Herriard Case Study

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1 Executive Summary

This document profiles Herriard, a manufacturer of office furniture to large and small businesses. The business plan outlines a means to solve business problems and to make Herriard more competitive in an increasingly difficult trading environment. The main thrust of the solution is to implement new information technology at all sites including a data network interconnecting all sites and to the outside world.

A future strategy of entering the SOHO (Small Office Home Office) market is introduced. To achieve this a marketing strategy is outlined along with a plan to build a web site to sell directly to the public.

2 Customer Profile

Herriard Pty Ltd is a company that manufactures and sells office furniture directly to businesses. The company specialises in office fit outs. With it's own factory located in Wollongong Herriard can custom build furniture to customer requirements. The company also has access to suppliers who provide generic items of furniture such as chairs.

There are sales offices in Sydney, Melbourne and Brisbane.

Starting trading more than seven years ago Herriard has grown steadily. The last two years have seen an annual sales increase of 40%, and turnover is now $10 million per annum. Herriard now provides almost 1000 customers with their office furniture needs.

3 Business Plan

This business plan is intended for the owner of Herriard. It's intention is to provide enough information to justify taking Herriard in a new direction in respect to how internal processes are handled and the interactions between the staff and the sites of Herriard.

Herriard must reduce the cost of producing furniture to improve competitiveness with other manufacturers. There are a number of problems at Herriard that are contributing to inefficiency and customer dissatisfaction.

Although recent sales have been strong there are threats from other companies who are undercutting Herriard's prices and taking away business.

A future strategy of entering the SOHO (Small Office Home Office) market is proposed using new selling methods. This is further discussed in Section 4 below.

3.1 Aims

The aim is to solve, or reduce the impact of the business problems that Herriard has. These are listed below:

- Sales catalogues are quickly out of date and do not contain the entire product range.

- The final build costs are higher than the initial build estimates, causing the customer to go elsewhere or the price reduced, reducing the profit margin.

- There are delays for information between head office and the local office designer, leading to customer's cancelling orders.

- Incomplete information in the accounting department is causing customer's deposits to be omitted from the final balance.

- Supply chain problems are impacting on the entire efficiency of the business.

- Sales offices do not have enough computers for their sales staff.

- Accounting staff cannot cope with the increased customers and payment information is not being correctly

There are several areas at Herriard that need attention and these objectives are detailed below.

3.2 Objectives

The objectives listed need to be achieved to help Herriard stay competitive in the current market and economic climate.

3.2.1 Product Catalogue

The print catalogue is expensive to produce. Due to furniture design changes it quickly becomes out of date. For customers who use the catalogue this leads to frustration and dissatisfaction.

3.2.2 Customer Relations

Customer relations suffer in a number of places in the process of supplying them with furniture. There are inaccuracies in producing the initial design. Customers can tolerate some upward price variation but if excessive they will go elsewhere.

The accounts department is not recording customer's deposits correctly. When customers receive the final invoice they are sometimes charged for the full amount. This causes the affected customers to become angry. They may not return to Herriard for their next order.

3.2.3 Cost Reduction

To stay successful Herriard needs to reduce costs to keep profit margins at sustainable levels and to maintain price competitiveness for customers. Areas that can be improved are better utilisation of materials. This means managing material requirements better so that common materials for furniture are ordered together rather than in small orders at a time. Herriard would then get considerable savings for ordering in bulk.

With an ordering system in place customer's orders would not be held up whilst waiting for components. This would improve the customer experience.

3.2.4 Communications

Communications need to be improved between the four sites of Herriard. With better communications the sales process would run smoother and lead to less customer frustration. Many other areas of the business would improve as communications affects many staff. This is covered in more detail in sections 3.2.6 Material Efficiency and 3.5.4 Supply Chain, as these areas are affected the most by communications.

3.2.5 Accounting

The accounting system needs to be centralised and access given to the local offices. This would allow customer deposits to be entered into the system. The Accounts Department, before sending out the invoice, could easily check if the deposit has been paid and how much. An interlock preventing the sending out of an invoice before this check is done could be implemented on a computer based system for a modest cost.

3.2.6 Sales Office Computers

The design team need better computers to design office layouts and furniture for customers. A more advanced CAD system would make the designs and quotations look more professional and more likely lead to a sale.

Due to the design teams becoming busier over the last year sharing computers is no longer practical.

The sales team, who are frequently on the road, want laptops. They could be equipped with mobile broadband internet to enable them to show customers on site what Herriard can do for them using the company's website. Requests for office furniture and layouts could be sent on site rather than waiting for the sales team member to return to the office. This would speed up the process adding to the customer's satisfaction with Herriard.

3.2.7 Material Efficiency

Materials that are used for many customer orders need to be collated together so that savings can be achieved if ordered in bulk. With orders on a central system it would be known how much material is needed in advance and how much is already in stock.

If the supplier's lead time is known then an order could be sent to re-order material before it runs out. Using EDI (Electronic Data Interchange) Herriard could be electronically linked to its suppliers, ensuring a *just in time* delivery before stocks run out. This could be implemented with simple authenticated email messages sent to the supplier required.

