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Toteware, Inc. (new product market analysis)

Carla M. Wright Jones

TOTEWARE, INC.
(New Product Market Analysis)

by

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APPROVAL PAGE

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TOTEWARE, INC.
Case Summary

In 1989 as part of a product development project for the Thermos Company in Freeport Il., began to investigate product/products targeted for use by women in business. The product concept developed was that of a bag which would be designed to accommodate the daily requirements of business women. This bag would allow for easy transport of items such as reading materials, lunch, compact umbrella, zippered pocket for keys, parking receipts, checkbook, etc.

It was realized by the Marketing Product Manager and upper management that a product of this kind did not fit current product lines or within our marketing strategies. However, at the same time, other luggage manufacturers were also investigating the development of products that would attract the increasing number of women entering the business arena.

The business chosen to do this was ToteWare, Inc. located in Southport, South Carolina. In 1972 ToteWare, Inc. was established to manufacture soft-sided garment and tote bags. ToteWare, since its' inception, has positioned itself as a niche marketer in the $500 million soft-sided luggage industry specializing in the production of light weight garment and carry-all tote bags.

In an attempt to continue to be responsive to current market trends, ToteWare is faced with redefining its' strategic direction to one that allows for growth within new markets by using current company resources. ToteWare has identified this new strategy to be one of market and product development. ToteWare's target market includes growth into selected retail (mass) and specialty markets. This approach is generating tremendous interest among the niche marketers within the soft-sided luggage industry.

ToteWare's primary objective, at this time, is to propel the company into a prominent, stable market position. To accomplish this goal, ToteWare has developed a plan to intensify and accelerate their marketing activities and product development and to expand services, distribution and customer service. To implement their market and product development plans, ToteWare wants only to utlize resources currently available. In other words, no capital outlays are to be required for new product launching.

The current trend ToteWare has identified for product and market development is that of soft-sided women's business cases. Currently, this is $108.3 million industry with an expected annual growth rate of 7% and, Analyst have projected that soft-sided luggage sales are to increase as a category by 5% per year. Conservative estimates suggest ToteWare's market share, with their intensified new marketing plan would be about 15-17%--generating $28.3 million by end of 1993.

The current trend in the industry, is the development of products to satisfy the needs of the growing number of women in the business sector. This will be done by ToteWare, by use of heavy internal, customer and business to business promotions and expanding channels of retail distribution.

From a financial standpoint, ToteWare needs to decrease its' debt ratio by using cash to pay off creditors. Also, with the introduction of a new product that achieves planned profit levels, ToteWare should be able to increase its sales so they have a higher asset turnover ratio.

Overall, ToteWare has a very viable business entity and bright future ahead if management continues to stay abreast of current market trends and is able to take advantage of under utilized resources so that quick response to new market and product opportunities continues to create a barrier to entry among their competitors.

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ACKNOWLEDGMENTS

First and foremost, I would like to give thanks to God who is the head of my life and through him the attainment of this degree was made possible.

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INTRODUCTION

ToteWare, Inc., was established in 1972 as a small manufacturer of soft-sided tote bags, headquartered in Southport, South Carolina. The company's primary goal is to be a niche player among its' major competitors in the luggage industry, specializing in the production of light-weight garment and carry-all bags.

By early 1989, the soft-sided luggage industry had consistently grown at an annual rate of 10-12 % (Ermatinger, 1990). This increase was due largely in part to rising exports and declining imports. This growth indicated the United States' luggage manufacturing industry was benefitting from the devaluation of the United States dollar on world currency markets and increased travel by United States citizens. (U.S. Industrial Outlook, 1990).

As a result of industry growth and trends, ToteWare's management team began to develop an aggressive strategy that would allow them greater opportunities within the luggage industry. This strategy is directed at developing products for specialty markets that are specifically designed for targeted consumer distribution. It would appear at first glance that ToteWare's problem or decision is one of determining what new product or products should be developed for commercialization given the risk and opportunities currently present. In a larger sense, management appears to want to change its strategic direction in relation to current market trends. It is Management's belief that a new strategy would increase business by attracting a new segment of buyers. This move may simply be the implementation of a grand strategy based on new product development.

The problem, therefore, is to investigate which grand strategy to choose, given ToteWare's current resources and market position. Once the grand strategy has been chosen, the Marketing Managers must then identify the components of the strategy so it can be implemented in a timely and efficient manner. Management feels that by addressing the needs of particular market segments; they will be able to maintain a strong niche position and increase overall profitability.

ToteWare's present product line offering consists of garment or suit bags; small, medium & large zippered tote bags; small & large duffle zippered tote bags and personal cases for men and women.

BACKGROUND

The preceding sections will provide an indepth view at the present situation of the ToteWare organization. The first section, Internal Analysis, discusses the internal structure of the organization in relation to its current product offerings and the company's strengths and weaknesses that will affect the future growth of the organization.

Second, is the Industry Analysis which gives a view of ToteWare's position within the soft-sided luggage industry as well as role and position of its competitors.

Third, in the Market Analysis section, factors depicting who the consumer is and what changes are occurring from a demographic standpoint that could have an impact on future sales of products by ToteWare.

