

Best practice: Fuji's Fabrics

1 Project description

Problem definition

Fuji's Fabrics is a company founded in October 2011 in Moers (Germany). The company has two owners, who are at the same time the only employees of Fuji's. Both employees have made their hobby into a business. Both have never run a business before. Therefore, activities such as the purchasing of goods, stock management, product management, tax policies and purchasing activities are rather new to them. Fuji's offers eight different products. Its core business is processing different fabrics in mechanical and handmade manufacturing into different and individual clothes. Fuji's has positioned itself in the mid-price segment.

The company achieves satisfactory sales figures in winter and spring, thanks largely to the sales of their loops and beanie-caps. However, outside of these top sales periods, sales drop to virtually zero. Moreover, with the exception of the loops and beanie-caps, only five units of each of their other products have been sold in the last year. *The post-spring drop in income puts pressure on the continuation of the company.* The owners are really sad about these circumstances. At present, they do not even know which products they should maintain and which they should eliminate from their product portfolio. They are wondering how to position their company more effectively in the market, which consists of approximately 255,000 inhabitants in the surrounding area (2013.rp-online.de). Hence the problem question: How should the company position itself within the fabric-processing market in the area of Moers so as to generate constant sales?

Project aim

The aim of this project is to develop a product portfolio strategy. The advice will include an indication of Fuji's position relative to its nearest competitors. It will include suggestions on which products to keep and which to eliminate. Moreover, suggestions will be made on which products to eliminate due to uneconomical high costs of fabric-waste in the production process. Finally, the owners of Fuji's Fabrics will be advised to take appropriate necessary actions.

Research approach

To achieve this aim, the following three questions need answering. The first is as follows:

- 1 What products do direct competitors have in their portfolio in the area of Moers (< 10 km)?

The answer will help position the company against its most direct competitors. This research activity will be split up into two smaller sub-activities:

- 1.1 Which companies are direct competitors to Fuji's?
- 1.2 Which products do these competitors have in their portfolio?

After this comes the second research question:

2 Which of Fuji's products are currently in demand?

A clearer view on the demand for its products will support the development of a product portfolio strategy. When this view is achieved, the third question can be addressed:

3 Which of the company's products have high levels of waste materials?

It is of high value to identify cost drivers in order to optimize the product portfolio.

2 Preliminary investigation

Products of direct competitors in the area of Moers

In order to position the product portfolio against competitors, it is necessary to identify the competitors and contrast their product offerings with Fuji's. The outcome will also give important information about products currently not offered by competitors.

Direct competitors to Fuji's

Data about competitors' product offerings will be used to distinguish direct competitors from indirect competitors. Direct competitors are those with nearly the same product portfolio. Indirect competitors are those with a rather different product portfolio.

The data collection method here is desk research. Sources will include commercial registers for the area of Moers and competitors' websites.

Direct competitors' product portfolios

The collected data about direct competitors' product portfolios will now be used to expose competitive rivalry per product. First, the number of direct competitors offering a particular product will be listed. Second, products will be identified that are offered by relatively many producers. Third, the findings are compared to Fuji's current product portfolio.

The data collection method here is also desk research. Data from the previous sub-activity will be used.

Demand for Fuji's products

To determine which products in the portfolio of Fuji's are in demand, the company's products will be mapped with the use of a BCG-Matrix (Boston Consultancy Group). More specifically, all products will be classified (star, cash cow, question mark and dog) with regard to market growth and relative market share figures. Moreover, the annual revenues per product will be mapped as a share of Fuji's annual revenues (size of dots). The output of this action will give a clear overview of which products should be terminated and on which products Fuji's should focus in the future.

The data collection method here is, again, desk research. I will deliver appropriate data by working out the sales and market figures from the years 2012/2013.

Level of waste materials

Identifying products with a high level of waste during production can save resources. Each product has a different amount of waste that could be avoided. Therefore, each product out of Fuji's portfolio will be screened for the percentage of waste materials during production. In this way, this cost driver will be identified. Furthermore, it will be possible to compare the outcome of this step with the outcome of research question 1.2. For example, products which might be classified as a question mark or a dog and which might also have a bad waste ratio may need to be terminated in the future.