As Herriard has a number of suppliers EDI could be further improved by implementing a VAN (Value Added Network) as shown in Figure 1 below. Like the shipping orders they replace EDI documents contain ship to address, bill to address, a list of product numbers and quantities. It may have other information if the parties agree to include it. ("Electronic Data Interchange,")
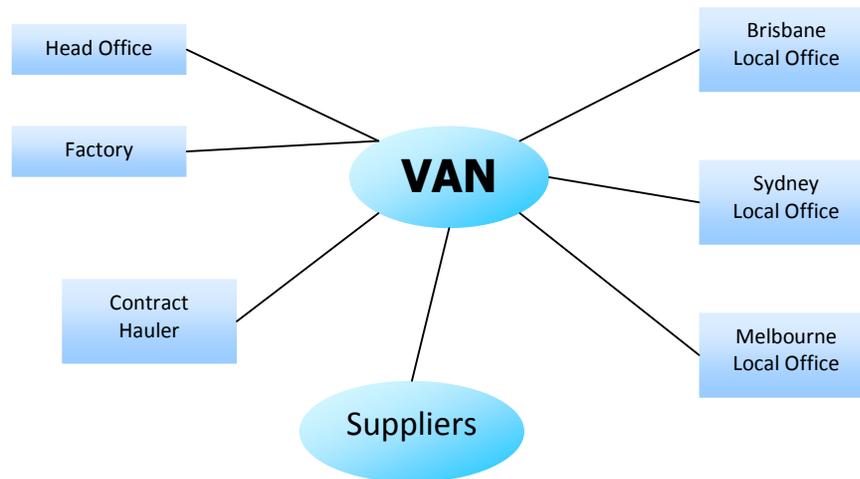

Figure 1 Implementation of a VAN

The VAN acts as an intermediary transferring EDI messages as required. A VAN is a company that provides communications equipment, software and skills required to receive, store and forward electronic messages that contain EDI transaction sets. (Dimos, 2009, pp. 175-176)

3.2.8 Production Management

The factory has problems coordinating jobs. They do not know what is coming up and they cannot plan ahead. If they were linked in with a centralised system the jobs that are upcoming could be displayed and therefore planned for. Such a system is shown schematically in Figure 2.
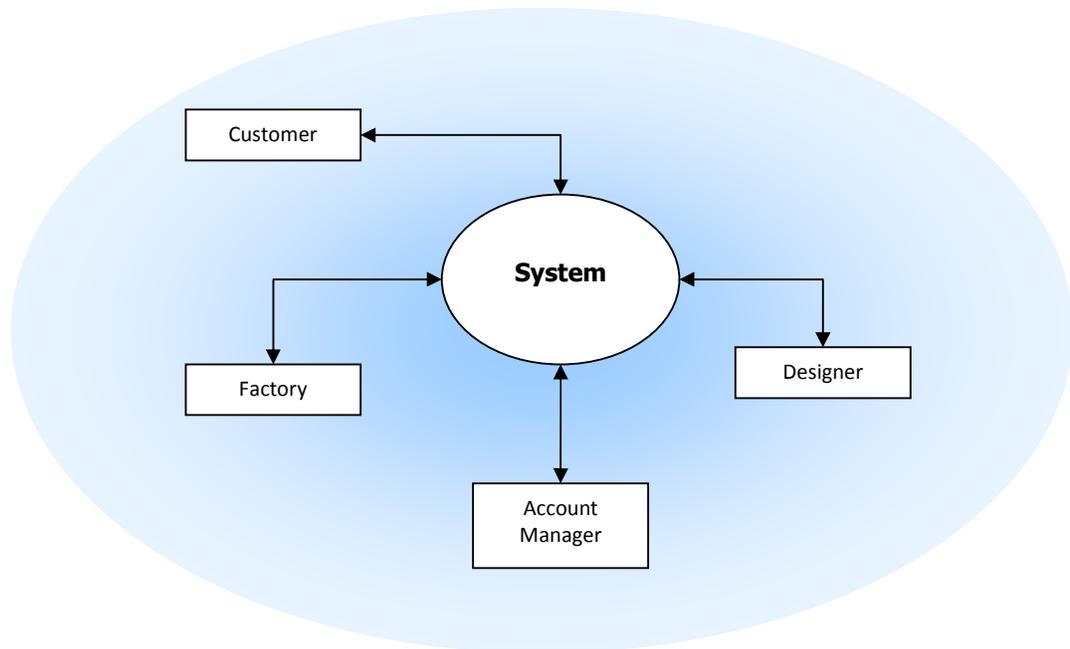
Figure 2 System linking vital parts of Herriard together

3.3 Structure and Content

This section covers the structure and content of Herriard.

3.4 Structure

Herriard has four sites in operation. Sydney, Brisbane and Melbourne are local offices which generate sales from the customers around them.

