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CONNECT TO SUCCESS CONSULTING PROGRAM

PAU DE GIZ

A Turnaround Business Plan

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Executive Summary

The goal of this thesis is to provide a new profitable direction to Pau de Giz, by proposing a turnaround strategy, structured into a business plan.

Firstly, it was conducted both an external and internal analysis, using the 5C's business consulting framework, to analyze the current state of Company, Collaborators, Consumers, Context and Competitors in the child room decoration market.

While P.E.S.T analysis provided us insights on the Portuguese country business environment, an original microeconomics analysis estimated market demand curve and the Lisbon District market size. Moreover, concerning the competitive environment, a model based on the industry key success factors was developed while potential customers were analyzed on a statistical level from answers collected in a survey conducted. According to the information gathered, the opportunity revealed in this market was defined as well as how the brand would fully exploit it through the development of grounded solid strategy.

Secondly, the marketing mix 4 P's framework, pretends to clarify details on how to perfectly execute the proposed strategy. While the pricing strategy was developed using an econometric model, the other framework dimensions were mainly developed based on qualitative analysis and academic research.

Finally, the net present value of the associated investment in the brand as well as the internal rate of return determined a positive financial viability attached to the execution of this project. Therefore, a set of final recommendations were elaborated describing possible courses of action to explore at a medium-long term in order to foster sustainability of the business profitability.

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Introduction

Created in 2005 by three partners, PDG was a concept born from a shared passion for babies. Entrepreneurs had joint forces on a partnership willing to offer other mothers the experience they all had lived during their pregnancy: purchasing articles to their child's own room. During the first couple of years, the hype generated around the brand, mainly fuelled by word-of-mouth, was great ensuring a stable initial growth. Nonetheless, a sequence of profitability harming events threatened the sustainability of the former business model, deploying no significant response to market external environment changes. Under a negative profitability cycle and barely generating revenue to pay the store monthly rent, the partners had decided to close the physical store in C. Ourique on February 2016. From this agreement, the other partners transferred the ownership of the brand to Ana Teresa Pereira, who strongly believes that the brand still has an incredible potential to be further explored in the upcoming future.

Therefore, recognizing her lack of management background, Ana applied to C2S program promoted by the US Embassy to get help in the construction of a business plan, capable of turnaround PDG into a solid profitable business. Nevertheless, other minor business objectives for the upcoming future were settled: (1) developing new products and keeping the best-sellers in the product line; (2) solidifying the brands presence online, (3) reaching national markets outside Lisbon and further access the possibility to internationalize the brand.

In order to get an external overview on the company situation serving as base to the consultant's methodology, a data extensive survey was conducted in El Corte Inglés during the last week of March 2016 gathering a sample of 252 respondents randomly selected.

Glossary

PDG – *Pau de Giz*;

C2S – *Connect to Success Programme*;

SEO – *Search Engine Optimization*;

CEM – *Competitors Evaluation Model*;

KSF – *Key Success Factors*;

ACEPI - *Associação do Comércio Electrónico e Publicidade Interactiva*;

Situation Analysis

1. Internal Analysis

Before engaging in a strategic decision on the brand's reorientation in the market, orientation setters must acknowledge the essence that maintained PDG in the market for a decade. In order to absorb the modus operandi of the brand in the studied market, a company overview and a brief description of the current suppliers will be disclosed on the next section.

1.1. Company Overview

The company overview section contains a resume of the past business model and specifies what does the partner applying to the C2S programme aspires for the brand future.

1.1.1. *Type of Legal Entity*

PDG was once a **"**sociedade por quotas" (Shev, s.d.) between Ana Teresa Pereira and other two female partners, each of them owning one third of the entire business. Now, the store became a "sociedade unipessoal por quotas" (Shev, s.d.), as Ana Teresa Pereira became the left standing partner in the business. According to the criteria defined by the European Commission, PDG is considered a micro enterprise as it employs less than ten employees and has an annual turnover below 2 million euros (European Commission, 2016).

1.1.2. *Mission & Vision*

Mission: "Providing a complete range of decoration accessories and ideas to customers who are partners decorating their children own spaces".

Vision: "Become parents' first choice when looking for products to decorate the rooms of their children first in Lisbon and further in time throughout the country"

1.1.3. *Products & Services Offered*

PDG used to sell manly two different kind of products on demand: furniture and room accessories. Additionally, the partners would be available to gather in a file, a portfolio of personalized products with listed prices according to the different patterns available.

Furniture was the product category with the greatest mark-up. However, products such as shelfs, beds or nightstands guaranteeing a higher margin for PDG in the past, have been experiencing lower demand across the years mainly due the market entry of low-cost competitors.

Room accessories were the core of the former business in term of sales volume. Possessing a vast home wear collection of carpets, curtains, duvet covers, pillows, quilts and cuddling toys, accessories are products gathering excellent costumer reviews whilst generating much lower margin than furniture.

1.1.4. *Target Costumers*

The brand had put much more effort in advertising originality, colours and patterns of their products rather than approaching a single target with unique messages, especially throughout Facebook. Notwithstanding, the greater percentage of the old store customers were mothers from the same generation and social stratum of Ana.

Furthermore, according to Ana, local shoppers were also visiting the store even if they were purchasing much less articles than the others were. Finally, also grandmothers were visiting the store looking for products for the grandson or granddaughter. Upon these clients, the partners had noticed that their willingness to spend was higher than the average.

1.1.5. *Past Accomplishments*

The most important accomplishment of PDG is to have created a great brand awareness. According to the results of the survey conducted, 20.24 % of the people interviewed knew PDG already. Other remarkable past accomplishments of PDG were (1) creating a Facebook platform with more than twenty thousand followers, (2) being a regular presence on a reputable television programme called "Querido Mudei a Casa" and (3) holding a design awarded brand logo.

1.2. Collaborators Network: Suppliers

Upstream collaborators can impact a company performance in five major dimensions: product quality, timeliness, competiveness, product innovation and finance (Reiss, 2010). As PDG delivers products of superior quality compared with the rest of the market[1], processes moderately timed deliveries[2] and had developed healthy relations with current suppliers, ultimately extending the payment deadlines up to forty five days after product delivery, the great part of the contracts from the current network of suppliers should be maintained.

Exhibit 1 provides a table of the current network of suppliers providing products for PDG. From the table, it can be observed that PDG had established contracts both with national and international product providers. While the majority of national suppliers do not hold a minimum amount to enable a product order, the same cannot be verified with international suppliers who request a minimum amount to process product orders.

Grey backgrounded companies in the table are suppliers which the business owner is planning to divest in the upcoming future whether due to unmanageable process terms or perceived product unpopularity. Nevertheless, an alternative national supplier for wallpapers must be found matching the standards of PDG product quality since wallpapers are one of the most demanded items when decorating a child room[3] and the brand is currently planning to divest with three wallpapers providers.

2. External Analysis

The external analysis focus on the external factors affecting PDG positioning strength in the studied market. Whereas context analysis offer a broader look on the industry health and its prerequisites for success, competitors section aim to define which type of players are there in the market. Finally, costumer analysis will provide us with insights about the diverse magnitude of consumers present in the child room decoration market.

[1] According to CEM – PQ1: Product Quality, Exhibit 12
[2] According to CEM – BP3: Time of Existence, Exhibit 12
[3] According to survey conducted to extract relevant information from the child room decoration market

2.1. Context Analysis

2.1.1. *P.E.S.T. Analysis*

Political: The Portuguese government is a left coalition led by the socialist party, receiving frequently reservations from EU leaders on the policies followed. The corporate tax stabilized in 23% under the 2014 tax reform and it is perceived as easier to start a business than enrol in all the bureaucratic procedures needed to close one.

Economical: In the first quarter of 2016, the Portuguese GDP expanded growth at a slower pace than expected mainly due to an unanticipated fell in the exports which amortized the effect of increase in consumption (Lusa, 2016).

Social: Portuguese population is mainly Christian when it comes to religion and socialization manners are highlighted during a child's education (Countries and their cultures, s.d.).

Technological: The usage of technology is increasing among Portuguese population. From 10, 4 million Portuguese, 65 % uses the Internet, 31 % shop online and the average spending per e-shopper is 1330 € per year (ACEPI, 2015). E-Commerce contribution to GDP was 1,70 % in 2014 accounting as 2,9 billion euros and registering a growth of 13,3 % on the aggregation of products and services sold. Moreover, it is estimated that 47% of the Portuguese population is regularly present in social media (ACEPI, 2015).

2.1.2. *Market Size Estimation - Kids' Room Supplies Industry*

During the survey conducted the interviewed have been asked "How much are you willing to spend for decorating the room of your kid if you were going to have a child now?" letting them chose among price ranges: €0 - €500, €501 - €1000, €1001 - €2000, €2001 – €3000 and more than €3000. From the relative frequencies then, are calculated the cumulative frequency of each lower value[4], assuming that who is willing to pay €3000 will be also willing to pay €500.

[4] It is used the lower value of the price-range since it is know that a if X% of people are willing to pay between 0 and 250 euros it is unknown how many of them is willing to pay as much as the upper bound.

For example, the people that were willing to pay between €2001 and €3000 were the 14,19% of the total, while the people willing to pay more than 3000€ were the 2,58%. Consequently by pricing the total decoration process at €2001 it is possible to expect that 14,19% + 2,58% = 16,77% of the consumers should be willing to buy it.

