthly Revenue									
26	13	6	333,333	100,000	47	34	15	11	452,083	135,625									
34	13	6	339,583	101,875	48	34	15	11	452,083	135,625									
37	14	7	358,333	107,500	49	34	15	11	452,083	135,625									
38	15	8	377,083	113,125	50	36	15	11	464,583	139,375									
39	15	8	389,583	116,875	51	36	15	11	464,583	139,375									
40	15	8	402,083	120,625	42	36	16	12	483,333	145,000									
41	15	8	414,583	124,375	53	36	16	12	483,333	145,000									
42	16	8	429,167	128,750	54	39	17	12	510,417	153,125									
43	16	8	429,167	128,750	55	39	17	12	510,417	153,125									
44	17	9	447,917	134,375	56	39	18	12	518,750	155,625									
45	17	9	447,917	134,375	57	40	18	12	525,000	157,500									
46	17	9	447,917	134,375	58	40	18	12	525,000	157,500									
Total year III:										Total year IV:									
4,816,667										5,841,667									
1,445,000										1,752,500									

5.1.5.7 Expenses: Projections for Wages

Table 14 illustrates how the staffing budget is allocated. CDG will start up with a staff of four who will be employed full time to fulfil the company objectives stated at the beginning of this chapter. Recognition needs to be made that specialists will be hired for producing catalogues and a web site; these expenses are included in the operating costs for sales and marketing in Table 16 because they are outsourced skills. Also, since trade shows are labour intensive the additional labour expenses are included in the marketing budget. These expenses are also detailed in Table 16.

The initial group of four employees will be the administrators for the initial set of 30 designers. These employees will concentrate on recruiting more designers and more employees over time. At the end of the first year CDG expects to employ 5 staff for 35 designers, likewise at the end of the second year CDG anticipates to need 8 staff for 45 designers. The proportion of staff to designers is to allow for the strong emphasis on foreign markets at the 18 month mark, and the increasing need for administration as CDG gathers market intelligence and prepares for aggressive expansion during the third and fourth years.

The ratio of staff to designers remains flat over time due to the expectation that in the initial two years staff will be more involved with administration and the gathering of market intelligence, while in the third and fourth year they will likely be more involved with the administration of increasing sales volume. A look at the annual sales revenues indicates that at the end of the first year 5 employees will have administrated \$2.4 million and by the end of the fourth year 9 employees will have administrated \$5.8 million. The ratio of employees to sales revenue is expected to remain fairly constant.

Canadian Designer's Guild
Expenses Projections - Wages for Years I through IV

Month	Support Staff	Admin Staff	Exec Staff	Payroll - Head Office			Total
				Support Staff	Admin. Staff	Exec. Staff	
				3,000	4,500	6,800	
YEAR I							
1	2	1	1	6,000	4,500	6,800	17,300
2	2	1	1	6,000	4,500	6,800	17,300
3	2	1	1	6,000	4,500	6,800	17,300
4	2	1	1	6,000	4,500	6,800	17,300
5	2	1	1	6,000	4,500	6,800	17,300
6	2	1	1	6,000	4,500	6,800	17,300
7	2	1	1	5,000	4,500	6,800	16,300
8	3	1	1	5,000	4,500	6,800	16,300
9	3	1	1	5,000	4,500	6,800	16,300
10	3	1	1	9,000	4,500	6,800	20,300
11	3	1	1	9,000	4,500	6,800	20,300
12	3	1	1	9,000	4,500	6,800	20,300
Total for year I				78,000	54,000	81,600	213,600
YEAR II							
13	3	2	1	9,000	9,000	6,800	24,800
14	3	2	1	9,000	9,000	6,800	24,800
15	3	2	1	9,000	9,000	6,800	24,800
16	3	2	1	9,000	9,000	6,800	24,800
17	3	2	1	9,000	9,000	6,800	24,800
18	3	2	1	9,000	9,000	6,800	24,800
19	3	2	1	9,000	9,000	6,800	24,800
20	5	2	1	15,000	9,000	6,800	30,800
21	5	2	1	15,000	9,000	6,800	30,800
22	5	2	1	15,000	9,000	6,800	30,800
23	5	2	1	15,000	9,000	6,800	30,800
24	5	2	1	15,000	9,000	6,800	30,800
Total for year II				138,000	108,000	81,600	327,600