The main site is at Wollongong, housing the head office and factory. Its purpose is to support the local offices and to manufacture furniture that is custom made to customer requirements.
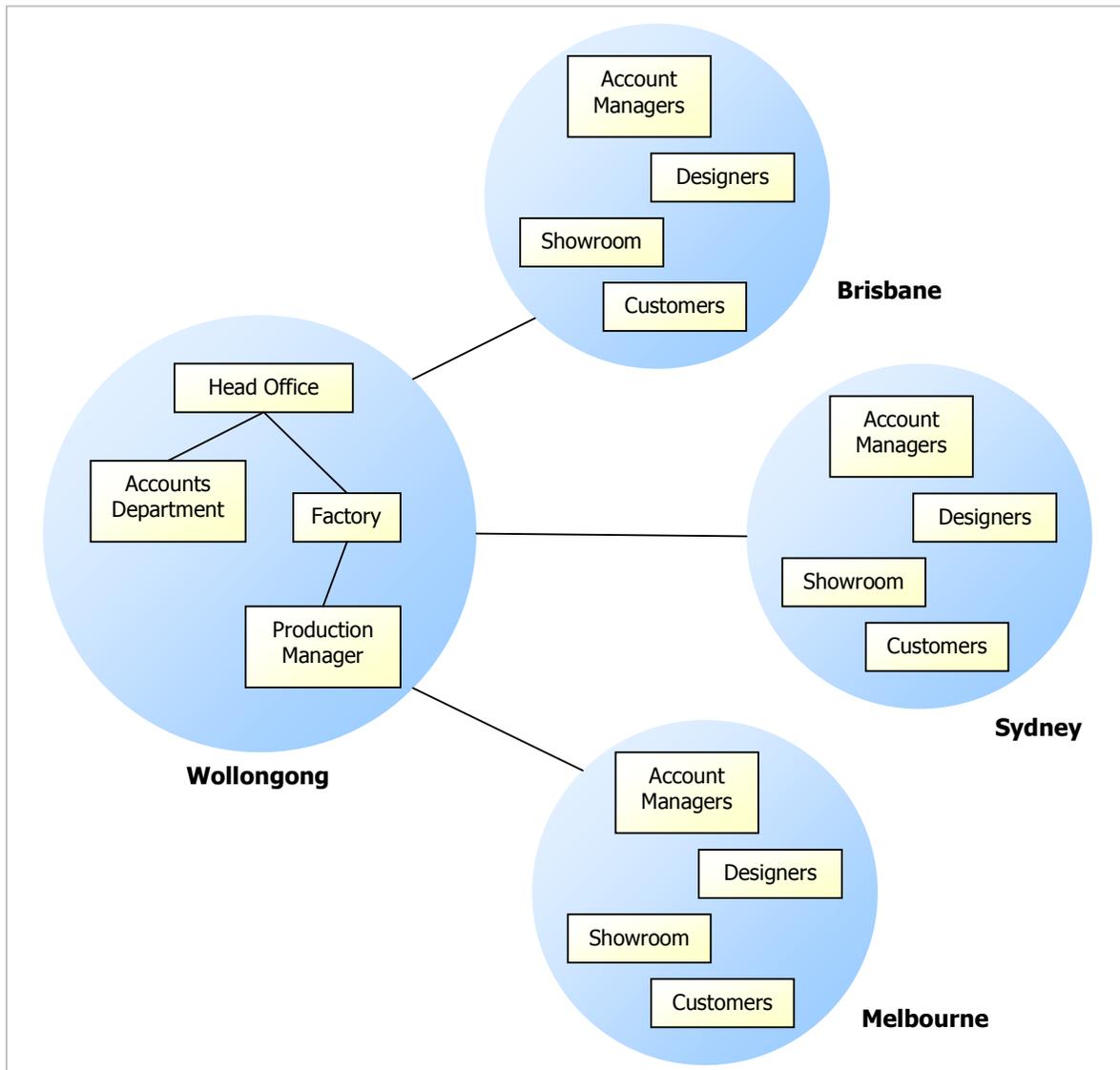
Figure 3 Key entities (staff, locations etc) at Herriard.

3.5 Content

This section details the staff, sites and customers that contribute to Herriard's business.

3.5.1 Staff

Located in Brisbane, Sydney and Melbourne is a local office. At each of these are Account Managers, Designers and other staff. These staff canvas customers and attend to those who walk into the shop.

Head Office staff manage the overall business. The factory staff produce the custom made furniture as ordered by the customer and arrange for delivery using a contract haulier.

3.5.2 Customers

The customers are distributed throughout the local offices as shown in Figure 4. Sydney and Melbourne are the largest markets. The proportions for small, medium and large customers are approximately the same for each local office. The number of small customers is significantly larger than all of the others for each local office.
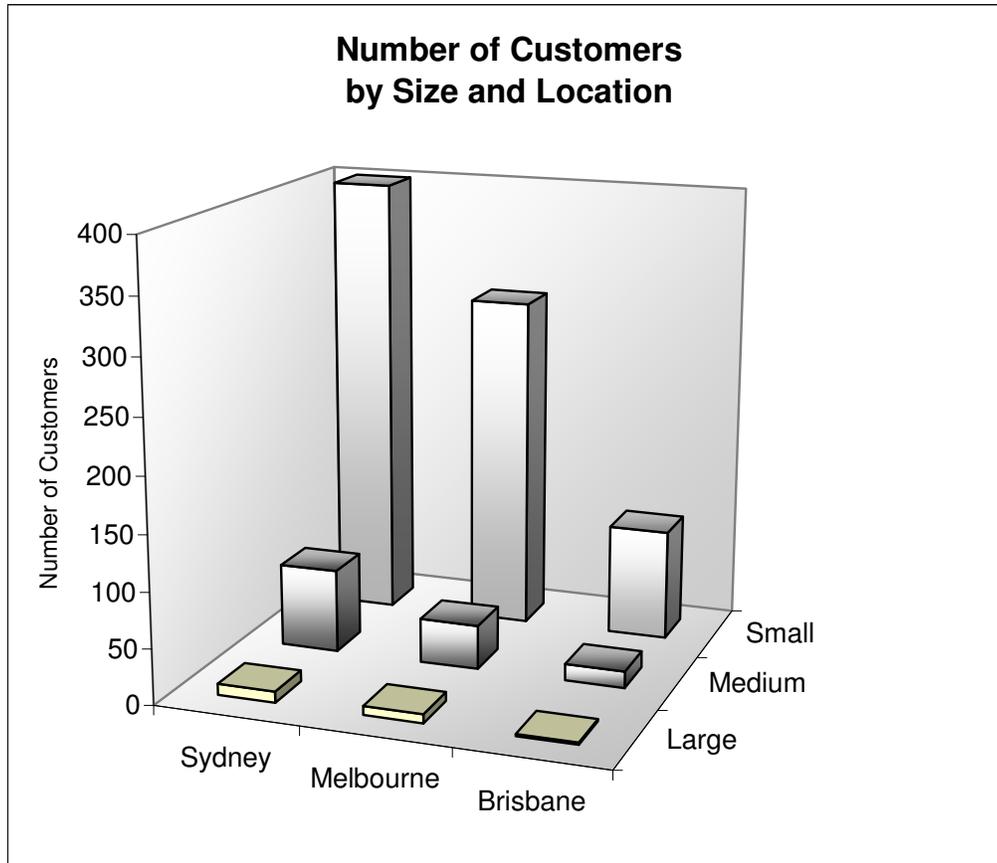
Figure 4 Customers by Size and Location