The data collection method here is observation. I will observe the manufacturing process at specific timeslots. I will take samples of materials before and after production to determine the percentage of waste materials.

3 Main research activities

Products of direct competitors in the area of Moers

This research question will be answered by means of two subactivities.

Direct competitors to Fuji's

I will map all companies in the fabrics business segment 'women's and men's tailor operations' which were officially registered in the past year, by using an extract from the commercial register in Moers.

Last name	Business orientation	Adress	
Reinisch	women's and men's tailor	Regenstraße	Moers
Ziegerhass	women's and men's tailor	Rasthausstraße	Moers
Wagner	women's and men's tailor	Blattstraße	Moers
Delbeck	women's and men's tailor	Bindenburgstraße	Moers
Boeckermann	women's and men's tailor	Aackener Straße	Moers
Vosdellen	women's and men's tailor	Kaartstraße	Moers
Schmidt	women's and men's tailor	Adolf-Brochhaus-Straße	Moers
Kaulen	women's and men's tailor	Am Hülserhof	Moers
Gormann	women's and men's tailor	Helga-Hüller-Straße	Moers
Behrend	women's and men's tailor	Richard-Wagner-Straße	Moers
Diedrichs	women's and men's tailor	Wellstraße	Moers
Bannert	women's and men's tailor	Warmonder Straße	Moers
Rolshoven	women's and men's tailor	Hahner Straße	Moers

The original table included 95 different companies with four different business orientations. The different orientations start at tailors, proceed to change-tailoring, continue with patch-tailoring, and end with women's and men's tailor orientations. When comparing their product offer to that of Fuji's, thirteen companies remain direct competitors of Fuji's. As a result of this analysis, it can be stated that a large amount of fabric processing companies are located in Fuji's target market/area, but only the thirteen listed here ought to be considered direct competitors at this time. A note of caution is needed here. All 'indirect' competitors are potentially able to become a 'direct' competitor because they all have the right equipment to match Fuji's product portfolio.

Direct competitors' product portfolios

I will collect the 15 most common manufactured products of the above stated companies in the fabrics business during the last year. Information about competitors' current product offerings will be taken from their websites.

	Loops	Beanies	Pants	Skirts	Leg warmers	Pillows	Diaper bags	Book covers
Fuji's	yes	yes	yes	yes	yes	yes	yes	yes
Reinisch	yes	yes	yes	no	no	yes	no	no
Ziegerhass	yes	no	no	no	no	no	yes	no
Wagner	no	yes	yes	no	no	yes	no	yes
Delbeck	no	no	yes	no	no	yes	yes	no
Boeckermann	yes	no	yes	no	no	yes	no	yes
Vosdellen	yes	yes	no	no	yes	yes	no	yes
Schmidt	yes	no	yes	yes	no	no	yes	yes
Kaulen	no	yes	no	yes	no	yes	yes	no
Gormann	yes	no	yes	no	yes	yes	no	yes
Behrend	no	yes	no	no	no	yes	yes	yes
Diedrichs	no	yes	no	yes	no	no	no	yes
Bannert	yes	no	yes	yes	no	no	yes	no
Rolshoven	yes	yes	yes	no	no	yes	yes	no

	Hand-bags	Dresses	Purses	Under-pants	Pacifier chains	Baby Sloops	T-shirts	Products
Fuji's	no	no	no	no	no	no	no	8
Reinisch	yes	yes	no	yes	no	yes	no	8
Ziegerhass	yes	yes	yes	no	yes	yes	no	7
Wagner	yes	yes	no	yes	yes	yes	yes	10
Delbeck	no	yes	yes	yes	yes	yes	yes	9
Boeckermann	yes	no	yes	no	yes	yes	no	8
Vosdellen	yes	yes	yes	no	yes	yes	yes	11
Schmidt	yes	no	yes	no	yes	no	no	8
Kaulen	yes	yes	no	yes	yes	yes	no	9
Gormann	yes	yes	yes	no	yes	yes	yes	11