Table 14: Wage Expenses Year I through IV

Canadian Designer's Guild
Expenses Projections - Wages for Years I through IV

Month	Support Staff	Admin Staff	Exec Staff	Payroll - Head Office			Total
				Support Staff	Admin. Staff	Exec. Staff	
				3,000	4,500	6,800	
YEAR III							
25	5	2	1	15,000	9,000	6,800	30,800
26	5	2	1	15,000	9,000	6,800	30,800
27	5	2	1	15,000	9,000	6,800	30,800
28	5	2	1	15,000	9,000	6,800	30,800
29	5	2	1	15,000	9,000	6,800	30,800
30	5	2	1	10,000	9,000	6,800	25,800
31	5	2	1	15,000	9,000	6,800	30,800
32	5	2	1	15,000	9,000	6,800	30,800
33	5	2	1	15,000	9,000	6,800	30,800
34	5	2	1	15,000	9,000	6,800	30,800
35	5	2	1	15,000	9,000	6,800	30,800
36	5	2	2	15,000	9,000	13,600	37,600
Total for year III				175,000	108,000	88,400	371,400
YEAR IV							
37	5	2	2	15,000	9,000	13,600	37,600
38	5	2	2	15,000	9,000	13,600	37,600
39	5	2	2	15,000	9,000	13,600	37,600
40	5	2	2	15,000	9,000	13,600	37,600
41	5	2	2	15,000	9,000	13,600	37,600
42	5	2	2	15,000	9,000	13,600	37,600
43	5	2	2	15,000	9,000	13,600	37,600
44	5	2	2	15,000	9,000	13,600	37,600
45	5	2	2	15,000	9,000	13,600	37,600
46	5	2	2	15,000	9,000	13,600	37,600
47	5	2	2	15,000	9,000	13,600	37,600
48	5	2	2	15,000	9,000	13,600	37,600
Total for year IV				180,000	108,000	163,200	451,200

5.1.5.8 Break Even Analysis

Table 16 illustrates the cash inflows and outflows for direct expenses such as wages, office space, sales and marketing (advertising), and principal / interest payments. The revenues correspond to the income projections from Table 13. The wages reflect the projections from Table 14. Advertising costs are taken from Table 16 and divided evenly over a 12 month period.

The start up costs of \$168,200 and the \$400,000 loan are repaid at the end of the third year. Table 15 illustrates that with a \$400,000 start up fund; this venture expects to reach a break even point towards the end of the third year.

Break-Even Analysis

Month	Revenue	Staff Wages	Offices	Advertising	Startup	Principal & Interest	Monthly Profit	Total Profit
1	56,250	17,300	4,950	35,184	168,200	-	(169,384)	(169,384)
2	56,250	17,300	4,950	35,184	-	-	(1,184)	(170,568)
3	56,250	17,300	4,950	35,184	-	-	(1,184)	(171,753)
4	56,250	17,300	4,950	35,184	-	-	(1,184)	(172,937)
5	56,250	17,300	4,950	35,184	-	-	(1,184)	(174,121)
6	56,250	17,300	4,950	35,184	-	-	(1,184)	(175,305)
7	65,000	16,300	4,950	35,184	-	-	8,566	(166,739)
8	65,000	16,300	4,950	35,184	-	-	8,566	(158,173)
9	65,000	16,300	4,950	35,184	-	-	8,566	(149,608)
10	65,000	20,300	4,950	40,184	-	-	(434)	(150,042)
11	68,125	20,300	4,950	40,184	-	-	2,691	(147,351)
12	68,125	20,300	4,950	40,184	-	28,000	(25,309)	(172,660)
13	68,125	24,800	4,950	40,184	-	133,333	(135,142)	(307,802)
14	68,125	24,800	4,950	40,184	-	-	(1,809)	(309,611)
15	68,125	24,800	4,950	40,184	-	-	(1,809)	(311,421)
16	72,500	24,800	4,950	40,184	-	-	2,566	(308,855)
17	78,125	24,800	4,950	40,184	-	-	8,191	(300,664)
18	80,000	24,800	4,950	40,184	-	-	10,066	(290,598)
19	81,875	24,800	4,950	40,184	-	-	11,941	(278,657)
20	93,750	24,800	4,950	40,184	-	-	23,816	(254,841)
21	95,625	30,800	4,950	40,184	-	-	19,691	(235,151)
22	95,625	30,800	4,950	40,184	-	-	19,691	(215,460)
23	97,500	30,800	4,950	40,184	-	-	21,566	(193,894)
24	100,000	30,800	4,950	40,184	-	18,667	5,399	(188,495)
25	100,000	30,800	5,050	45,184	-	133,333	(114,367)	(302,862)
26	101,875	30,800	5,050	45,184	-	-	20,841	(282,021)
27	107,500	30,800	5,050	45,184	-	-	26,466	(255,555)
28	113,125	30,800	5,050	45,184	-	-	32,091	(223,464)
29	116,875	30,800	5,050	45,184	-	-	35,841	(187,624)
30	120,625	25,800	5,050	45,184	-	-	44,591	(143,033)
31	124,375	30,800	5,050	45,184	-	-	43,341	(99,692)
32	128,750	30,800	5,050	45,184	-	-	47,716	(51,976)
33	128,750	30,800	5,050	45,184	-	-	47,716	(4,260)
34	134,375	30,800	5,150	51,851	-	-	46,574	42,314
35	134,375	30,800	5,150	51,851	-	-	46,574	88,888
36	134,375	37,600	5,150	51,851	-	9,333	30,441	119,329
37	135,625	37,600	5,150	51,851	-	133,333	(92,309)	27,020
38	135,625	37,600	5,150	51,851	-	-	41,024	68,044
39	135,625	37,600	5,150	51,851	-	-	41,024	109,069
40	139,375	37,600	5,150	51,851	-	-	44,774	153,843
41	139,375	37,600	5,150	51,851	-	-	44,774	198,617
42	145,000	37,600	5,150	51,851	-	-	50,399	249,016
43	145,000	37,600	5,150	51,851	-	-	50,399	299,415
44	153,125	37,600	5,150	51,851	-	-	58,524	357,939
45	153,125	37,600	5,150	51,851	-	-	58,524	416,464
46	155,625	37,600	5,150	51,851	-	-	61,024	477,488
48	157,500	37,600	5,150	51,851	-	-	62,899	540,387