From Figure 5 Total Sales vs Customer Size it can be seen that although average sales for large customers is greater than the others the few large customers cannot make up for the total value of sales of the small and medium sized customers.

This shows that small customers should not be neglected, even though the profit margins for the large customer sales are greater due to the economy of large sales, as can be seen by the average sales of the large sized customers compared to the small sized customers.

Total Sales vs Customer Size
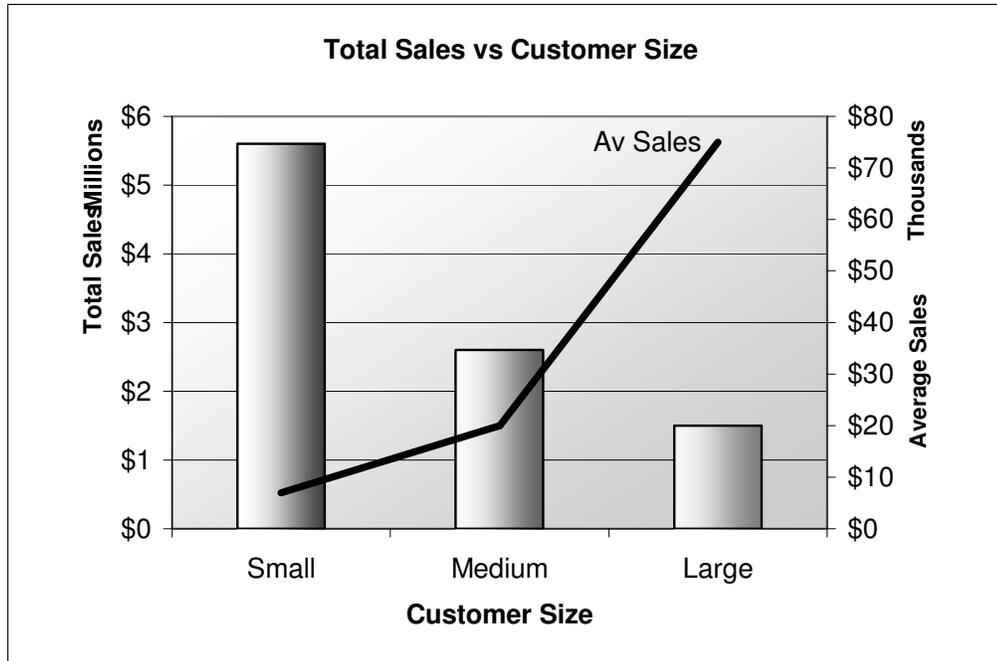
Figure 5 chart showing Total Sales (Millions) on left axis ($0–$6) and Average Sales (Thousands) on right axis ($0–$80), with Av Sales line, across Customer Size: Small, Medium, Large.

Figure 5 Total Sales vs Customer Size

3.5.3 Suppliers

From Figure 6 it can be seen that the majority of suppliers are associated with Head Office. It should be investigated if doing all purchases through Head Office would be viable. Orders could be combined into larger quantities and increase the bargaining power for Herriard.