By combining those cumulative percentages with the number of children born in the Lisbon Metropolitan Area[5], 26095 in 2011 according to Pordata, have been possible to obtain the total number of "units" demanded for each inferior value of the price ranges. In practice, 26.095[6] if the price is €0, 21.886 if the price is €501, 12.963 if the prices is €1001, 4.377 if the price is €2001 and 673 if the price is €3001. Through a polynomial interpolation of those points in the Cartesian Axis had been then possible to approximate graphically and mathematically the inverse demand curve in a space (Quantity; Price) (Exhibit 2)

With an R^2 of 100% the following 4th order polynomial equation estimates the inverse demand for babies' room decoration: $P = 2 * 10^{-15} * Q^4 - 5 * 10^{-10} * Q^3 + 2 * 10^{-5} * Q^2 - 0{,}365Q + 3237{,}5$

Consistently with the Microeconomic theory, the curve is monotonic and downward sloping.

Since in microeconomics the area underneath the curve represent the revenues, and assuming that every consumer is able to find a combination of products that match its reserve price, the definite integral between 0 and 26095[7] of the demand curve is the estimation of the market size.

$$€25.550.363 = \int_0^{26095} 2 * 10^{-15} * Q^4 - 5 * 10^{-10} * Q^3 + 2 * 10^{-5} * Q^2 - 0{,}365Q + 3237{,}5$$

The size of the market is approximated to be €25,5 million each year.

To make the estimation using the overall average expenditure multiplied by the number of children born would not be accurate enough.

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[5] Includes: Alcochete, Almada, Amadora, Barreiro, Cascais, Lisboa, Loures, Moita, Montijo, Odivelas, Oeiras, Seixal and Sintra.

[6] Obviously even charging 0, if somebody is not going to have a baby will not buy the "product"! The maximum number of unit sold is therefore the number of children born in a year.

[7] The amount of children born in a given year in the Lisbon Metropolitan Area.

2.1.3. *Porter's Five Forces Analysis – Kids' Room Supplies Industry*

Porters Five Forces Analysis will be used to explain the complex strategic environment existent in the child room decoration industry (Yunna, Wu & Yisheng, Yang, 2014). Attached to the traditional forces analysed by the Porter Analysis, a sixth force named power of complements will be analysed in this market[8]. The power of complements is acknowledged to have an opposite effect in the industry to substitutes (Grant & Jordan, February 2015)

2.1.3.1. *Suppliers Bargaining Power* — **Medium**

The room decoration industry is in general fairly competitive in terms of suppliers. There are several companies, either Portuguese or international, manufacturing specific products and trying to position them on the retailer's shelves. Accordingly, the high degree of upstream competition have a negative impact on the bargaining power of suppliers. However, since PDG sells uniquely designed products in the market seen as irreplaceable in consumers' minds, suppliers signing with other competitors can reduce substantially the PDG' sales on the products manufactured by them. Therefore, the threat of exclusivity loss, have a positive impact on the negotiating power of the suppliers. Summing up the two factors, the overall bargaining power is then considered to be medium: the high number of suppliers pulling into the low direction, while the uniqueness of each manufacture products pushes the overall force into a high direction.

2.1.3.2. *Buyers Bargaining Power* — **Medium High**

Consumers have different options regarding vertical differentiation, easily finding cheaper solutions in other shops without incurring significant research costs. For similar products better price deals can be done in this particular market, especially regarding furniture. However, the favourable price deals obtained usually represent a perceived downgrade in product quality. In this market you as costumer truly pay for product attractiveness, emotion and love, while

[8] According to Nova SBE Strategy professor Dr. João Silveira Lobo

cheaper products are highly attached to a sense of functionality. This is certainly the reason why low-cost competitors such as Ikea are market leaders selling baby cribs, changing tables and storage systems but not in room accessories

Professionalized small companies tend to stock small quantities of accessories and order furniture according to customer requests. Similar products are substantially difficult to be found in the market, unless both retailers are being supplied by the same provider. Nonetheless, suppliers guaranteeing manufactured products for multiple small stores nowadays became more frequent in the child room decoration market than ten years ago. Therefore, the bargaining power of the buyers is accessed to be medium to high in this market.

2.1.3.3. *Threat of New Entrants* **Medium High**

This market have no significant real barriers to entry since the absolute capital requirement is very low and licenses are extremely easy to obtain. In addition, almost all the transactions are "one-shot", buying the majority of items on baskets containing multiple accessories that combine between themselves giving a cheerful atmosphere to a child room. After that first bulk purchase, parents though are more receptive to buy smaller and single products that they have been missing out in the room rather than purchasing big quantities of articles. The feeling that their children will soon grow older blocks families from buying more products, indicating a small portion of loyalists in this market, which provides an opportunity for a new entrant.

The major problem for new entrants is finding the right supplier. Without experience in the market and lacking a network of contacts useful for product negotiations, would be extremely hard to have a product portfolio similar to other players already established in the market for a decade. Furthermore, the size of the industry is small at the moment and potential profits considerably shorts to risk a large investment, decreasing the level of attractiveness in a market entry. The threat of new entrants is then considered to be medium to high according to what have been discussed previously, meaning that the market entrance is relatively frequent to occur but in order to establish the new player has to overcome some identified hurdles.

2.1.3.4. *Threat of Substitution* — Low

In the child room decoration market, the threat of substitution is almost inexistent. There is not a product from another industry offering the same type characteristics and benefits to parents as the products in the studied market. Then, the risk that a company in this industry faces by substitutes replacing the functions of their products is close to zero.

2.1.3.5. *Industry Rivalry* — High

At the beginning, when PDG' store was inaugurated, the competition was not really intense. There were only some small players in the market competing locally, the advertising expenses were low and the internet was still underdeveloped. Each player was more and less homogeneous in terms of size and resources availability, being hard to build sustainable competitive advantages for the future. Nevertheless, the child room decoration market was profiting and investing in the market was slightly rewarding, which allowed the entrance of new market players due to the above mentioned low entry costs.

However, the small oasis in the baby room supply market had vanished throughout the last decade. Indeed, the lack of concern revealed by the existent players in raising effective market entry barriers was the primary stimuli for the market entrance of new professionalized stores. In a mature market, such as the child room decoration one, the entrance of new market players did not grow the overall size of the market. Therefore, each market entry signified a decreasing share of the market for each player in it, resulting in lower profitability levels. Additionally, factors such as Ikea market entry absorbing the majority of sales in the furniture category and the economic crisis refraining consumers of spending considerable amount of money in non-compulsory articles had shrunk an already small market to prohibitive levels.

Nowadays, the majority of firms that exists competing on the big middle segment (BMS) were not in the market when PDG was founded. In order to survive in a demanding business landscape, brands have found most of their way specializing their product offer whether in fabrics, furniture and accessories or their service offer in a customized costumer service in store or through offering decoration services. It is also widely interesting to notice the importance that each player deposits now in being present in at least one online channel. Although only few competitors possess a developed e-commerce platform of sales to complement their business in store, the majority of child room decoration retailers use social media platforms to interact with their costumers online. The prices practiced in the market flow around the same generic bubble of prices within each category with exception of furniture, where Ikea competing on the low cost segment is able to offer extremely cheaper solutions for their clients. Therefore, the industry rivalry evolved from medium low to high on the last decade.

2.1.3.6. *Power of Complements* — **Medium**

There are several possibilities to complement products offered in this industry with products from another industry. As parents are usually obsessed looking for the best for their babies' childhood, any high quality product designed for their children can ultimately fuel room decoration market product sales. Collaborating with stores selling clothes, educational games or baby strollers can indeed increase our market products demand. Per example, a family buying a couple of educational games for their children will certainly develop the need to buy a carpet and a basket of appealing pillows for their baby play comfortably in his bedroom. A couple buying a baby stroller to transport his baby, will likely engage on the purchase of a blanket if the weather is rather cold. Consequently, the power of complements is believed be a medium force of influence upon this industry.

2.1.4. *Industry Key Success Factors: Big Middle Segment*

In order to remain viable, a firm must compete in industry settings that are prerequisites for success - the “key success factors” (Vasconcellos & Hambrick, 1989). PDG must then develop strengths that match the seven major levers of success through value in the child room decoration market to regrow its business: (1) Store Factors, (2) Product Factors, (3) Price, (4) Brand Power, (5) Service Factors, (6) Supply Chain and (7) Costumer Interaction.

2.1.4.1. *Store Factors* — KSF 1

While physical store allows potential consumers to experience the store at a deeper level (Berger, 2015), the online store provides significant improvements in sales, cost, inventory, and return on investments for the business owner (Bei-bei & Bing-jia, 2012). As real shopping experience is the single most important factor in attracting and retaining the mom shopper (Tarnowski, 2011) and tangible products sales, such as clothing or groceries, have not been flourishing in internet sales as other intangible service categories (Rajamma, Paswan, & Ganesh, 2007), the importance of having a brick and mortar store is slightly higher in the baby room supply market.