Break even

Table 15: Break-even Analysis

5.1.5.9 Operating Expenses – Other

Table 16 itemizes the estimates for office expenses as well as the sales and marketing budget. Admittedly, the cost of trade show performance is a substantial expense of the operating budget, and at present there are few options to reduce this cost. The market mechanism for home furnishings is predetermined by trade shows of a grand scale, even if a permanent show room is acquired, these costs too would reflect a liability. Preferable would be the acquisition of real estate as a permanent show room, however, the only trade show for which this is realistic is the North American home furnishings show in High Point, North Carolina. In the short term this is not an option and at present there are few alternatives to circumvent the expenses of marketing. Marketing through trade shows is a high expense and this is not likely to change anytime soon.

The nature of this firm is service based and since it does not require a high outlay of capital for equipment, it does require a high outlay of capital for labour and for sales and marketing activities. It is a mandate of the firm to provide a service to the designers and to the customers. Table 16 attests to these functions by charting high expenses for the activities that pertain to the promotion of Canadian talent.

Canadian Designer's Guild Operating Expenses

	YEAR I		YEAR II	
	Cost / Month	Cost / Year	Cost / Month	Cost / Year
Head Office				
Office Rent	3,000	36,000	3,000	36,000
General Administrative	1,000	12,000	1,000	12,000
Utilities				
Phone	400	4,800	300	3,600
Internet	50	600	50	600
Heat & Hydro	200	2,400	200	2,400
Supplies	300	3,600	400	4,800
Total office	4,950	59,400		59,400
Sales and marketing				
Catalogue	150,000	300,000		300,000
Trade Show Expenses		-		120,290
Freight	15,000	30,000		60,000
Booth Rental	30,000	60,000		1,920
Hotel / Meals	5,980	11,960		
Air Travel	4,000	8,000		
Association Membership	125	250		
Temp. Sales Staff	5,040	10,080		
Web site				
Web site hosting	360	720		
Web site maintenance	600	1,200		
Total sales and marketing	211,105	422,210		482,210
Total Year I		481,610		541,610

Table 16: Operating Expenses Year I through IV

Canadian Designer's Guild Operating Expenses (cont.)

YEAR III		YEAR IV	
Head Office	Cost / Month	Cost / Month	Cost / Year
Office Rent	3,000	3,000	36,000
General Administrative Utilities	1,000	1,000	12,000
Phone	400	500	6,000
Internet	50	50	600
Heat and Hydro	200	200	2,400
Supplies	400	400	4,800
Total Office	60,600	61,800	61,800
Sales and Marketing	Cost / Year		
Catalogue	300,000		
Domestic Trade Shows	120,290		
International Trade Shows	120,000		
Web Site	1,920		
Total Sales and Marketing	542,210	622,210	
Total Year III	602,810	684,010	

5.1.6 Key Risks

It is anticipated that the selection of designers that are to participate in this venture produce a set of complementary products. Decorative pieces that complement home décor are expected to create greater exposure and increased selection for the buyer. A risk would be if the product mix among the designers turns out to be rivalrous. For example, it is not preventable that a customer who may have purchased from one designer previously will simply shift the buying budget to another designer.

Another risk is that the concept is easily copied by a larger and more highly leveraged group. Though a competitor may take a few years to enter, it is still a risk to CDG since the venture rests on the break even point at the end of the third year of operations. A large enough entrant may intercept this plan prior to CDG reaching the break even point in the third year.

A report by the Retail Council of Canada (n.d.) entitled *Retail the Heart of Every Community*, charted retail sales against domestic sales in the period 1992 to 1999. These two variables are directly correlated over the time span; notably, these numbers chart all retail categories including groceries. A key risk would be an unexpected shift in the economy that affects the industry overall, beyond the usual fluctuations. Such a downturn may render the venture unprofitable in the projected time frame. Or, in a worst case scenario, prohibit the firm from achieving positive cash flow altogether.