Behrend	no	yes	no	no	yes	yes	yes	8
Diedrichs	yes	yes	yes	no	no	yes	no	7
Bannert	no	yes	no	no	yes	no	yes	7
Rolshoven	yes	yes	no	yes	yes	yes	yes	11

In this table (divided over two rows) it is clearly indicated which products a company does produce (**yes**) and which products the company does not (**no**). Further, a total number of items within the individual product portfolios can be seen in the last column. A noticeable negative point is that Fuji's is not present in product segments in which most of its competitors are present (i.e., dresses, pacifier chains and baby loops). In light of these data, the total of products produced by competitors lies between seven and eleven. Therefore, Fuji's product range may be considered to be average. Concerning product portfolios, Fuji's matches its competitors with its existing products except leg warmers. This said, Fuji's forgoes seven possibly profitable product segments.

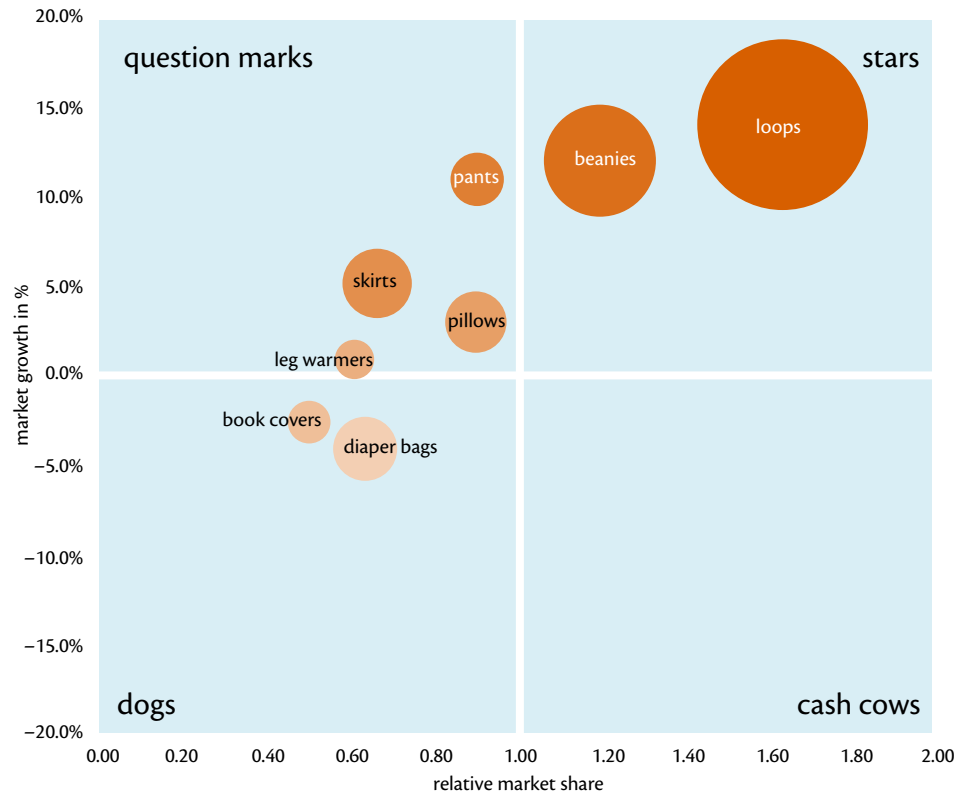
Demand for Fuji's products

I will map all products in Fuji's product portfolio from the last year in a BCG-Matrix, taking annual sales figures in €, and using the official cash book of Fuji's.