Brick and Mortar

One of the most important factors influencing the success of a physical store is the community and the site where your business is settled (Entrepreneur, 2015). Locating the store close to your target market will increase the chances of building a unique relationship with your target costumer, while establishing a competitive relationship with other stores in the area (Guy 1998). Furthermore, a first point of contact between consumer and retailer influences the persuasion ability of the store in attracting consumers to purchase (Jain, Takayanagi, & Malthouse, 2014). Visual merchandising is then critical to create a pleasurable shopping experience and to enhance value motivate customers to make planned or impulsive purchases (Levi and Weitz, 2009). Therefore, inside store decoration, such as the colour of general building interior, the layout and design variables are also key to create a positive atmospheric stimuli in the costumer (Berman & Evans, 2013). Finally, the quality of the relationship in an offline store plays a pivotal role for customer loyalty (Palmatier, Dant, Grewal, & Evans, 2006)

Online Store

As stated before, e-commerce is a trend that is growing year by year. Although, online retailing still accounts for a small proportion of retail sales, it is expected to be the dominant channel of sales within a few years (Nueno, 2013). Therefore, in order to create a functional and appealing online point of sale aiming to effectively support your business, a significant investment in website success drivers increase the likelihood of turning random visitors into clients and regulars into loyal customers. Among the variety of variables proposed to measure website quality, content quality, design, content organization and user-friendliness (Abuelrubb & Hasan, January 2011) were found to be the ones that could be easily applied to the studied market. Furthermore, search engine optimization making possible the business to appear high in search engine rankings will encourage visitors to click through your website and check if the website products fulfil their needs (Dzhingarov, 2015)

2.1.4.2. ***Product Factors*** **KSF 2**

Most of retailers devote tremendous amount of time and effort to merchandise management (Grewal, Krishnan, Levy, & Munger, 2010). Although, product success factors differ according to the category of products sold, product quality and product line completeness are believed to be the ones which ultimately resume the attractiveness of the merchandise available for sale in the studied market.

Product Quality

The user-based approach highlights the importance of aesthetics and costumer perceived quality in order to access whether the product exceeds to meet or exceeds the costumer expectations (Sebastianelli & Tamimi, 2002). Additionally, consumers have a special appreciation for the human factor in production. Products made with love by the craftsperson, stimulate a positive handmade effect on the perception of the product attractiveness (Fuchs, Schreier, & Van Osselaer, 2015). This preference of handmade over machine made products is expected to be higher in female costumers, namely mothers and pregnant woman who aspire the best for their children. Another dimension that influences positively the quality perception of mothers is the originality of the products available for sale (Goldenberg, Mazursky, & Solomon, 1999).

Product Line

Products are designed and manufactured to fulfil needs. As those needs differ from family to family, a certain amount of assortment is required to fulfil the most diverse customer requirements (Schuh, et al., 2013). However, excessive assortment levels can expose the company to higher costs, lower probability of purchase and decreased satisfaction due to choice overload (Chernev, 2011). Moreover, engaging a costumer to participate in product development process to turn it unique can create the possibility to differentiate from other players in the market (Wang & Cho, 2010). Offering the ability to customize a product is equivalent to offer each mom and dad an antidote to eliminate hurdles that may come up after the clients say that they are interested in a specific product.

2.1.4.3. *Price* **KSF 3**

Price is the fundamental factor that costumers consider when accessing the overall value of an offer (Grewal, Krishnan, Levy, & Munger, 2010). A product might be extremely appealing or particularly customized to tailor each client requirements, but if the costumers feel that they are being overcharged, based on their personal product value assessment, the purchase will hardly take place. On the opposite direction, as pregnant women and new mothers are less price sensitive when it comes to shopping articles for their sons (Jitha, 15), undercharging would mean not capturing enough margins from the value created in a competitive market.

Consequently, setting the price of a good based on what is being offered (Grewal, Krishnan, Levy, & Munger, 2010) is critical to succeed in the child room decoration market. Adding up to this pricing strategy, promotions can occur in this market as a single isolated events and not as a predefined routine. They must excite and entertain parents in their shopping experience or serve as tool to boost short term category demand (Lee & Tsai, 2014).

2.1.4.4. *Brand Power* — KSF 4

Branding had developed to become a top management priority in the last decades. As being one of a firm's most valuable intangible assets, brands can be extremely important in the retail industry because they influence customer perceptions, drive store choice and stimulate loyalty (Ailawadi & Keller , 2004). The studied market is not an exception. Indeed, millennial mothers have special preference for brands that they feel aligned with their values (Dua, 2015).

Social media metrics can be strong indicators of a brand value (Luo, Zhang, & Duan, 2013). In a qualitative study conducted to fully understand the meaningfulness of the Facebook Like button, researchers had found out that brand loyalty, information search and brand attitude, stand as the most frequent reason why Facebook users strike a brand page like button both in products and service companies (Pelletier & Horky, 2015). The number of Facebook Likes can then be used to obtain a raw quantitative approximation on how many Facebook users are actually loyal to a certain brand in the child room decoration market.

Moreover, brand reputation increases the financial value for the organization (Linssen, 2010) . In the child room decoration market, brand reputation is expected to be highly influenced by individuals with high credibility regularly known as market influencers. Opinion leaders in their blog writings are able to influence readers and change their perceived reputational insights about specific brands.

2.1.4.5. *Service Factors* KSF 5

Retailers who provide greater service distinguish themselves from their competitors (Grewal, Krishnan, Levy, & Munger, 2010). Service quality refers to an attitude formed by the overall evaluation of a firm's performance (Selvalakshmi & Ravichandran, 2015) influencing customer satisfaction, customer's intentions to repurchase and further recommend it (Olaru, Purchase, & Peterson, 2008). In the studied market, costumer support services play a pivotal role assisting mothers on their purchase process. Therefore, the ability to provide reliable insights on room decoration trends, the existence of a customized sales support services and the presence of an experienced workforce capable of addressing clients questions are believed to increase overall perception of quality attached to the customer service offered.

A professional designer with a trained eye can automatically help you accessing what is right and what is wrong with your room plan (Cortizo, 2012). Decoration services holding a network of contacts, wide availability of resources and providing professional assessment, budgeting and planning (Freshome, 2012) can erase most of the frustration that especially new mothers go through when they do not get the perfect balance for their child's room at first trials. Furthermore, investing in decoration services permits the business owner to make money out of two revenue streams: (1) from branded product margins included in the decoration plan; (2) from the decorator salary. Hence, business diversification can strength your market position and help you surviving tough times particularly if you had engage in product specialization in the past to survive external competitive pressures.

According to the survey results[9], a percentage of mothers are sceptical to hire a decorator, preferring to engage in the rollercoaster adventure of doing it by themselves. Nevertheless, whether through e-tailing by having a visible contact number at the top of your webpage and a virtual sales team knowing where to address an issue (Cohen, 2015) or by positioning a

[9] Survey conducted on the child room decoration market

promptly trained sales team in-store getting to the client quickly and correctly, assisting these type of clients on whatever they would need, will surely increase customer satisfaction and sense of fulfilment around their shopping experience.

2.1.4.6. *Supply Chain* — KSF 6

In the modern and competitive retail environment, Supply Chain Management is the key to success and survival (Ganesan, George, Jap, Palmatier, & Weitz, 2009). Big gorillas in retail grew in the past because they mastered the supply chain technology of their times, which enabled them to satisfy their costumer's needs with the right merchandise made available at the right location, in the right quantities at the right price (Brown, Dant, Eugene, & Kaufmann, 2005). In the studied market, although supply contracts, procurement, outsourcing, strategic partnerships, inventory control, information technology and distribution networks & strategies, increase the overall capability that a firm has in addressing promptly client's needs, it is extremely difficult to quantify the efficiency and effectiveness attached to the process. Therefore, in order to obtain an approximate estimation on the health of the entire competitor's supply chain, a focus will be forward towards process output rather than to the whole process itself. The two major quantitative variables identified affecting costumer perceptions on the well-functioning of the supply chain in the child room decoration market are: (1) availability of stock and (2) time to deliver a client request.

Indeed, stock-outs are the most frequently mentioned cause of frustration for dissatisfied customers (Sterns & Unger, 1981). As mentioned before, mothers nowadays engage considerable research time before engaging in the purchase of a specific product. If they decide to visit a store, whether brick and mortar or online one, they already go with the specific product in mind, expecting it to be readily available. If there is a stock-out on the particular specific product, the frustration is expected to be higher as mothers tend to become highly emotional during their pregnancy period. Furthermore, costumers assigned to our market may become unfulfilled when they have to wait excessive amounts of time for a product order. Transportation is the main base of efficiency and economy in business logistics (Santibanez-Gonzalez & Diabat, 2013). Offering the option for the customers to choose between express or normal deliveries services according to their sense of urge is believed to be one of the best practices in the baby supply market.

2.1.4.7. *Customer Interaction* KSF 7

Customer interaction is extremely important on the child room decoration market due to the constant useful flows of information generated daily, ultimately helping the company in realizing what issues are there to address or what trends are emerging in this specific market. The type of interactions can be differentiated in two according to the direction settled during the communication process: (1) Two-way interaction through social media platforms or (2) one-way through advertising campaigns.

Social Media

Social media is on the edge right now. According to researchers, the social mobile trend is growing year by year and the utilization among younger generations is increasing meaning that in the future, the majority of the couples looking for decoration articles to the room of their son will be in at least one of these social networks. The approach to social media marketing revealing greater turnover to successful small medium enterprises going online is multi channelling marketing by having a uniformed messaged presence in every relevant network. Facebook is by far the social network most popular across the world and worldwide companies do not miss an opportunity to be present there, interacting with their follower and ultimately showcasing their products. Furthermore, other social media platforms considered relevant in the two way interaction with customers in this market are Pinterest and Instagram since they are more product oriented. Finally, a blog deploying engagement around the brand to an enthusiastic audience can incentivize content sharing through interconnected social networks.