Another risk is the inability to monitor the designer's quality of production and the arms length control to meet projected manufacturing timelines. Another issue may be the inability for a designer to expand operations and train additional employees to accommodate growth. In such a circumstance CDG may be actively promoting a designer only to realize that the designer is already operating at capacity. It will be paramount to manage the expectations and to have a clearly defined contractual agreement with each designer. Such an agreement would clearly communicate the compliance standards and attempt to mitigate risks that may arise from the working relationship.

6 ADVANTAGES AND COSTS

If there is a sufficient response to cooperate around a common agenda then a group of designers operating as one business entity may create several key advantages for designers. These include such aspects as the reduction of marketing costs, the reduction of sales costs, the allocation of core competencies, and the branding of the designers. In addition, it may be possible to achieve place branding for Canada if sufficient interest from the designers supports the decision to pursue this agenda.

6.1 Reduction of Marketing Costs

For as long as designers operate as small business entities, the costs of marketing and producing promotional material are solely borne by the owner. In this current state each designer is duplicating costs and efforts. If designers grouped together, then costs and time investments can be consolidated and reduced.

For promotional materials to be produced in the current state of the industry, each of the designers must individually access and pay for professional services. For example, a photographer, a graphic designer, and a printer are all required to produce 'bare bones' items such as: a catalogue and/or a brochure, a postcard, business card, letterhead and envelope, sales orders, and invoices.

This process will become more simplified for the designer. Through consolidation designers will only need to ship their product samples to a central office; this office will hire the professional skills for all members. Consequently a photographer might be photographing just as many pieces, but will only be dealing with one person instead of many. Along the same note, a graphic artist will design only one catalogue with a section for each designer, as opposed to many individual catalogues. Taking this to the printing stage, it is more cost efficient for designers to share the cost of one run that is of larger

scope and scale than to individually pay for printing runs that are small scope and small scale.

Not only are costs saved, but also time. Rather than each designer overseeing the production of a small order, one professional will act on the behalf of the entire group and save the designers the time, travel, and effort that they will otherwise have to invest. Table 17 summarizes the sales and marketing expenses of direct costs and draws a comparison.

The calculations show that the cost of trade shows for many designers operating as individual entities amounts to \$26,450 annually per firm. Alternatively, if thirty designers (for example) consolidate and allow CGD to perform the marketing activity for them, then the cost per firm is only \$14,873. For a designer who has revenues of \$75,000 the former cost represented 38% of annual revenue. This percentage is 8% higher than the 30% commission CGD will need to charge for a number of additional services. These additional services include: the time it takes to produce promotional material, the professional representation of the artist (branding activity), the invoicing and collection of receivables and the gathering of market intelligence (domestic and international). Another service that has not been thoroughly addressed is that CDG will assume the risk of the debt financing to support the promotion of the artisans.

Quantitatively an 8% saving to the designer who has annual revenues of \$75,000 amounts to \$6,000. Qualitatively the savings may be described as supporting the life style choices of designers. This might include the benefit of spending reduced time on the less satisfying aspects of the business and more time on production and design. For artisans this may result in greater profitability and improved quality of life.

Annual Trade Show Expenses			
	Cost per Show	Cost Annually	Assumptions
Sole Proprietors	Freight to and from	1,000.00	Vancouver to Toronto
	Booth Rental 100sq.ft.	1,500.00	typical 10 x 10 booth (smallest size available)
	Hotel - 7 nights	1,000.00	1 person per room @ 142/night incl.taxes
	Meals / Entertainment (9 days)	500.00	\$25 per diem
	Air Travel / ground transportation	1,000.00	Travel from Vancouver to Toronto
	Promotional Material	5,000.00	Cost for design, proof, and printing
	Association Membership Fee	125.00	CGTA membership
	3 Weeks of Labor	2,400.00	\$20 x 8 hrs x 15 days
	Office Supplies	100.00	
	Total Costs per Show	12,625.00	x 2 = 25,250.00
Costs for 30 Sole Proprietors: 378,750.00 x 2 = 757,500.00 Total Cost for 30 individual firms			
Consortium of 30	Freight	15,000.00	50% savings for one bulk shipment
	Booth Rental	30,000.00	1,200 sq. ft.
	Hotel - 7 nights	4,000.00	2 double rooms for 4 senior staff
	Meals/Entertainment (9 days)	1,980.00	\$55 per diem for 4 senior staff
	Air Travel - return	4,000.00	Travel from Vancouver to Toronto for 4
	Promotional Material	150,000.00	No savings to allow for excellent quality
	Association Membership	125.00	CGTA membership
	1 Week of Labor	8,960.00	4 Senior Staff @ \$40 / hr. for 7 days
	2 Weeks of Labor	3,600.00	3 Employees @ \$15/hr for 10 days
	6 Temp Workers	5,040.00	6 local temporary workers @ \$15 for 7 days
Office Supplies	400.00		
Total Costs per show	223,105.00	x 2 = 446,210.00	Total Cost for 30 Designers in a Guild

These costs do not include the fixed assets such as display units, flooring, lighting, computers, booth walls. (Product samples would be supplied free of charge from the designers).