Number of Suppliers for each Site

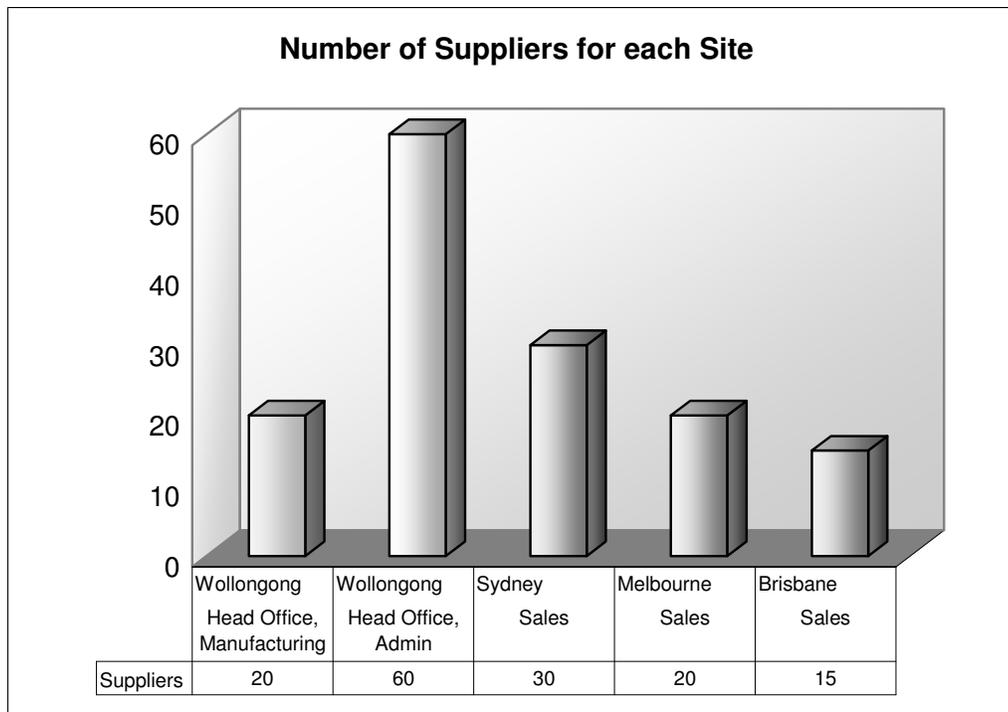|	Wollongong Head Office, Manufacturing	Wollongong Head Office, Admin	Sydney Sales	Melbourne Sales	Brisbane Sales
Suppliers	20	60	30	20	15

Figure 6 Number of Suppliers for each Site

If the generic items were combined with the custom furniture order the physical path of materials would be simplified and become more efficient, as the same truck could be used for all of the customer's order; instead of one from the factory and one from the local office. The physical path of materials and information can be seen in Figure 7.

Combining the physical materials paths would make delivery to the customer more coordinated, more efficient and on time.
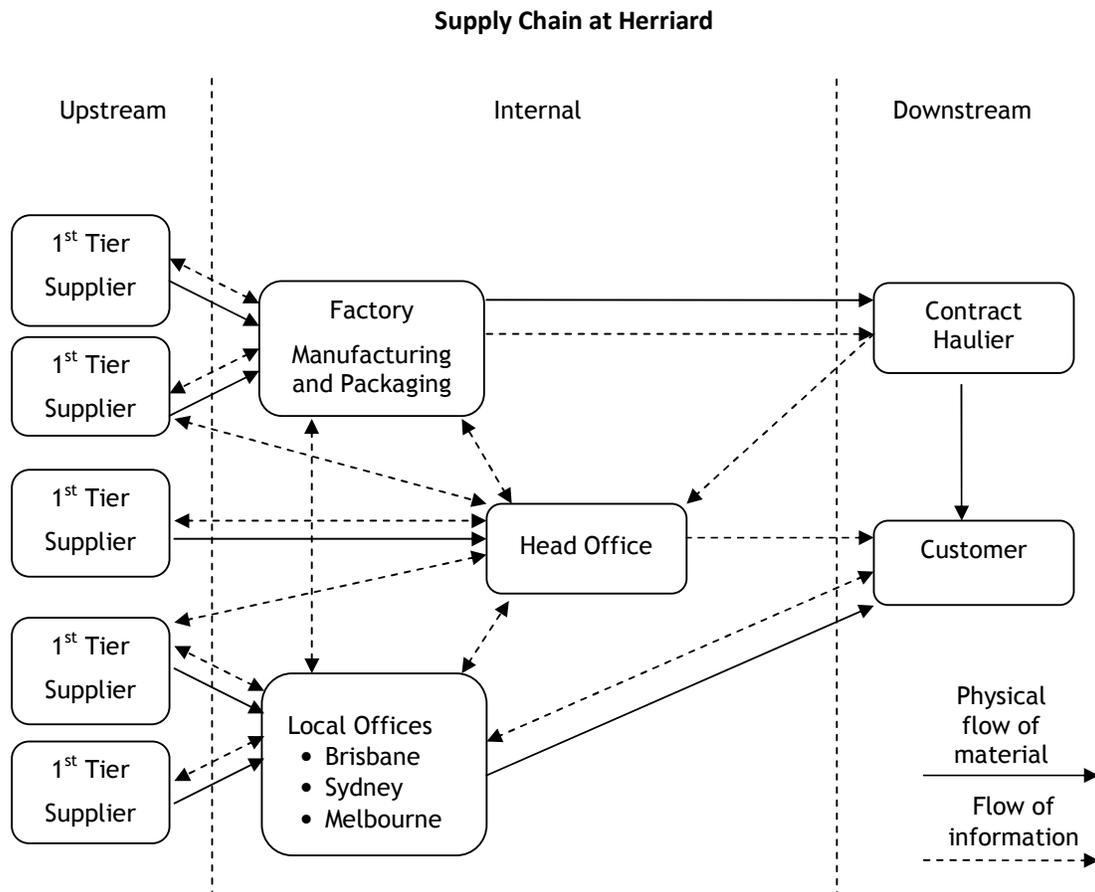
3.5.4 Supply Chain

Supply Chain at Herriard

Figure 7 Supply Chain for Herriard

3.5.5 Business Processes

There are a number of business processes in operation at Herriard. Firstly is the sales process, detailed in this section.

A vital process is the manufacturing part and includes ordering of raw materials.