Advertising

In the child room decoration market the major constraint for one-way marketing campaigns are budget constraints. Therefore, the best practices for this type of advertising is by creating engagement events with the target audience, mediatizing products offered through magazines of reference or using the sphere of celebrities social networks to freely promote products.

2.2. Competitors

The competitive environment evolution over the past eleven years had forced players already established to re-think their position in the market in order to survive. As previously analysed in the dynamic Porter Analysis, the appearance of new local highly professionalized stores and the entrance of multinational firms exploiting economies of scale had shrunk an already diminished marketplace. Small to medium businesses offering multiple services for concerned future mothers had to respond to change and guarantee alternative grounded sources of revenue.

The majority of market players found their resilience on product specialization. Moving from child room articles wholesalers, to specialized furniture, accessories, fabrics, cloths or toys retailers, they were able to promote a level of differentiation reasonable enough to avoid price disputes with low-cost competitors. PDG following the same market trend started specializing its product offer in room accessories and functional appealing articles for future mothers.

2.2.1. *Direct competitors*

Direct competition is consensually referred as the existence of multiple businesses, offering similar products and services in the same market (Oman, 2011). As mentioned above, the brand had been delivering value to customers through room furnishing and through room decoration purchasable articles, ultimately stimulating a do it yourself approach to the decoration process. Therefore, direct competitors of PDG are seemingly brands directing their sales effort to the furniture and accessories category, negatively affecting the brand presence in the market.

From analysing the brand positioning map (Exhibit 3), it can be easily depicted that brands such as Ikea, Papiurso, Arboretto, A Janelinha, etc. are directly competing with PDG in room furnishing with different degrees of specialization (Exhibit 4, 5). Following the same reasoning brands such as Egg, Bica Kids, Menina Lisboa, Loja Nicho, Atelier da Tufi, Quarto Colorido, Cristiana Resina, Amor às Cores, Pequenos Tesouros, Ikea, Arboretto and A Janelinha strive to win market share by direct competing in accessories (Exhibit 6).

2.2.1.1. *Accessories Category*

Considered roughly 90 per cent of the product portfolio, accessories stand as the primary core business for PDG. From the twenty one brands analysed in the child room decoration market, the majority allocate their resources to sell accessories as primary revenue stream from the business. There are two different types of brands prioritizing accessories selling according to the brand positioning map: (1) brands who fully specialize in accessories and (2) brands who specialize in accessories but also developed another category of specialization in the child room decoration market (Exhibit 5)

Egg, Bica Kids, Menina Lisboa and Loja Nicho represent the first evidenced stereotype of brands. In the market for less than four years, they are still winning their space in a breath taking market. Bica Kids is currently the entrant leader in terms of company current size in the segment, Menina Lisboa assures the products sold online with great originality, Loja Nicho adopted a Facebook e-commerce platform to fuel the company’s sales and Egg captivated followers through trendy photos published in their page**.**

Atelier da Tufi, Quarto Colorido, Cristiana Resina and Amor às Cores represent the second stereotype of brands specializing in this product category. While Quarto Colorido and Cristiana Resina developed a service to materialize in income their experience in the provision of decoration tips, Atelier da Tufi invested on fabric customization of their accessories portfolio to address specific needs. Amor às Cores, in turn decided to enter in the child clothing product category to complement their sales in accessories. Brands engaging in a specialization complement businesses to their core in the market are mainly mature market players who had the capability to reinvent themselves to face demand shortages stimulated by the entry of new market players.

Furthermore, a considerable amount of players specialized in other product or service categories in the market, tend to complement their product offer with critical accessories to increase the number of sales per each purchasing event. Nevertheless, the ones defining their primary core as furniture and their secondary core as accessories are the ones elected as PDG's direct competitors. Pequenos Tesouros, A Janelinha and Arboretto are in a similar competitive position regarding accessories. While Pequenos Tesouros and A Janelinha engage in contracts with one or two accessories suppliers having a minor presence in the market, Arboretto offers a wider range of fancier possibilities for the same price. Ikea also makes of accessories its secondary core product category, offering lower quality and more functional products for lower price. Nevertheless, some costumer perceived lack of product fit and the incapability to customize accessories ultimately weakens their positioning in this segment.

Flagship Accessories Brand (Exhibit 7)	**Atelier da Tufi**

2.2.1.2. ***Furniture Category***

Furniture represents a small portion of the brand portfolio. Under special client requests, the business owner is capable of establishing contacts with her network of suppliers to do punctual orders on the furniture field. Nevertheless, PDG carries a feeling of failure in this segment due to the inability to compete with the harmful prices of low cost competitors. In fact, it is interesting to notice the absence of new market players in this branch of the industry. Currently, there are two different types of brands prioritizing furniture selling according to the brand positioning map: (1) brands who fully specialize in furniture and (2) brands who specialize in furniture but also developed another category of specialization in the studied market.

Papiurso is the only brand in the market which specializes only in furniture sales in the baby room supply market. Although, the brand is in the market for approximately eleven years, it can be observed from research that Papiurso is facing a product demand crisis similar to PDG. Operating in Porto, the brand has the challenge in the future to reinvent itself in order to survive to new Ikea brick and mortar stores inaugurations in Matosinhos and Braga.

Pequenos Tesouros, Aboretto, Ikea, A Janelinha, Oficina Rústica and Um Quarto Meu represents the second stereotype of brands specializing in this product category. While Ikea is clearly dominating the furniture market, the left standing players adopted two clearly defined courses of second core specialization: accessories and decoration services.

From the furniture retailers who are able to complement their offer with matching with accessories, Arboretto is the one capable to present well designed and costumer tailored articles. Pequenos Tesouros and A Janelinha in turn offer standardized and catalogued furniture products with a small product line of complementing accessories, not offering any threat to the multinational player enjoying economies of scale in the market.

Furthermore, two geographically distant companies had developed an antidote to fight back the high levels of market penetration of Ikea in the child room furniture market. By offering a supportive decoration services included in a room planning package, either Oficina Rústica located in Sintra, either Um Quarto Meu located in Porto were able to guarantee demand from costumers which Ikea will not be ever able to satisfy.

Flagship Furniture Brand (Exhibit 8)	**Ikea**

Flagship Furniture Brand (Exhibit 9)	**Oficina Rústica**

2.2.2. Indirect Competitors

Businesses also face competition from providers of dissimilar products or services. In other words indirect competitors are players who are able to attract the same type of customers but offer different products and services (Oman, 2011). Therefore, applied to the studied market, indirect competitors are specialized fabrics, services, clothes or toys providers who include in their product offer accessories and furniture that attracts the same type of customers shopping in those above mentioned specialized stores.

2.2.2.1. *Fabrics Providers*

Fabrics providers usually deviate costumers from accessories specialized stores. Some local stores such as Pra Kriar offers a small product line of accessories to complement their extended portfolio of textiles. Nomalism, in turn offers the possibility to personalize and renew textiles of almost accessories categories, namely pillows, curtains, blankets and rugs, blocking purchasing intentions from customers willing to substitute old decoration accessories because they possess an old appearance in the child room. Previously named Multitecidos, Nomalism clearly understood the importance of having an appealing international brand name in order to engage effectively in sales abroad.

2.2.2.2. *Service Providers*

Although there are a couple of reputable home decorators, such as Ana Antunes from Querido Mudei a Casa, they do not hold a degree of specialization in decorating child rooms neither own a product brand to supply the projects that these decorators usually develop. Furthermore, as notified, several stores specialized in accessories or furniture provide decoration services to their clients. Nevertheless, none of them had developed it as primary function in the market. Specialized child room decorators could turn out to be indirect competitors of accessories and furniture specialized brands because they would have a relative freedom of choice to include their own branded accessories or furniture on projects for a specific client generating revenue streams from two different sources: from the decoration salary and from the products sold through the project.

2.2.2.3. *Clothes Providers*

In the baby room supply market, there are two players who had specialized in clothing category while offering some nursery and room decoration accessories to mothers: Vertbaudet and Gama Rústica. Both share approximately the same entry time in the market, but there is a company size discrepancy between the two players. While Vertbaudet is an international online retailer present in the Portuguese market guaranteeing specially clothes, accessories and furniture to their customers online, Gama Rústica assures a market niche which prioritizes in-store shopping experience.

2.2.2.4. *Toys Providers*

The least relevant category of indirect competitors from the four identified. In the Portuguese market, toys retailers simply are unable to indirectly compete with accessories and furniture specialized stores due to much inferior products quality, design and offer. However, Cristina Siopa and Kidesign have products available for sale on those categories.

2.2.3. *Competitors Evaluation Model*

The competitor's evaluation model is a framework developed in order to access the relative strength of each competitor claiming a share in the studied market. The model is based on measuring the industry key success factors through a weighted average of interconnected key performance indicators, which ultimately aims to display how PDG scores comparatively to the industry average, brand direct competitors, brand indirect competitors and flagship stores within each product or service category.

2.2.3.1. *Methodology*

Each KPI was measured on a classic rating scale from zero to five, indicating the level of comparative performance of each brand in the market. Technical indicators were rated by the dissertation authors, while Filipa Cortez Faria from the blog My Happy Kids, a market influencer, kindly rated indicators that would require the knowledge and experience of a non-biased market intervenient. Exhibit 10 can provide the reader with more insights on the methodology approach that allowed the concretization of this model in substance. The following section will present a resume of the framework results.