Table 17: A Comparison of Annual Trade Show Expenses

Aside from the printed materials that are needed for the successful promotion of a product, it will also be beneficial to establish a website that will represent all designers and that will be maintained and hosted through one location. Further research is necessary to establish the cost savings for doing so. It can be anticipated that the cost for a professionally produced website for 30 designers may be comparable to the cost of a novice website for eight to ten designers. Though these savings are not calculated in this study, it is possible to suggest that a website for 30 designers will cost 50% to 70% less. This will achieve additional cost savings for the B2B marketing agenda.

DFAIT (2003), on *The Giftware and Craft Market* quotes an e-commerce business report which concluded that 31% of the US giftware companies sell products to the trade (B2B) via the internet and that these companies generate “larger sales, have a broader customer base, and are more aggressive marketers and commit to participating in more trade shows” (p.10). It seems that the more serious players in the industry are preparing for the prediction later in the same report that anticipates the increasing role of internet hosts to cyber versions of wholesale distributors.

Ljucovic (2004), in the article *What Do they Want?* proposes that compared to total personal expenditures of \$654 billion in 2002, the \$2.4 billion spent online is at this point in time only a small fraction. The reasoning suggested by the author is that likely retail consumers are using the internet to “window-shop” and to gather ideas, since purchases for home décor still require the sensory experience of “see and feel” (p.37). It can be anticipated that bricks and mortar stores will still be the main distribution channel for reaching the end consumer. The retailer who needs to make wholesale buying decisions may be more inclined to use e-commerce to augment the trade show buying activities.

A website for designers will thus likely become an important extension of trade show marketing for the B2B aspects of customer engagement and service. It is likely that many designers do not currently have a website. For those designers that do have a website it is doubtful that it is regularly maintained and professionally produced. It can be anticipated that a website for the Canadian Designer’s Guild will form an integral part of the B2B communication, sales, and marketing activity. What may become of competitive advantage for CDG is the ability for retailers to place new orders or re-orders through the

website using the online catalogue. These orders can be electronically forwarded to the designers who in turn manufacture and ship the product.

6.2 Reduction of Sales Costs

Along the same lines as marketing, the advertising and sales expenses will also be significantly reduced. For example, rather than 30 designers each renting their own booth, paying their own membership fees, and negotiating their own contract, it is possible to group the space requirements into a larger space that is likely to require less than 30 times the original square footage. The reasoning for this supposition is that there is much wasted display space in a booth, and secondly, that the sales activity can be performed by 10 staff as opposed to 30. If 30 designers consolidate, they will likely only require seven to ten sales staff for the duration of the trade show. A reduction in sales staff will also reduce travel and accommodation expenses, especially if local, temporary staff is hired.

Aside from the cost savings for trade shows that take place at least twice per year (if a designer is currently exhibiting with either the CGTA or with DMG World Media) the saving of effort and time is another reason that supports a consolidation strategy. Chapter 4 identified that it takes at least three weeks of time to prepare for, travel to and from, and participate in a trade show. Trade shows happen at least twice a year and a consolidation strategy will save the designer a minimum of six weeks of time in a calendar year if they chose not to attend. (Many designers exhibit at more than two trade shows per year. Besides participating in the most popular national events, they oftentimes also exhibit in a regional show. The savings of costs and time are therefore conservative.)

Instead of designers performing their own sales at trade shows, temporary local staff will be hired at market rates (the cost of which is lower than the cost to the designer to attend themselves) to perform the bulk of the order taking. This will further reduce travel and accommodation costs as only key sales personnel will need to travel and attend the shows. For example a sizable booth that might require eight to ten sales staff, will only need four senior sales executives who will be assisted by temporary sales staff hired through local agencies.

Table 17 draws a cost comparison between 30 individuals each exhibiting in their own booth and one consortium representing all 30. The cost savings in one year suggests that consolidation significantly reduces marketing expenses.

Not only are costs for trade shows reduced through these means but also ongoing sales costs and efforts throughout the year. Customers, who in the wholesale market consist of retailers, will contact one central office for any re-orders and follow-up orders throughout the year. A central customer service department will receive all the orders throughout the year for each of the designers and simply forward these orders electronically to the designer who in turn will fill that order. Designers will simply retrieve the orders forwarded to them and focus their time and effort on manufacturing, shipping, and on designing new product.