Each part of the company has a slightly different purchasing arrangement, which are detailed below.

The last process at Herriard to be considered is the despatch and delivery process, part of which in shown in Figure 8.
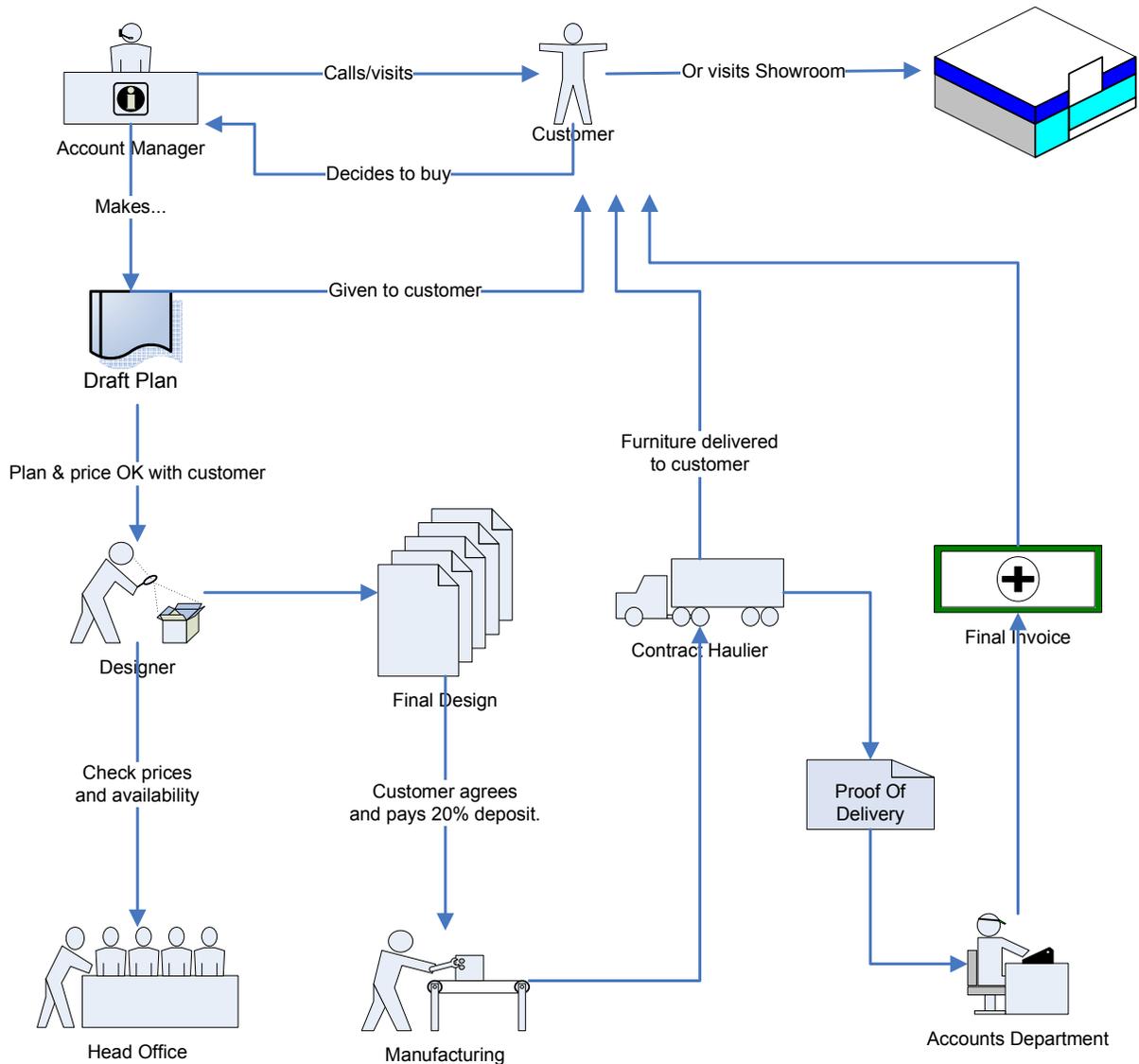
3.5.5.1 Sales Process

Figure 8 Sales process at Herriard. Note that not all interactions are shown.

3.5.5.2 Purchasing Process

Each site has its own modus operandi for purchasing.

3.5.5.2.1 Factory

The factory maintains small amounts of raw materials. For quality finishes the sheets of timber or melamine are ordered in as required according to the customer orders coming in.

Material is ordered when a factory clerk checks the design to determine what is needed. The material is then specially ordered for the customer.

3.5.5.2.2 Sales/Local Offices

Each Sales Office will place orders for items that Herriard does not make. Generally these are local suppliers and each office will negotiate its own terms with the vendor.

For office use sundry items each site has a budget. For items over $2 000 approval must be received from Head Office.

3.5.5.2.3 Head Office

All other purchases for Herriard are made through Head Office.

3.6 Anticipated Budget

The following items need to be costed in detail. Note that the figures are for illustrative purposes only.