2.2.3.2. *Relevant Results*

The competitor's evaluation model provided some relevant results that allowed us to extrapolate conclusions on the future strategic direction the brand should take. According to Exhibit 11, PDG is performing considerably better than the child room decoration industry average in three key success factors: (1) product factors, (2) brand power and (3) service factors.

Product design, products material quality and product originality are the main reasons why costumers interiorize PDG's products as synonym of superior quality. Product quality allied with a product line slightly above the average distinguishes the brand from the industry on product factors. Indeed, the quality of products sold developed brand consistency, allowed brand loyalty (Westwood, 2015) and positively affected the reputation of the brand in the market. Furthermore, PDG has been designing non chargeable plans for certain costumers and the client in general feels fulfilled with the overall customer service provided, scoring above the average in this specific key success factor.

Based on Exhibit 11, PDG reveals room for improvement in other two key success factors in comparison with the overall child room decoration industry: (1) Store Factors and (2) Price.

Although PDG is perceived as expensive when comparing the industry prices, the score is not that alarming as it may appear at first glance. The brand can currently rely on a superior product quality and brand power to differentiate from competitors, enjoying steeper product demand curves and therefore charging higher prices. The major concern on model results for PDG is found out to be the current inability for the brand acquire a strategically located physical space in which costumers can get to know and perceive the quality of the PDG's products. This could also be done through an online channel capable of supporting the brand present operations, however the e-commerce formulates higher challenges in simulating a true and emotional shopping experience in this market. At the moment, the brand is surviving without any point of sale which is not desirable especially in this specific market. Postponing a decision of this magnitude can draw drastic negative consequences in brand market presence and definitely step away PDG from the child room decoration industry.

Exhibit 11 also unveil that PDG is performing slightly better than the industry average in customer interaction and performing slightly worse in supply chain management.

Based on the research made, social media Facebook platform and marketing campaigns did met the industry requirements in customer interaction which can be largely explained by the business owner background in social communications. Ana definitely knows how to write messages to tackle her target audience mainly through social media platforms the brand is present in. On the other hand, PDG is missing out alternative social media exposure opportunities and disregarding the importance of having a complementing blog to transform the high percentages of people who developed awareness about the brand into loyalists. Supply Chain score in turn is affected by a moderate frequency of unavailability responses via Facebook. Although, it is not a great deviation from the market average, the availability of product stock and the speed from supplier to market should be improved in the new proposal.

Exhibit 12 and Exhibit 16 run a comparative analysis of PDG to aggregated direct and indirect competitors. The results observed on the tables and graphs generated suggest a consistency pattern with the results detected for the entire baby room supply industry.

Although the same level of consistency applies as well to the entire accessories category, the flagship store of the segment is over performing the industry in the majority of the key success factors previously assigned according to Exhibit 13. Atelier da Tufi, through a product line having great levels of product assortment and offering the possibility to customize the products sold, is nearly matching PDG in product factors. Furthermore, by offering in general a lower price on the articles available for sale, Atelier da Tufi is able to tap the quality gap of products offered when comparing to PDG. Moreover, scoring well above the segment average in store factors, interactions and supply chain can be largely explained by two signally evident characteristics of the brand. First, Atelier da Tufi fully understood the importance of a multi-channel approach to retail being qualitatively present in as many channels as desirable. Second, Atelier da Tufi had positioned itself as DIY store rather than a full room package provider, developing a lean supply chain capability to answer to operational requirements of high product frequency of orders. Indeed, Atelier da Tufi positioning in the accessories category can be somehow compared to Ikea's one in the furniture category because they share a similar septagon shape according to exhibits 3 and 4. Nevertheless, Atelier da Tufi compensates higher costumer service with higher signalled product pricing.

On the furniture segment, the average market scoring consistency pattern is maintained (Exhibit 14). Nevertheless, an in-depth analysis on the two identified flagship competitors of this product category reveals short room for PDG to grow through this segment. According to Exhibit 15, while Ikea truly dominates the market in terms of store factors, customer interaction, supply chain, price and brand power, Oficina Rústica in order to survive developed critical success factors in which the Swedish retailer is underperforming such as service and product quality. This strategic development of opposite key success factors in the segment filled an untapped gap, allowing Oficina Rústica to charge higher prices and successfully continue operating in this shrunk demand product category.

Concluding, from the analysis of Exhibits 17 comparing PDG to indirect competitors a short reference is made to the overall capability PDG has in over scoring the fabrics, clothes, services and toys providers in the same key success factors as the ones identified for the industry average. Moreover, as there are no players specializing in decoration services and accessories respectively in the market, PDG more than over perform in this segment, indicating that this could be a great positioning to beat Atelier da Tufi in the accessories market as Oficina Rústica ultimately did in the furniture market with Ikea in the past.

2.3. Costumer Analysis

Segmentation of the market aiming to identify different customer groups sharing the same shopping intentions is a marketing practice which ultimately help business owners accessing which segment is the more attractive, which one the firm has more resources to target or what needs are there to be tapped in the market. The most relevant differentiating variables proved useful to segment the kid room supply market were age group and existence of previous child.

2.3.1. *According to Age*

Mothers below 25 years old can be defined as Generation Z, the ones between 25 and 34 as Millennials, the ones between 35 and 49 as Generation X, and finally the ones between 50 and 69 years old as Baby Boomers.

2.3.1.1. *Generation Z*

The birth rate among generation Z is around 1,67%, corresponding to 4.168 (Pordata, 2011) children born per year (16% of the total). This generation is also characterized from a significant willingness to hire a decorator and reveals high propensity to spend money in general to decorate the room of their future children. According to the survey conducted, 61,76% of the interviewed is willing to buy the services of a decorator, and in average they are willing to spend € 1.256 for the whole decoration process.

2.3.1.2. *Millennials*

Among millennials, the birth rate is around 4,4% (Pordata, 2011), which corresponds to 57% of the overall children born in the Lisbon metropolitan area (14.903). According to the survey conducted, this age group is the one that is more willing to hire a decorator (70,31% of the interviewed is favorable) and also the one that is willing to spend more money in average for the whole room decoration process (€ 1278). However, the differences with the other age groups are found to not be significant at a statistical level.

2.3.1.3. *Generation X*

Among Generation X the birth rate decreases to 1,34%. Even if, the population of this age group is bigger, the children born from parents between 35 and 49 years old represent only 26,9% of the total (7.024) (Pordata, 2011), labeling this segment as the second biggest one after the Millennials. Generation X is also characterized by a lower willingness to hire a decorator (57,47%) and a lower average expenditure (€ 1.145) if compared to the two younger generations.

2.3.1.4. *Baby Boomers*

This generation does not directly contribute to the market size, since the children born in 2011 from mothers older than 50 are 0. However, this age group is the one that most likely represents the "future grandparents". Interestingly Baby Boomers are willing to spend for the decoration of a hypothetical grandchild's room € 1.434 in average[10], an amount that is significantly higher than the one revealed for other generations. This imply that it might be interesting to target Baby Boomers as they hold greater willingness to spend larger amounts of money in the new room decoration process and have lower stimulus to save money for the future.

2.3.2. *According to previous children*

The consumers can also be segmented according to whether or not they already have children. By analyzing the survey conducted, it has been possible to understand that these two groups differ under several aspects in a way that is significant at a statistical level (Exhibit 19). On the following section, those two identified groups will be described regarding the likelihood to hire decoration services and respective decorator's wage, average expenditure on the entire room decoration process and the area where the consumer currently lives.

[10] According to the survey conducted in El Corte Inglés XX

2.3.2.1. *Services Requested and Decorator's Wage*

The willingness to pay for the services of a decorator can be assumed equal between these two groups, however, people that already have children don't demand in average the same amount of services from a decorator[11] and are willing to spend more money for it[12]. Consumers who already have children are expected to demand in average 0,7[13] services less than who doesn't and their willingness to spend for a room decorator is € 75,64[14] higher in average.

2.3.2.2. *Average Expenditure*

According to the chi-squared test conducted, the amount of money that people are willing to spend for the decoration of their future children's room cannot be considered independent[15] from the fact that couples have or not already children (Exhibit 20).

The expected expenditure distribution of people that already have children is more concentrated around the average (€ 1346,49[16]). The ones that don not have any yet instead is more spread around the average (€ 1191,33). This phenomenon is probably since parents already have a more clear idea concerning how expensive is the decoration process. The others instead lack of experiences, and therefore information, point to amounts that are more spread.

2.3.2.3. *According to where they live*

From the study conducted on the survey's results it is possible to conclude that the willingness to hire a decorator cannot be considered[17] independent from the location where the people are resident. The more remote is the area where people are living, the lower the percentage of people willing to hire a decorator (Exhibit 21).