Figures from the cashbook, a considered market growth of up to 15% (2013, initiative-handarbeit.de) and the market share figures from the previous year, lead to the following overview (see table):

Segment	Revenue	Market growth	Own market share	Market share strongest competitor	Relative market share
Loops	964	14,0%	13,0%	8,0%	1,63
Beanies	450	12,0%	12,0%	10,0%	1,20
Pants	100	11,0%	9,0%	10,0%	0,90
Skirts	180	5,0%	8,0%	12,0%	0,67
Leg warmers	50	1,0%	3,0%	5,0%	0,60
Pillows	125	3,0%	4,5%	5,0%	0,90
Book covers	75	-2,5%	5,0%	10,0%	0,50
Diaper bags	125	-4,0%	5,0%	8,0%	0,63

With the help of the first table and appropriate Excel functions, the figures have been analyzed. As a result of this analysis a clearly arranged BCG-Matrix-diagram has been generated.



The growth rates are positive except for the articles diaper bag and book cover. The articles leg warmer, skirt, pillow and pants are located in the question mark area and might require additional research. It is very positive that the revenue drivers are also the stars of the product portfolio.

With a growth rate of more than 12% and the highest share of revenue, loops and beanies represent the most attractive products. Most of the other products do not nearly have as much share of revenue as the previous ones, and are to be considered carefully in light of their position in the BCG-Matrix. Moreover, two products might be considered as obstacles to the business.

Level of waste materials

To further investigate possibilities for optimising Fuji's portfolio, I will put each product from Fuji's product portfolio from the last year into a table, taking the average waste production per product in relation to ordered fabric material in cm². I will do so by using sample figures collected during the manufacturing process. As a result of this, an additional line for the 'waste fabric ratio' was added to analyze and determine the average waste in percentage/per product. Good ratio figures (0-10%) are indicated by a green color. Further, acceptable figures (11-19%) are illustrated in orange. Critical ones (> 20%) are marked red.

Product	Loops	Beanies	Pants	Skirts	Leg warmers	Pillows	Diaper bags	Book covers
Fabric material	4200 cm ²	1500 cm ²	5300 cm ²	4200 cm ²	1700 cm ²	2500 cm ²	2520 cm ²	1500 cm ²
Needed fabric material	4000 cm ²	1200 cm ²	4300 cm ²	3650 cm ²	1470 cm ²	2350 cm ²	1750 cm ²	1400 cm ²
Left fabric material	200 cm ²	300 cm ²	1000 cm ²	550 cm ²	230 cm ²	150 cm ²	770 cm ²	100 cm ²
Waste fabric ratio	5%	20%	19%	13%	14%	6%	31%	7%

With respect to the sample figures and the results of the waste fabric ratio it can be said that the more symmetric (rectangular) fabric-parts a product has, the more unusable waste can be prevented. Thus, loops, pillows and book covers are produced most economically. Furthermore, pants, skirts and leg warmers produce a level of waste that is still tolerable. The biggest drivers for unusable waste (also wasted money) are the beanies and the diaper bags.

4 Conclusion

Firstly, thirteen fabric-processing companies located in Fuji's target market/area can be considered direct competitors at this time. The total number of products produced by these companies lies between seven and eleven, thus similar to Fuji's. With respect to the product portfolio's, Fuji's is the sole producer of leg warmers but foregoes seven possibly profitable product segments. An important side note here is that nearly every 'indirect' competitor is able to turn into a 'direct' one, as each of them has the equipment to change towards Fuji's product portfolio.

Secondly, with a growth rate of more than 12% and the highest share of revenue, loops and beanies represent the most attractive products. Most of the other products do not nearly have as much share of revenue as the previous ones, and are to be considered carefully in light of their position in the BCG-Matrix. Moreover, two products might be considered as obstacles to the business.

Thirdly, with respect to the sample figures and the results of the waste fabric ratio it can be said that the more symmetric (rectangular) fabric-parts a product has, the more unusable waste can be prevented. Thus, loops, pillows and book covers provide the most economical production. Furthermore, pants, skirts and leg warmers produce a tolerable amount of waste. The biggest drivers for unusable waste (also wasted money) are the beanies and the diaper bags.

To achieve a better understanding of the findings that have been stated throughout the different research questions, they are going to be interrelated to depict their relationship.