Item	Quantity Required	Unit Cost		Total Cost	
CAD System (Designers)	6	$	3,000	$	18,000
Laptops & software (Sales)	10	$	3,000	$	30,000
Wireless Broadband Connections, laptops	10	$	300	$	3,000
Accounting System	1	$	10,000	$	10,000
Manufacturing System	1	$	20,000	$	20,000
Networking and Comms	1	$	40,000	$	40,000
B2B System (EDI), number of ports	7	$	5,000	$	35,000
Customer Relationship Manager, number of users	10	$	1,000	$	10,000
Website analysis & makeover	1	$	10,000	$	10,000
TOTAL				**$**	**176,000**

4 Marketing Strategy

Herriard is considering a move into the Small Office Home Office (SOHO) market. This will be achieved by producing a range of modular furniture that can be mass produced. This will make the furniture competitively priced. The made to measure service will continue.

To sell the SOHO range new channels are proposed to be set up. Sales will be made direct to customers as well as large retailers. The possibility of franchising has also been considered, but this will not proceed until at least twelve months later.

4.1 Identifying the Customer

The customers are expected to be those who are running small business from home or are professionals who need to do extra work at home.

Research was conducted and it was found that the SOHO customers have the following attributes:

- Aged from 25 to 50 years old.
- Living in
    - o Brisbane
    - o Sydney
    - o or Melbourne.
- Tertiary qualified.
- Computer and web literate.
- Comfortable using the web to purchase items.
- Want value for money.
- Need a suitable place at home to do work effectively and efficiently.
- Are able and desire to telecommute, ie work from home for their employer.
- Generally don't watch television, except for some live sports coverage.
- Use social and professional networking sites, such as Facebook and LinkedIn, to stay in touch with friends and colleagues.

4.2 SWOT Analysis

Table 1 is a Strengths, Weaknesses, Opportunities and Threats analysis for Herriard. This will be used to develop the marketing strategy in Section 4.3.

Table 1 SWOT Analysis

Strengths	Weaknesses
• Custom built furniture, to client requirements • Ability to mass produce furniture to a unique design. • Local offices in all major capital cities • Showrooms • Local designers • Local account managers. • Tailored customer service • Well known reputation in the business community for a quality product. • Increasing sales • Large customer base • Has a healthy pool of suppliers.	• Communication problems causing • manufacturing delays. • price quote delays • price quote mistakes • necessary small parts missing, and holding up order • Printed catalogues are inadequate • Factory not using material efficiently • Poor production management at factory causing order delays. • Buying practices are inefficient • Factory unable to keep up with demand.
Opportunities	**Threats**
• New markets, such as Small Office/Home Office. • Expand furniture range to cover more types of commercial sites, ie labs, shops etc • or expand furniture range for domestic market. • Move catalogue to internet, making it current, accessible and more detailed. • Attract more customers through targeted marketing using internet, press and radio. • Buy search listing space on internet search engines, such as Google. • Expand range of prebuilt furniture, factory or third party supplier. • Offer staff members a bonus based on the company's performance. • Offer staff shares in business. • Improve efficiency in material handling, reduce costs and stay competitive while increasing profits.	• Loss of business due to competitor's: • undercutting Herriard's prices • better customer service • better catalogues. • being on time with delivery • Loss of key staff • Macro economy • New furniture design/system that does not need specialised design. • New competitors coming onto market • A better product released by a competitor.

4.3 Developing the Marketing Strategy with SWOT

The following steps have been developed in conjunction with the SWOT analysis and the expected customer profile.

4.3.1 Developing the Product

Using the skills and facilities at the factory a new furniture range will be developed with the target audience in mind. The product needs to be reasonably priced but look good and work well. The design needs to fit in with the décor typically found in the home. Ideally the design should be neutral, so that it will fit in with most current home decors.

The furniture needs to be displayed in the showrooms in arrangements that will give the customer ideas on how to use it and how well the furniture fits in with their home.

4.3.2 Attracting Customers

As Herriard already has a large customer base, this could be used to offer the employees of the customers special deals on the new product.

The new web site promoting and selling the SOHO furniture would be a natural destination for the target audience. Once this initial customer base builds customers will talk positive about Herriard and the *viral market* will help spread the word using their social networking sites. But there are dangers with viral marketing.

To be successful Herriard when staff are dealing with customers, they must:

- Mean what they say and say what they mean.

- Stand behind Herriard's product.

- Under promise and over deliver…always!

(Lake, 2009)

More targeted advertising could be achieved by placing advertisements on social networking sites such as Facebook and LinkedIn. Search engine space could be purchased on sites such as Google and Bing.

Before customers start to use Herriard the website and shop must be set up to make the sale. This could be tested in house by Herriard's sizeable work force.

4.4 Web Site Analysis

Web Site competitive analysis is done with a *usability matrix*. It is typically performed by a team of business specialists who know little about design or usability. They are interested in what the competition is doing and how can it be done better. (Dimos, 2009, p. 192).

Criteria	Description	Score (1 – 5)
Home Page	• How informative is it? • Proper context? • Just a Flash splash page? • Load speed	
Navigation	• Consistent? • Do major sections have local navigation?	
Site Organisation	• Easy to understand?	
Links and Labels	• Section header and content grouping labels easy to understand? • Links distinguishable, or ambiguous and uninformative? • Spread out or gathered together in sidebars or other groupings?	
Search and Search results	• Search engine easy to use? • Basic and advanced search options? • Search results organised and easy to understand? • Relevance weighting? • Search criteria re-displayed?	
Readability	• Font easy to read? (may depend on browser settings) • Line lengths OK? • Site easy to scan?	
Performance	• Pages load fast enough? • Graphics & multimedia optimised for easy viewing?	
Content	• Sufficient depth and breadth of content offering? • Content match company mission statement and needs of audience? • Does site have its own content or does it syndicate other sources?	