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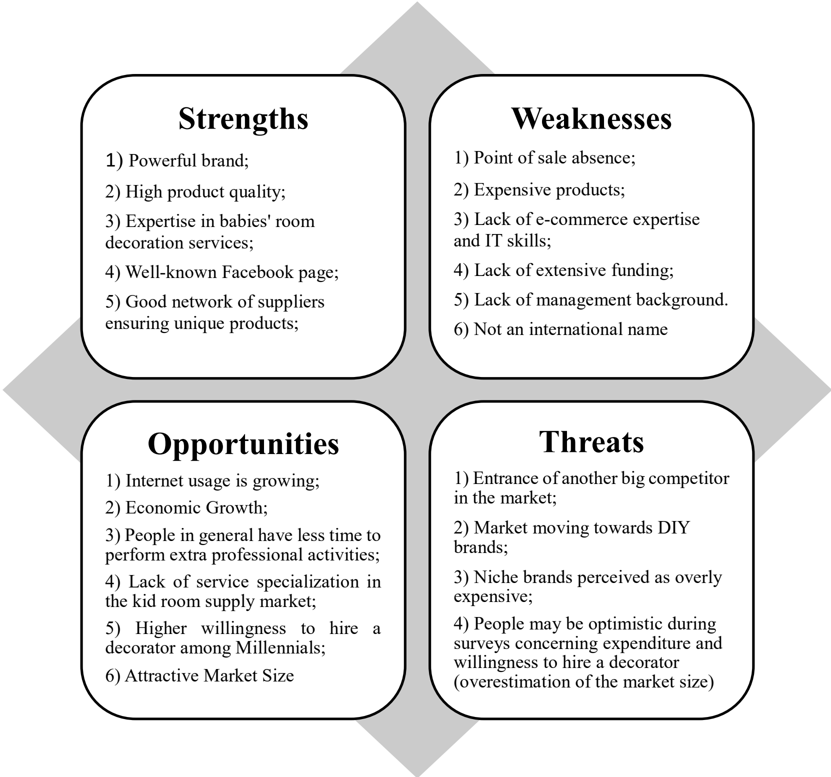
[11] Null hypothesis rejected with a p-value of 0,2%.
[12] Null hypothesis rejected with a p-value of 4,3%.
[13] At a 95% confidence between -0,265 and -1,148.
[14] At a 95% confidence between € 2,41 and € 146,87.
[15] Hypothesis of independence rejected with a p-value of 9,3%.
[16] According to the results of the survey conducted.
[17] Null hypothesis rejected with a p-value of 10,5%.

Defining the Promise Land

1. SWOT Analysis



2. The Opportunity

2.1. Not an E-Commerce!

Building an E-commerce, the initial idea of the owner, would not be feasible straightway mainly due to identified weaknesses around the brand. The online market is extremely competitive and in order to build an efficient web page significant IT skills are required such as: coding, searching engine optimization, layout designing, among others. Due to the lack of IT skills the website cannot be developed internally, and due to the lack of extensive funding will not be possible to hire professionals. Additionally, an e-commerce platform would need a robust effort to set-up logistics. Products sold are heterogeneous in term of sizes and weight, being complex to build any standardized transportation or shipping process. Moreover, in order to be successful e-commerce would require also an investment in terms of stock and warehouse rental.

Finally, e-commerce would need the formulation of an internationalization plan for a brand whose name is meaningless to foreign customers. On the other hand, by changing the brand name to engage in an internationalization strategy, the brand would lose a major part of the awareness developed in the Portuguese market over the years.

2.2. The Decorator: Pau de Giz Design

According to the results of the external analysis, it emerged that on the customers' side, there is a significant willingness to hire a decorator. Probably due to the economic growth or the general lack of time dominant in our society nowadays, people are increasing their welfare and are willing to pay for services that in the past were not demanded.

On the competitors' side, in turn emerged an extremely intense competition in terms of both brick-and-mortar and online retailing. Atelier da Tufi leading the DIY segment of accessories, Ikea and Oficina Rustica dominating the low cost and high tailored segment of furniture, respectively, left short room for PDG to grow in this market. Moreover, the variety of products offered is quite extensive: it is possible to find in the market almost any combination of price and quality for any product. However, competition in services is smaller and in firms specializing on it is absence. Firms providing decoration services in this market are rather offering it as part of a wider business portfolio. Therefore, the capillary diffusion of internet in Portugal interconnected with factors mentioned above make possible to affirm that there is space in the market for PDG to thrive as an internet based child room decoration business. By providing services, the business owner may also include branded accessories packages in decoration projects, bundling them and lowering an overall sense of expensiveness attached to PDG's products, discouraging direct price comparisons to individual competitor's products.

3. Positioning

3.1. The Frame of Reference

The need that will be fulfilled is "decorating my child's room" and the wishes are "I want it to be fancy", "I want it to be affordable", "I can't do it by my-self, I need help".

The pillars of the new business model will be design and expertise together with tailored approaches in order to guarantee affordability for different wealth levels.

3.2. The Target Audience

According to the market segmentation, the primary target audience would be Generation X and Millennials willing to hire a decorator. Indeed, these groups are responsible for 55,62% of the children born every year, representing the biggest portion of the overall market. In terms of psychographics, these are typically young and middle-aged professionals with a purchasing power higher than the average who due to their professional life lack free time, but at the same time desire the best for their children, namely the of their child's room.

The secondary target audience defined are baby-boomers in the eminence of becoming grandparents. These are possible payers for decorator's services in two ways specific ways, whether by setting out a room in their house for the grandchild or by helping financially the daughter or son on the room decoration decision.

The tertiary target is set to be Generation Z members. Although, these currently represent a small portion of the market, these segment will become the main target for the next 5 to 10 years. Since this generation is quite young to have a child and have small purchasing power to hire room decorators, the segment must be covered only for awareness purposes.

3.3. Point of Difference

PDG will differ from the competition because it will be specialized in providing services to the room of the baby. At the moment, in the market, there are only firms specializing in selling retail products for the child's room or decorators providing generic decoration services.

By narrowing the focus, the brand will provide the best possible tailored solutions focusing on the needs to be covered, demands from the customers and ultimately on the price of the offer

3.4. The Positioning Statement

"PDG Design believes that every child is unique and deserves the best possible personalized environment to foster his growth. PDG Design provides the perfect combination of decoration services for parents that share our beliefs because our room solutions are unique and tailored according to our customer's needs."

4. Objectives

4.1. Market Share

By following the same methodology used to calculate the kids' room supply market size, it is possible to estimate the demand curve for the services of a decorator according to the price charged (Exhibit 22). The highlighted difference is that the theoretical maximum number of customer obtainable is equal to 61,51%[18] of the children born in Lisbon since, according to the survey conducted, 38,49% of the respondents had declared that they would ever hire a decorator. Conducting the demand curve integral between 0 and 16051, the size of the market for baby' room decorator[19] is accessed around € 4 million for the Lisbon metropolitan area which is extremely attractive. If PDG Design is able be able to capture at least 0,1% market share in the first year, the sustainability of the new business format would be granted.

4.2. Blog

The goal of maintaining a blog is allowing a flow of visitors who may identify with your brand essence, interact at a deeper level, optimizing business keywords for search engines. In order to accomplish the defined objective, the possibility to comment posts is critical to keep a blog alive because it allows interaction. Therefore, each post must aim to unleash a minimum of 5 comments and those comments, namely questions must be promptly answered. Furthermore, regarding visitors metrics the goal established will be a 2.000 for the first year of operation, 5.000 for the second year of operation and 13.000 for the third, reaching a total of 20000 visitors at a medium range.

4.3. Social Networks

The objective regarding social media is increasing the brand presence in relevant social networks. The higher exposure on social networks the brand accomplishes, higher is the frequency that their products and services will be commented, shared and tagged generating a

[18] 16051

[19] In term of wage perceived for the services delivered.

virtual beneficial word-of-mouth flow. Seemingly, Instagram entrance is mandatory for the brand and the target defined is reaching in the short-term, half of Atelier da Tufi current number of followers[20] (6.900) and in the medium-term, a much more rounded number (20.000).

PDG Design should also cement its presence on Facebook and Pinterest. Facebook page has currently 20.549 Likes[21] and a weekly growth of 0,1 %. The intervention plan proposes to raise this weekly growth rate due to a multi-channel approach to social media marketing attaining 25.000 Likes by the end of 2016, 35.000 Likes by the end of 2017 and 50.000 Likes by the end of 2018. Pinterest in turn aspires for a lower target, establishing the goal until 2018 on the 1.000 followers. In order to accomplish that, the amount of pictures available to receive a pin must increase and the business owner should apply the brand layouts to the Pinterest page.

5. Issues

Even if funding available is not as high as desirable, starting a decoration business does not require a prohibitive upfront investment. There is no need in having any warehouse or stock expenses, maintaining existent supplier's relations in requests by order. Possessing an office or a small atelier is also not mandatory but recommendable after a long growth spiral: for now everything can be based online directing the majority of the financial efforts to a webpage which combined with costumer home visits set out to be the heart of the business.

Strategy

The goal of this business plan is to effectively turnaround PDG, transforming it into an appealing and moneymaking decoration business service. By leveraging brand strengths, PDG Design is shaped out to fully exploit an opportunity gap existent in the market.

[20] On the May 15th 2016, Atelier da Tufi had 13.800 followers on the Instagram
[21] On the May 15th 2016, PDG had 20.549 Facebook Page Likes

1. Marketing Mix

1.1. Brand Restyling

The first step of any turnaround business strategy is to refresh and restyle the brand in order to convey properly the new message. Firstly, by changing the brand name from Pau de Giz into Pau de Giz Design, the business owner is signaling to their audience what is the new core business of the company. Secondly, the company logo should be adapted according to the above mentioned business core changes: the old award winning logo (Exhibit 23a) is actually extremely well designed and it really conveys the message that the business is about Kids, but it needs also to express the new scope of the business.

Therefore, the new logo available in Exhibit 23b is able to successfully connect the spirit of the old PDG community with the new business model, conveying to consumers that PDG Design is about kids' room, decoration and innovative design ideas.