To begin with, most results of the BCG-Matrix align well with the results of the waste fabric ratio. With respect to the diaper bag it can be seen, that not only the position in the BCG-Matrix indicates bad condition. The same product also has a critical ratio. The results for the beanies are in conflict with each other. On the one hand the beanies are intended to be a star of Fuji's product portfolio; on the other hand this product represents the second highest waste ratio. Therefore, it seems worth it to consider optimizing the manufacturing of this product. A good example for product with high potential is the loop. Really positive results out of the BCG-Matrix are supported by the best ratio and leave little room for improvement.

Overall, the answers of the first two research questions support the conclusion that Fuji's is faced with a growing market that is strongly competitive. The circumstance that a high amount of indirect competitors might change their business orientation indicates that there is a certain risk. At the same time, it can be seen that Fuji's has not yet exhausted all possibilities of possible products on the market. Thus, Fuji's forgoes the opportunity to include products into their portfolio that are produced and sold by the competitors in the whole year.

5 Recommendation

First of all the main problem of Fuji's is that they reached satisfying sales in winter and spring, but after these sales periods in which loops and beanie-caps are the best sold articles, the sales drop to nearly nothing. Fuji's has eight different products and all of them (besides loops and beanie-caps) have been sold less than five times a year. The owners didn't even know to which products they should stick or which they should eliminate. Therefore, the aim of this project was to indicate which products from the company portfolio are preferable to keep and which have to be terminated. On the basis of three research activities, the structure and the product portfolio of competitors have been compared to Fuji's. Further, the production process was analyzed in order to identify products that create a high amount of unusable waste. Based on the research activities results, the owners of Fuji's Fabrics are now advised to take the following appropriate and necessary actions in the near future.

In relation to the general market growth within handmade fabric industry of up to 15%, Fuji's should focus on a concrete goal for the future. To be more precise, Fuji's should implement new products to support and increase their sales by 10% within the next year.

The owners of Fuji's are strongly recommended to set their focus onto the most profitable products from their portfolio. To be precise it is recommended, that diaper bags and book covers are removed from the company's product portfolio. This action helps to free some working capacity. Therefore, Fuji's will be able to focus more on the stars in their portfolio. In addition to that, regained capacity should be used to implement a maximum of three new products at the beginning of 2014. The implementation of products should primarily contain dresses, pacifier chains and baby loops, because these products fit most in the existing product portfolio of Fuji's. Also, the competition within these segments is actually low.

Furthermore, Fuji's is advised to optimize the production process in order to reduce costs. In addition, Fuji's is advised to find processing options for wasted fabrics created by products (e.g. beanies), in a way that allows the company to generate profit from its waste materials.

Due to the fact that the business was started at the end of 2012, business development is a process that will realistically take some time. Fuji's is finally recommended to do the following. The owners should stick to the strengths within their portfolio and should follow the above-mentioned advice to take the opportunity to optimize their portfolio by implementing new products. Doing so is likely to strengthen their position in their market.

6 Critical appraisal

The project and also the results of this report were influenced by various limitations.

Firstly, with respect to the received data of the commercial register of Moers, it can be said that the register may not be entirely up to date. On the one hand every individual or company has to register before starting with business activities. On the other hand, terminated business activities are rarely reported to this register. Therefore, the amount of companies that could compete with Fuji's business might be lower than expected.

Secondly, the value of observed and provided information on existing competitors' websites is limited. Maintaining websites is a time consuming activity, therefore companies may sometimes delay actualization. Due to this, it might be the case that the observed and offered products do not correspond to the actual product portfolio. This limitation was reduced by frequently checking the competitors' websites during the project.

Thirdly, due to a lack of data about grey or even black market activities in this branch, the market shares that have been calculated and presented by the BCG-Matrix may be lower in reality. Grey/black markets are defined as individuals that manufacture handmade fabrics as a hobby with the purpose of gaining profits without paying taxes. The effect of this limitation was minimized as much as possible by prudent estimations of actual sales figures and market shares.

In spite of the above-mentioned limitations, this report provides the owners of Fuji's with a precise overview of the findings and a feasible recommendation.