One logistical support that cannot be provided through a central office is the shipping responsibility. Each designer will still be responsible for adequate packaging and shipping of the product they manufacture. This function of the business process should not be too onerous to the designer, since all designers currently participating in the wholesale industry are already well accustomed to this process. Once the product is packaged and ready for shipping, the designer simply bills the freight charges to the common account. The central office will in turn allocate the freight charge to the appropriate invoice and bill the customer accordingly.

Another administrative service offered to designers through consolidation is the invoicing and collection of receivables. The invoicing procedure is already mentioned above, but further to that CDG will collect all receivables, perform credit checks, and administer overdue accounts. The designer gets remunerated once moneys are received according to the schedule that is agreed upon. It is conceivable that for many designers the thought of not having to perform paperwork will result in a great sense of relief.

Benefits also accrue to the retailer (customer). Instead of dealing with many accounts, the number of vendors s/he needs to deal with is greatly reduced to one point of contact. It is likely that a specialty retailer holds active accounts with at least 10 to 20 Canadian designers (the balance being importers); originally the retailer would have to deal with each one for sales service, customer service, and re-orders. Through

consolidation the retailer only has one point of contact and can deal with numerous suppliers by phoning one office.

6.3 Allocation of Core Competencies

This point is a response to some of the recommendations posed in CEDCO (2002), report that alludes to artists and craftspersons expressing need for further business training. The report states interest from craftspeople requesting workshops and lectures on marketing, administration, accounting, and the writing of a business plan. This might be a realistic solution for some, and certainly ongoing education is commendable and should always be accessible.

However, the notion of an artist writing a business plan is comparable to a Chief Financial Officer (CFO) painting a mural. This is not to say that it is not possible, but rather, that it is not typical. It would be interesting to observe how many CFO's would have their positions if their career success depended on the requirement to also be an artist.

The objective for artists to be effective business administrators is admirable, and many are very successful in business as the current activities prove. The gift industry has members who have creative talent and who have also been successful in business development, growth, and exporting.

The proposal in Chapter 5 is not intended to suggest that consolidation is the answer for everyone. The consortium proposed through the CDG is presented as an option for those designers and artisans who might see that these services can be of benefit in their attempt to market their designs on a broader and more influential scale.

As a comfort to those artists who do find the business aspects cumbersome it may be necessary to consider two principles of economics mentioned by Mankiw, Kneebone, McKenzie, Rowe (1999). The first principle relates to how individuals make decisions, this principle states that "people face tradeoffs" (p.4). The second principle describes how people interact, it suggests that "trade can make everyone better off" (p.8).

Designers will need to make a decision if they want to continue as small business entities or if the benefits of joining a consolidation strategy support the lifestyle choices designers typically make.

For a designer who is skilled in all aspects of business such as: design/production; administration/accounting; and sales/marketing; the cost of cooperating around a common agenda may exceed the benefit of not having to perform these tasks. For this individual it is important to consider the additional benefits that are likely not within reach. The most notable of those being name branding, place branding, and exports overseas.

The cost to the designer will be a percentage of the revenues generated through their sales. The commission will be withheld by the central office for the purpose of meeting the objectives stated at the beginning of Chapter 5. Arguably, the designer may not be enthused about the prospect of having to work more to support the services supplied by a central office. To better illustrate the concept of "trade off" mentioned in the economic principle, the following table may better illustrate the point. The rationale is that under the current system, the designer needs to perform two key competencies; namely, product development (design and manufacture) and secondly, sales (administration, sales, and marketing).

The key question underlying this concept is whether or not the designer's time is just as well spent on "product" as it is on "sales"?

A hypothetical example might illustrate the rationale.

There are two individuals participating in this industry, one is a designer and the other an administrator. Each has established a small business; a look at their daily productivity reveals the outcome for eight hours of work. If each splits an eight hour day evenly between the two tasks then the designer who is most skilled at product development and manufacture ends up with eight products and one sale in a given day, while the administrator who is more skilled in sales than in production, has eight sales and two products to show for his/her daily accomplishments. (Point A in Figure 9).

The production possibilities for any given day can be any combination of these two tasks along the diagonal line, depending on the allocation of time.