1.2. Product – Decoration Services

Service requirements vary among consumers (Exhibit 24). It is not possible to discriminate customers through parameters that are easily observable. It is important then to build a wide range of services, in order to satisfy the biggest possible portion of the demand. By versioning (PnG, 2012), consumers will be automatically discriminated according to their choices.

1.2.1. The Cheap Line

The cheap line will include premade projects that are not created on demand. These are standardized solutions and compositions that are built in order to match different price ranges. Obviously, since these solutions are standard, it will be possible to sell the same composition to more than one customer, charging a more competitive price. Cheap line solutions will include different quality levels of furniture and accessories combinations:

Basic is the cheapest possible combination of products, including essentially lower-quality furniture and accessories. Ultimately, a low cost design solution that everybody can afford.

Fancy Affordability are solutions which combine low-cost furniture with high-quality accessories. This offer is able to grant original compositions at moderate prices.

Deluxe are more expensive solutions belonging to the cheap line, combining both premium furniture and accessories. These compositions are designed for the ones that want to have the best materials but do not necessarily demand a unique, tailored solution for the room.

1.2.2. The Tailored Line

The tailored line will include a different combination of services aiming to cover costumer unique wishes for the room of the child. Tailored solutions will involve home visits where the customer can communicate their needs, the budget that they are willing to spend and point also the kind of services they are interested in.

Intervention Plan is a basic and mandatory service of the tailored line. The decorator will create a personalized environment for the room according to costumer's desires, after negotiating a fair budget to cover project expenses. If the costumer approves the intervention plan, she will be provided with details regarding where to buy the products in the composition.

Painting is an optional service that will include a plan for personalizing the room walls. In case the customer decide to purchase it, a painter will be hired to finalize the service.

Accessories Delivery is an optional service which includes the home delivery of accessories chosen in the intervention plan.

Assembling is an optional service that includes the home delivery and assembling of the furniture chosen in the the intervention plan.

1.2.3. Reinventing

Reinventing is a service dedicated to couples that already have children but whether are going to have a new baby or just want to re-decorate the room of their kids. The Reinventing line is an on-demand tailored service that take into consideration available items in a previous room as a starting point for the new composition.

1.3. Pricing

The distribution of how much customers are willing to spend for a decorator's wage is quite spread (Exhibit 25). According to the survey conducted, around 75% of the interviewed that are willing to hire a decorator, plan to spend more than €100 for the services of a decorator[22] and around 85% expect to spend more than €500 for the whole decoration process (Exhibit 26). As mentioned before, it is impossible to use any kind of price discrimination based on customer's demographics. Indeed, there are again no significant differences in terms of willingness to pay for decoration services according to easily observable demographic parameters. Even if, according to the survey conducted, men are in general willing to spend more than woman with statistical relevancy (Exhibit 27), it is useless to perform a gender discrimination due to the nature of the service: the choice of purchasing decoration products for the room of the child is usually mutual across couples.

Since willingness to pay mostly depends on non-observable parameters, the best way to capture the biggest possible consumer surplus will be by applying a second-degree price discrimination or an indirect segmentation (PnG, 2012). By charging completely different prices for different combination of services, the consumers will automatically reveal their willingness to pay. Therefore, the defined pricing strategy, extensively descripted on the next section, will allow PDG Design to fulfill 83,87 % of the people who are interested in the services of a decorator[23] by establishing a reserve price for services provision (Exhibit 28).

1.3.1. The Econometric Model

In order to estimate how much should be charged for each of the services provided in the tailored line, it was used a consumer based approach. During the survey performed, it was asked to the interviewed if they were willing to hire a decorator, and 156 of them answered "yes".

[22] On top of the cost of the project selected products
[23] Almost 60% of the overall market.

Those were also asked how much were they willing to pay for the services of a decorator and what kind of services were they interested in.

Using the results obtained, several econometrics regressions had been ran in order to understand: (1) which services were influencing the willingness to pay and (2) how big was the impact of each relevant service on the total price.

1.3.1.1. Relevant Variables

The regression that best estimate the decorator wage is $Dec.Wage = \alpha * Planning + \beta * Painting + \gamma * Assembling + \delta * Number\ of\ Accessories + \sigma * Children + \varepsilon.$

The regression have an overall p-value of 0,000% and a $R^2 = 42{,}9\%$ implying that the model explains properly the reality and the chosen variables together are significant (Exhibit 29).

Planning is a dummy variable [0,1] that reflects a specific customer desire for an intervention plan. In the model, the p-value for this variable is 0,000%.

Painting, significant at 99,8%, is also a dummy variable [0,1] reflecting the interest in including a customized painting service attached to decoration.

Assembling represents the interest[24] in receiving the furniture at home and having them assembled by the decorator. It has a p-value of 10,9%. Even if, this p-value represents an extremely border-line result, it is appropriate to include it in the model since the decision of including this variable in the pricing model does not imply significant irreversible risks.

Number of Accessories is a discrete variable [0,14] and represents the number of accessories each interviewed expressed interest for. It is significant with a 99,8% confidence level.

Children is a dummy variable representing the existence of a child on the interviewed life[25]. This variables reflects the level of experience of the customer decorating rooms as well as if they already have or not some products which can be reutilized in a new decoration process.

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[25] Does not take into consideration how many previous children, focusing only on the existence of a daughter or a son

1.3.1.2. The Coefficients

The regression results, provided a coefficient for each relevant variable accessed, representing how much the presence of each variable would increase the total wage that the decorator can demand. According to the results, customer's value **intervention planning** around €170, the **room painting planning** around €100, **assembling furniture service** around €49 and **each category of accessories delivered at home** (the ones from the intervention plan) around €13. Additionally, it is important to acknowledge that people that already **have children** are willing to pay €52 more independently from the services selected, when compared to the ones that do not have.

The fact that people with children are willing to pay additional money can be explained from (1) the fact that they are more experienced, knowing how expensive and time consuming can be decorating a kid room and (2) the fact that they will save money in terms of overall expenditure since they perceive that items belonging to previous children can be reutilized.

1.3.2. Tailored Line and Reinventing line

The price assigned to the Tailored and Reinventing service line were determined by combining services demanded from the customers with the price of each service found through the regression. It is important to reinforce that those fees are only related to the salary of the decorator and do not include the cost of the goods provided, which are set to be charged on top. The price of the Tailored line and the Reinventing line will be exactly the same with the singular exception of charging an additional fee, for combining existing articles with new ones (Reinventing line).

1.3.2.1. Example: Redecorating the room for a second child

A couple wants to decorate the room of their incoming baby. They already have a 5 years old daughter and therefore they believe that they can reutilize room furniture. However, the incoming baby is a boy. Their intentions are crystal clear that they want to use the old furniture as a base and then combine it with new accessories which better reflects the gender of the baby. In summary, they are interested in the **Reinventing line**, specifically in **Intervention Planning, Room Painting, Blankets** and **Pillows.**

Service	***Planning***	***Painting***	***Blankets***	***Pillows***	***Reinventing***	***Total***
Price	*€170*	*€100*	*€13*	*€13*	*€52*	*€348*

The wage of the decorator for this specific project will be €348. The cost of the items chosen will be instead €150 for the painter, €140 for a set of seven different blankets, and €65 for a set of five pillows. The reutilized furniture has no cost, and obviously, the room reorganization is included in the fee for service planning. The total expenditure in products is in this example €345. The overall decoration process, including the wage of the decorator is €695.

1.3.3. Standard Line

The goal of this service line is to have a wide portfolio of premade solutions differentiated vertically in terms of quality. The price quality ratio of this line is aimed to be lower when compared to the other two service lines: being these standard compositions sellable to more than one person, the wage of the decorator will be split among more customers. The goal of this service line is to ultimately satisfy consumers which are willing to spend around €75 hiring a decorator[26]. All the prices charged are key on hand, including on it a decorator wage, the price of the products and subsequent the delivery services.

Basic, includes trendy lower quality furniture and accessories, in a portfolio of compositions that are priced between €499 and €749 key on hand, targeting a lower class.

Fancy Affordability combines low quality of furniture with high quality accessories. It will include standard compositions priced between €750 and €1499 key on hand, according to the complexity of the project solution, aiming to the big middle group of consumers.

[26]According to the available sample those are the 18,69% of the people willing to hire a decorator.

Deluxe is instead a group of solutions designed for the ones who desire the best furniture and accessories but are reluctant in spending significant amounts of money for a decorator. This portfolio will include solutions priced above €1500 key on hand, reaching the upper class.

1.4. Place

As mentioned before, the decoration business will be online based. Nevertheless, it is not excluded the possibility of opening a small creative atelier in the future due to the importance assigned to store factors in this market. However, the current lack of extensive funding, does not make it advisable to engage in such investment at this stage. Therefore, the core of the new business will be a website advertising the services provided and their respective prices. Social media and a blog will instead work in synergy to bring potential customers from all over the Internet to the website. The ultimate goal according to the multichannel approach to social media marketing is to be present everywhere online, standardizing messages across networks. Each of this components as well as the way to make them work together will be analyzed in detail in the following paragraphs.

1.4.1. www.paudegiz.pt

The website need to be a fast, user-friendly and well-designed in order to ensure extremely positive experiences to web-surfers. As mentioned in the KSF section, parameters such as speed, content organization and design are crucial for the success of any webpage. Furthermore, an effective searching engine optimization will ensure that potential customers would find PDG Design easily when searching for room decoration keywords in the Internet.