The scores are given as follows:
1=bad, 2=poor, 3=fair, 4=good, 5=excellent

(Dimos, 2009, pp. 193-194)

A number of competitors sites are analysed along with Herriard's. For each site the mean score, maximum, minimum and spread is calculated.

This way Herriard's site is compared to those of its competitors. Ideas may be gleaned from these sites that can be used when re-modelling Herriard's.

4.5 Action Plan

The following is a summary of the action required to implement the marketing strategy.

- Develop and manufacture the product

- Display the product in the sales office showrooms

- Do web site analysis

- Update or build Herriard's web site where required.

- Promote an offer to employees of existing customers.

- Promote the Herriard web site and the new SOHO range using sites such as Facebook and Google.

5 Conclusion

There are many problems at Herriard and there are solutions that will make Herriard more competitive and secure for the benefit of the business, employees and customers.

The information technology that is proposed will reduce frustration felt by employees and customers alike.

In addition, a new direction is being ventured into SOHO furniture. This is certain to generate more work and profit for Herriard.

The website will become the online public presence that is sure to bring a new buying experience to customers. It will help make Herriard's employees and management proud of their company.

6 Appendices

6.1 Economic Outlook

Before embarking on a new enterprise it is prudent to determine the risk of losing capital on the venture. From Figure 9 it can be seen that the Australian economy is forecast to improve at an increasing rate. With consumer confidence improving along with the economy it seems that now is an ideal time to invest in a new product.
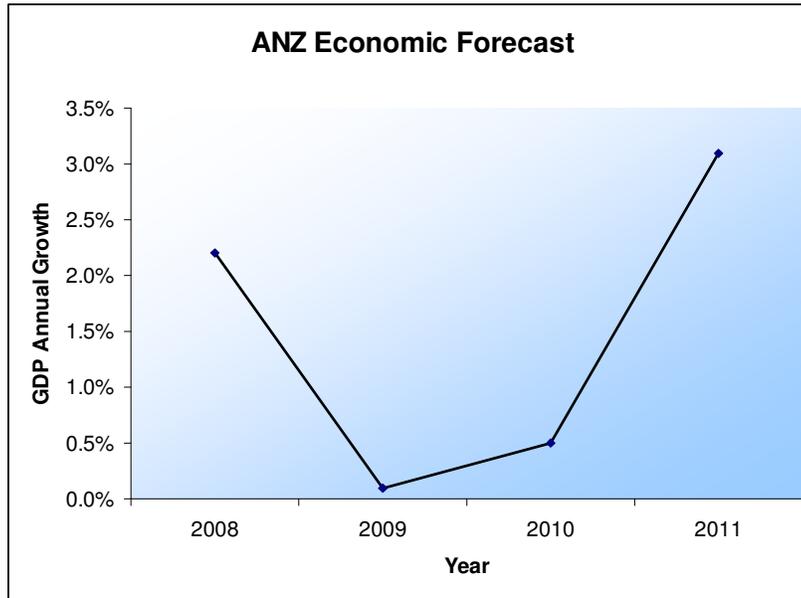

ANZ Economic Forecast

Figure 9 Economic Outlook

("ANZ Economic Outlook-September 2009," 2009)

6.2 Furniture Industry Prospects

The following is a guide to the state of the furniture industry in Australia. The threat of imports continues to grow. They are almost nine times greater than the exports. Annual growth is a modest 5 per cent.

Key Industry Figures 2008		
Industry Revenue	2,110	$ million
Revenue Growth	5	%
Industry Gross Product	720	$ million
Number of Establishments	950	Units
Number of Enterprises	850	Units
Employment	8,200	People
Exports	54.6	$ million
Imports	486.6	$ million
Total Wages	405	$ million

("Household and Commercial Furniture Manufacturing in Australia," 2008)

6.3 Entity Relationship Diagram

This shows the relationship between the entities operating at Herriard. It could be used as the start of a database system to help coordinate the entire process.
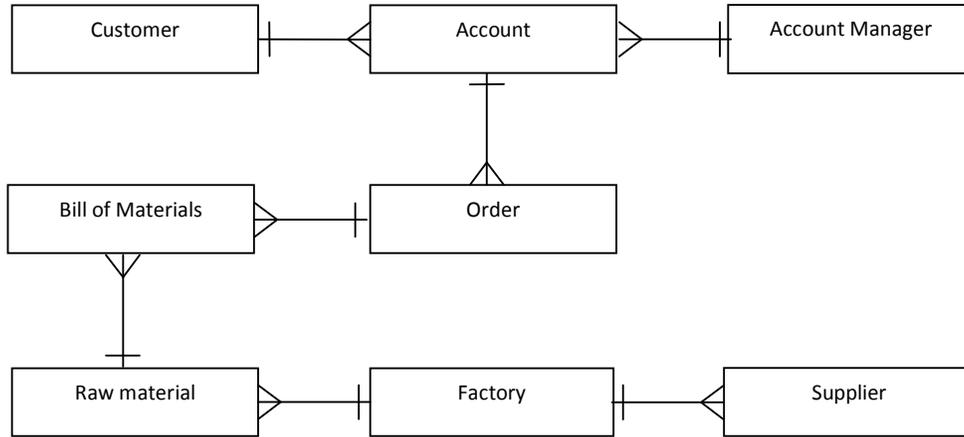

Figure 10 Entity Relationship Diagram for the sales process

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