(a) The Designers Production Possibilities (b) The Administrator's Production Possibilities

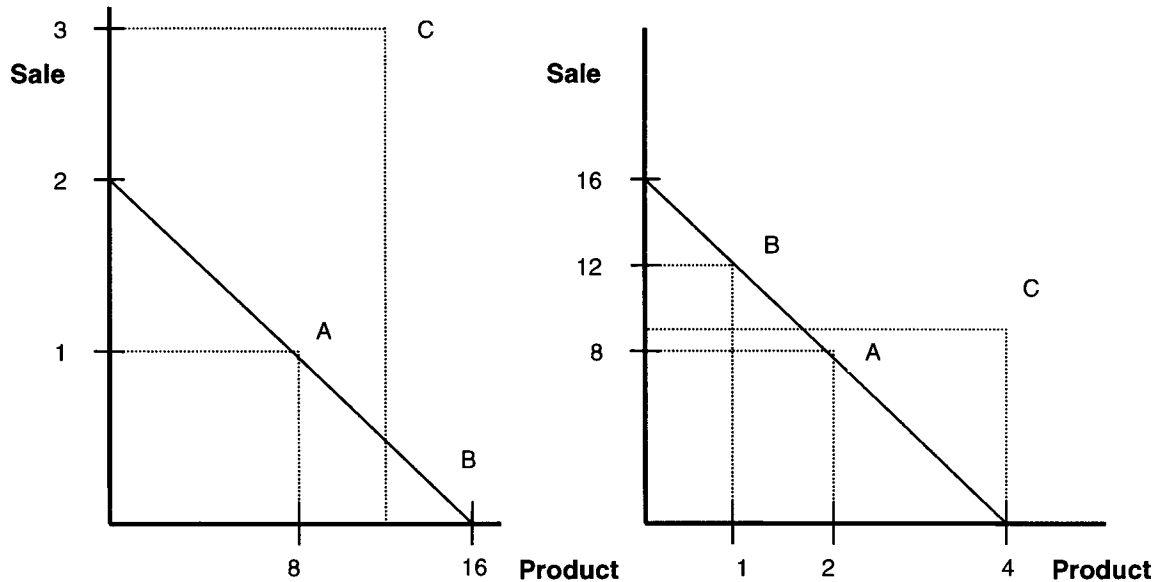


Figure 9: Production Possibilities²²

The first economic principle states that people face trade-offs. If the designer would trade the four hours of making a sale and instead designate this time to making product she/he would end up with 16 products and no sales. Similarly, if the administrator would trade two hours of time designated to making products and spend this time making sales he would end up with only one product but twelve sales (Point B in Figure 9). Neither is completely happy with this outcome, because the designer now has too much product but no sales, and the administrator has too many sales, but not enough products.

At this point the second economic principle would suggest that 'trade can make everyone better off'. If the administrator trades three sales for four products, then the outcome for each is improved. The designer would end up with three sales and twelve products, while the administrator would end up with nine sales and four products. Each outcome is beyond the individual production possibility as illustrated by Point C in the Figure 9.

²² Adapted from Mankiw 1999.

Though this analogy is highly simplified it does explain the economic theory that supports the notion that the designers and administrators in this industry may both benefit by a re-arrangement of responsibilities. This simple example does explain the rationale that underlies the forming of a designer's guild.

6.4 Professional Representation / Branding the Designer

As in other industries such as clothing design, music, visual art, and the performing arts, it is common practise to have professional agents promote the talent. This concept may also prove to add value to the design industry.

Through consolidation, the administrating office can professionally represent and promote the individual designer and thereby, add to the perceived value of the product. Name branding, or name association, plays an important part in the industries currently operating under cultural definitions. It follows that Canadian designers and artisans are more likely to be associated with the Canadian cultural activities and industries if the marketing model for the promotion of talent follows a similar strategy.

If by definition designers are included in the sector representative of Canadian cultural activities, then it may be another means to properly communicate inclusion of these designers if the marketing model adapts to those that are considered 'professional talent'.

The name branding will be achieved by each designer developing a stylized signature of his/her name. This name would be the brand logo that will be attached to each of the products that is produced. The catalogue and website will also support the name branding by categorizing all pieces by the designer through graphics and skilful layout. Each section will have an introduction that will state the artist's biography and picture. Sometimes background information on a design adds a particular point of interest, much like a musician describing the setting for a song, likewise the designer may want to describe the setting for the product. Displays at trade show booths will also separate the products by 'signature' and feature pictures and biographies of artist as part of the promotion. In addition staff will be trained to promote and professionally represent the talent. The company culture will be accustomed to drawing attention to the designer.

Additional research will be performed to ensure that the Designer's Guild meets and exceeds industry standards for representing artistic talent.

6.5 Building "Brand Canada" / Place Branding

Through travel to such gift shows located in cities such as Vancouver, Toronto, Dallas, San Francisco, Los Angeles, and to the most prominent North American furniture trade show in High Point North Carolina, it has been observed that Canadian designs are already represented in these markets, and that they are of sufficient calibre to compete in the US. CDG's strategy will be to attempt to consolidate the exporting activity that is already taking place. In so doing it may achieve more prominent exposure and hopefully attract more credibility for products of Canadian origin. Market intelligence for export potential in Europe and Asia will need to be gathered to properly determine export viabilities to these destinations

Place branding is not a new concept. Chapter 4 elaborated on this opportunity and the proposed marketing strategy through CDG will positively respond to this challenge. CDG will aim to establish a brand Canada for design, particularly in home furnishings. Canada holds the talent; the key question remaining is whether or not designers can recognize this and buy into the potential and whether sufficient support is accessible for a national branding agenda through targeted private and public programs.