The platform advised for the website is Word-press. Content management systems such as Word-press are used worldwide by millions of businesses, ensuring reliability, stability and security. Moreover, several third-party companies develop complementing modules and templates, guaranteeing higher personalization to this platform and ultimately adapting the construction of a wonderful website to the business requirements.

1.4.2. The Blog

According to the survey conducted, 92,6% of the available sample declared that they would read a blog regarding child room decoration if they were about to become parents in the near future. Indeed, the blog will be one of the most important tools that the company will develop in order to both build a relation of trust with the existent PDG community and raise the awareness of the brand among new couples. Therefore, it is important to post original contents on a weekly basis, focusing on decoration experience, product reviews, project composition ideas and style sharing.

The goal is to convey to the consumer the idea that PDG Design is not just a business, but a passionate motherhood community with expertise on how to build a positive room environment that will ultimately foster a healthy growth for the kid. Furthermore, possessing a blog will increase live participation and involvement of the consumer with the brand, creating a bi-directional flow of interaction beneficial for those who are interested in buying the services but also for those who became interested in the subject and may become buyers in the future.

1.4.3. Social Media

The goal of social media is to publish original content, republish blog postings and ultimately redirect traffic to the website in order to reach a wider amount of potential customers. Facebook posts should contain a short introduction combined with a picture of the content published in the blog. Instagram should be used to show past compositions and stylish ideas, while Pinterest should be used for the costumer “pin” all the interesting composition ideas. Examples of visual compositions are available in Exhibit 30, 31, 32, and 33.

1.5. Promotion

The promotion of the new business will be executed only on online channels since (1) these are cheaper, more narrowed and consequently more effective and (2) among the target audience there is high adherence to the Internet.

1.5.1. Blog and SEO

These two tools are the core of the pull strategy. The mechanism is set by writing articles in the blog that are also optimized for some specific keywords[27]. This course of action will make our brand appear first results on searching engines when a potential client is looking for certain keywords. Being more specific, the blog will target the consumer already interested in the "child's room decoration" subject and the SEO will ensure that these target will find the blog.

1.5.2. Facebook and Instagram Advertising

The Facebook and Instagram will be the most important part of the push strategy. The target defined are consumers that may be interested in the baby's room decoration but are not actively searching for it. The Facebook advertising will be built by narrowing the target to all the women between 25-49[28] , living in Lisbon Metropolitan Area who showed recently interest in both, maternity concerning and room decoration topics.

Facebook advertising tool, estimated the crossed people search in around 8900 currently[29]. According to the survey, the mothers interested in decoration services should be around 16000[30] every year. These two numbers are consistent since it is not possible to assume that all the people that are interested in reality are present on Facebook or showed interest on the internet concerning the topic.

Concluding, the advertising on Facebook will be done by using a pay-per-view method. Since it is impossible to know upfront what will be the conversion rate of the website, a pay-per-click method may be too expensive. The goal set is to show 10 times per month the advertising of the website to the whole target audience, reaching a total 89.000 visualizations per month.

[27] For example "Child Room Decoration".
[28] Generation X and Millennials.
[29] Sunday, 15th of May 2016
[30] The 61,51% of the total children born per year (26095).

2. Financial Analysis

In order to decide whether or not the business is a profitable investment, the project PV will be accessed and further compared with the present value of receiving a salary in a normal job in Portugal for the next 25 years[31] and the initial monetary investment needed.

2.1. PDG Design Costs

Since the cost of the products will be exactly payed by the customers, the costs generated by this business are only related to the activity of running a decoration business[32]. The initial investment is estimated to be € 2000, including € 1.500 for creating and design an appealing website in WordPress and € 500 for the initial effort directed to searching engine optimization.

The fixed cost required yearly are estimated to be € 2.509,56, including € 1.132,80 for the Facebook and Instagram niche target advertising[33] (Exhibit 34), € 1.080,00 regarding monthly fees attached to a continuous approach to SEO held by professional copywriters and € 297,48 for a mobile plan that includes 2 GB of mobile internet and unlimited communications across national operators (Exhibit 35). The variable costs for each customer served are estimated to be €8,58 representing fuel costs. It is assumed that in order to perform a decoration project 60 kilometres will be covered by a car consuming on average 10 km per litre at a an average cost of € 1,429 per litre (Exhibit 36). Concluding, both fixed and variable costs are assumed to increase at the average inflation rate for the past ten years in Portugal (1,34 %).

2.2. Scenarios Development – Financial Forecast

In order to estimate the PV of the project it is necessary to develop different plausible scenarios. According to the US Department of Labour, 44% of the start-ups shut before accomplishing the third year, and only 10% are successful in the long-term. These probabilities will determine the weights assigned to the different scenarios created (Exhibit 37)

[31] Until the retirement age of the business owner.
[32] As well as the revenues.
[33] 10 monthly visualizations per potential customers * 8900 people targeted * €0,00106 per visualization.

The Pessimist Scenario estimates € 10.000 revenues[34] for a business capturing 0,25% of the market size estimated for the Lisbon Metropolitan Area in the first year (Exhibit 38). These would grow 3% in the second year, 2% in the third year, and then the business owner would decide to close the business. After being unemployed for one year, it is assumed that she would find a job in the social communications field earning a salary of €13.000 net per year. This scenario is weighted with 44% probability.

The Neutral Scenario forecasts that the business will capture 1% of the market in the first year generating € 40.000 in revenues (Exhibit 38). Those revenues would grow until the fifth year at a rate 16%, 11%, 7%, and 4% and then would grow perpetually for the following 20 years at a 2% rate. The probability attached to this scenario is 46%[35].

In the ***Positive Scenario*** the brand will capture 2% of the market in the first year generating € 80.000 revenues (Exhibit 38). Achieving an outstanding growth of 20%, 14%, 9% and 5% for the first five years respectively, the business would then grow at a 3% rate perpetually for the subsequent 20 years until the age of retirement. The likelihood of happening this scenario is 10%.

2.3. PDG Design – FCF Present Value

For each of the three scenarios, the free cash flows are calculated subtracting from the revenues, the above mentioned fixed and variable costs, VAT (23%) and then finally taxes paid including Social Security contribution (29,6%). Then, it is calculated the weighted average[36] of the yearly cash flows and finally these are discounted and summed in order to obtain the present value of the project.

The discount rate chosen for the business cash flows is the yearly expected return of the MSCI Micro Cap European index (14,56%) in order to accurately simulate the cost of capital that a

[34] Considering only the wage for the decorator, it excludes the revenues deriving from the products since there won't be any markup applied.
[35] 1 – The probability that a startup will fail in the first 3 years or be extremely successfull.
[36] Bearing in mind the probability attached to each scenario.

micro business has attached. The default risk of a start-up is already taken into account when weighting of the different scenarios. The job salary that business owner would receive in case of shutting down the business would grow at 2% per year[37] and would be discounted at the 7,31%, the return of the market index in Portugal (PSI-20) since it is assumed that this rate resumes the Portuguese economic situation. The present value of the salary earned until retirement represent the opportunity cost of time spent in providing decoration services.

2.4. Final Comparison – NPV and IRR

Finally, PDG Design would become financially attractive if and only if its present value is higher than the sum of opportunity cost of time of the business owner, represented by the present value of an average salary received from a normal job in Portugal from tomorrow[38] until the retirement (PV_{Salary} = 165.650,67€) and the initial investment (2000 €). The difference between the PDG Design present value ($PV_{PDG\ Design}$ = 185.350,57 €) and the sum of the opportunity cost of time and the initial investment is the business NPV. The NPV is € 17.699,90 making of launching the business a profitable solution (Exhibit 39). The Internal Rate of Return (IRR) assigned to this project is 16,8 % being higher than the discount rate indexed to the project of 14,6 %, ultimately guaranteeing a positive NPV.

[37] The target inflation of the Euro Area
[38] Annas' opportunity cost.

Final Recommendations

Concluding the analysis done, the group of consultants has a couple of final recommendations to address to the exploration of the identified market gap. Firstly, it is largely recommended that the business owner should not pursue right away her initial idea of turning PDG into a straightforward e-commerce business. A perceived lack of experience regarding technological copywriting, a breathtaking online competitive environment, the impossibility to internationalize the brand abroad and the lack of stable funding resources would turn this business too risky and financially weak to profit and survive in the market.

Nevertheless, the market offers other appealing opportunities in the child room services sector, requiring less resources to be developed and covering the majority of weaknesses attached to the brand, namely the price of their products. Therefore, PDG Design was defined as the ultimate route to business success and to efficiently turn around an unprofitable business.

Furthermore, market and competitors auditing processes are suggested to be performed yearly in order to catch up new trends in a mature market and increase response levels to business landscape changes, adapting the brand strategy accordingly. In case that after the first year, the business will be somewhere in between the optimistic or neutral scenario, it will be possible to consider the possibility to extend the business into an e-commerce, selling the most popular shippable accessories. An already well established online brand, financially healthy and already experienced exploring the online environment would make it possible to explore this reality.

Finally, if the business turns out to be really successful, it is suggested hiring other professionals to delegate specific functions in order to sustain the continuous growth and for the business owner focus on the core activities. Figures such as an accountant and decorator interns may guarantee the business ability increase significantly the number of customers served per year, and also make possible to extend the business to other big Portuguese cities such as Porto.

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