

## SNOWBOARDING – BUSINESS STRATEGY

### Introduction

This case involves a consulting assignment with a producer of snowboarding equipment, with two distinct major product ranges: boards and clothes. This is a typical “conceptual” case; i.e. clarity of thought and idea generation are more important than the detailed numbers.

### Background

The initial task is to describe and understand the reasons for a recent fall in profitability. Once that has been completed, the objective is to develop a range of strategic options for the company, which will lead to a return to profit growth. At the top level, financial performance has changed as follows:

<b>Total business, £m</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Revenue</b>	80	90	120
<b>Profit</b>	10	10	5
<b>Profit margin (%)</b>	12.5%	11.1%	4.2%

### Solving the case

*First question: What information would you require to help explain the change in profitability?*

The Good Answer: you need to understand what has been driving the cost increases in the business, perhaps by looking at volumes vs. price levels, or by splitting fixed and variable costs. Also, you would need to consider the market and competitive environment for snowboarding equipment – in particular whether competitors were also suffering price pressure.

The Excellent Answer: all of the above, but considering the performance of the board division and the clothing division separately.

Solution: the key to a good understanding in this situation is to break down the problem into manageable chunks. If we consider the two divisions separately a much clearer picture emerges:

<b>Boards, £m</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Revenue</b>	60	60	60
<b>Profit</b>	15	15	15
<b>Profit margin (%)</b>	25%	25%	25%
<b>Clothing, £m</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Revenue</b>	20	30	60
<b>Profit</b>	-5	-5	-10
<b>Profit margin (%)</b>	-25%	-17%	-17%

We can now see that the board division is relatively flat in revenue terms, but brings in constant profit. However, the clothes division, despite growing rapidly, is losing money. We will now turn our attentions to the boards division.

*Second question: What are the strategic options available for the boards division?*

The context given for this is as follows: The market for snowboards is growing slightly, at around 5% per annum, in volume terms, but prices are rising much more quickly. Our client is clearly not sharing in this growth. Our volumes and price are static. What additional information do we need and what sort of things could we do to improve our performance?

The good answer will consider some or all of the following points: we need to know who the competitors are, and how their price levels and quality compare to ours. We also need to understand the level of marketing activity in the industry, and how much marketing we do compared to the competition. Then we can investigate if we could reduce costs and prices to increase our sales. We would also consider doing more marketing, and extending our distribution to more shops.

The Excellent answer would also consider the need to understand how the market works in practice. What are the different types of board available – e.g. top of the range versus standard? What makes customers choose a particular make of snowboard? Once we understand these issues, we can devise more appropriate strategies, such as sponsoring professionals and / or tour events.

*Third question: What can we do with the clothes division?*

The good answer will consider some or all of the following points – Why is the division not making money currently? What options do we have to manufacture more cheaply? Should we pull out of clothing manufacture?

The excellent answer would also include that the business is growing quickly and that some of the costs may be temporary. Also, that the two businesses, although separate, are intertwined, and that the clothing business will benefit if the profile of the boards business is increased through funding of tour events etc.

### **Additional Discussion**

*Fourth question: what else could we consider doing with the business?*

It is unlikely that there is time to consider many of the following, but excellent candidates often discuss one or two:

- Potential for opening some owned shops, dedicated to retailing our own products
- E-business opportunities around snowboarding destination site – holidays, merchandise, reviews, music etc
- Investigation of potential mergers and take-overs to improve competitive position
- Expansion into other product areas – e.g. surfing merchandise
- Outsource clothing production to another company and licence use of brand name