What appears to be an informal report posted by Carleton University (2004) entitled: *Branding Canada: more than just moose, mountains and mounties* points out that "a strong brand can advance any product, or place, over the long run, but also protect it from short-term disruptions." It concludes with a short quote from the International Trade Minister Pierre Pettigrew who emphasized that "the challenge of building Canada's reputation abroad is significant and has rarely been so important."

A new release by DFAIT (2004) *Opening Doors to the World: Canada's International Market Access Priorities* outlines Canada's market access objectives for 2004. This release is authored by the honourable James Scott Peterson, our current minister of International Trade. "As part of the government's agenda to build a strong 21st century economy and to secure Canada's place in the world, a separate Department

of International Trade has been created to ensure that trade and investment activities support these priorities.” This report recognizes that Canada’s economic prosperity is highly dependent on its success as a trading nation. Some of the objectives mentioned are to increase access to foreign markets for Canadian goods and services and to strengthen the rules governing trade. It also mentions that Canada and the European Union have recently “agreed on a framework for a new trade and investment enhancement agreement to further stimulate our important commercial relationship.” The concept of branding Canada appears to be timely and may be met with support given the focus expressed in this release.

6.6 Infrastructure

For designers a consortium offers a valuable social network vital for stimulating creativity. Designers typically enjoy working out of their private studios and this production model does not need to change but the close association with a larger organization does increase the competitive environment and arguably stimulate creative juices. A joined organization for these artisans would cluster talent and contribute positively to ‘raising the bar’ on artistic merit, innovation and finally, competitive advantage.

On an industry level a joined strategy is likely to gain more serious attention from government authorities as decisions for funding, education and branding Canada will be representative of a sufficient number of lobbyists.

A consortium will also explore to possibility of negotiating for member benefits (i.e. extended health, dental) of sorts that are currently not accessible to sole proprietors. A large organization with many designers as members may be able to negotiate aggressively for some common benefits typically enjoyed by employees of large organizations.

6.7 Better Positioning Against Foreign Competitors

From the designer's point of view, a consortium is better positioned against foreign firms who are medium to large sized. For this reason members of CDG will be better positioned against foreign counterparts by attempting to match in size. This sizing strategy is anticipated to eliminate the threats posed by small firms.

Chapter 2, section 2 (The Generic Strategy) compared the product strategies of domestic designers and importers concluding that Canada is well positioned to market differentiated products. In the current fragmented state the firm lacks in power to flex competitive muscles. Canadians produce differentiated products; this strategy is desirable and necessary to meet niche consumer needs that cost-based products cannot satisfy. The size advantage achieved through consolidation is thereby not a detriment to the product strategy, but leverages the attributes of differentiation in a favourable manner.

6.8 Closing Thoughts

The purpose of Chapter 4 has been to arrive at a realistic recommendation for a competitive strategy. This strategy does not just need to lessen the competitive forces identified in the Industry Analysis, but is simultaneously needed to rest on the strengths of Canadian designers and better position them to seize the immanent opportunities. Ideally, the competitive strategy needs to alleviate the weaknesses currently inhibiting small businesses as well as lessen or deflect the looming threats.

With this in mind a consolidation strategy in the form of a consortium will build on the good reputation, design, and quality currently offered in the industry. It will easily fit into the value chain for domestic designers and manufacturers by not adding another link, but by outsourcing those business processes that aren't the designer's core competencies. The consolidation will not necessarily add costs for the designer but will replace costs and arguably do so to achieve greater reach.

This strategy will better position designers to realize the opportunities presented in the current market environment for domestic demand, exports to the US and likely

also to Europe and Asia. It will allow for the professional representation and promotion of talent by branding the artist and by simultaneously branding Canada.

The weaknesses presented through fragmentation will be minimized through the provision of professional administration and marketing services that free the designer to those tasks in the value chain that most naturally agree with their strongest skill sets. Through consolidation many of the weaknesses inherent to small firms are absolved and replaced by the benefits of belonging to a large firm that can leverage its power.

Last but not least, on an industry level a consolidation strategy initiated through this consortium is a means by which designers can respond proactively towards preserving cultural heritage, quality of life and national pride. In fact, a consolidation will send a powerful message to the market that makes a persuasive statement about Canada's confidence in our talent, and about Canada's ability to co-operate. Our nation's population resembles an ethnic mosaic that in and of itself, carries a well received message to the world. Canada can take pride in its ability to cooperate through diversity; a consolidation strategy is simply an extension of this message. It will augment the signal that not only can Canadians live as a diverse nation, but we can also perform business as a diverse nation, and we can do so powerfully.

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