Fourth, is the Operation and Labor Analysis section, here information is given as to the current manufacturing ability of ToteWare. This includes discussion of materials used, labor requirements and location of the facility.

Last, is an indepth discussion of ToteWare's financial position. This is done by evaluating ToteWare's performance based on specific financial ratios.

INTERNAL ANALYSIS

ToteWare manufactures a modified line of soft-sided carrying bags. Their product lines and the percentage share each represents to the company is shown in Fig. 1.

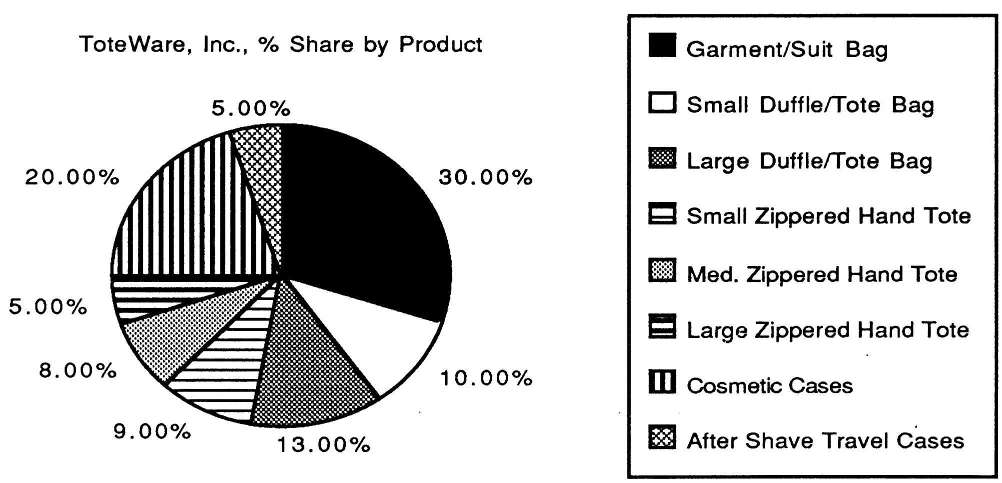

FIGURE 1.

Currently, their products are sold only through small discount outlets in the United States. It is management's hope that development of a new strategy; focused on new market and product development will aid in their task of increasing distribution to selective specialty and mass market retail chains.

ToteWare's current customer base consists of 150 small discount outlets located in twenty-two states. The dollar volume in sales related to the accounts ranges anywhere from $15 thousand to $100 thousand per year. ToteWare gives about a 40% margin to its retailers, which is similar to that of other intra-industry competitors.

ToteWare's initial marketing objective was to provide low cost, high quality soft-sided travel bags through selective distribution and dealer networks that would allow the company to:

(1) Achieve total sales revenue of $24,000,000 in 1991, which would represent a 15% increase from the previous year.

(2) Achieve a sales volume in units of 1,150,000, which would represent an expected market share of 15%.

(3) Expand consumer awareness from 10% to 20% over their three year planning period.

(4) Expand the number of distribution outlets by 30% over the next three years.

(5) Aim for an average realized contribution margin per product of at least 25% to maintain planned profit levels.

Currently, ToteWare uses Manufacturer's Agents to sell their products. Management realizes that the use of Manufacturer's Agents are an excellent method for penetrating new markets. As such, management plans to recruit those agents/agencies who currently handle major mass and specialty market accounts.

From the latest information obtained, the mass market and wholesale club arena will continue to grow at an annual rate of 43%, with the industry leaders being K-mart, Wal-Mart and Target. In the Warehouse club arena, the industry leaders are BJ's, Costco, Pace

Membership, Price Savers, Price Co., Sam's, Warehouse Club, and The Wholesale Club (Murphy, 1990).

To assist management in their efforts of developing a new strategy, ToteWare has identified key strengths, weaknesses and product growth share data needed to evaluate their current product and market position. This information is displayed on pages 7 and 8; Table 1. ToteWare, Inc.-Strengths; Table 2. ToteWare, Inc.-Weaknesses and Figure 2-ToteWare, Inc. Growth Share Matrix.

TABLE 1. TOTEWARE, INC.- STRENGTHS

•Firm's product & services: Breadth of product line
•Concentration of sales in a few products or to a few customers
•Product & service mix & expansion potential: Life cycle of key products
•Expanding markets
•Product quality
•Inventory control systems: Inventory turnover
•Economies of scale
•Firms record of achieving objectives
•Top management skill and interest
•Strategic planning system
•Favorable financial ratios
•Employee skill and morale
•Low personnel turnover
•Effective use of incentive to motivate employees
•Specialized skills
•Union vs. Company relationship

TABLE 2. TOTEWARE, INC.-WEAKNESSES

•Channels of distribution: Number coverage & control
•Sales and Advertising
•Pricing strategy & flexibility
•Technical efficiency of facilities and utilization of capacity
•Brand loyalty and awareness
•Raw material cost

TOTEWARE, INC. GROWTH SHARE MATRIX

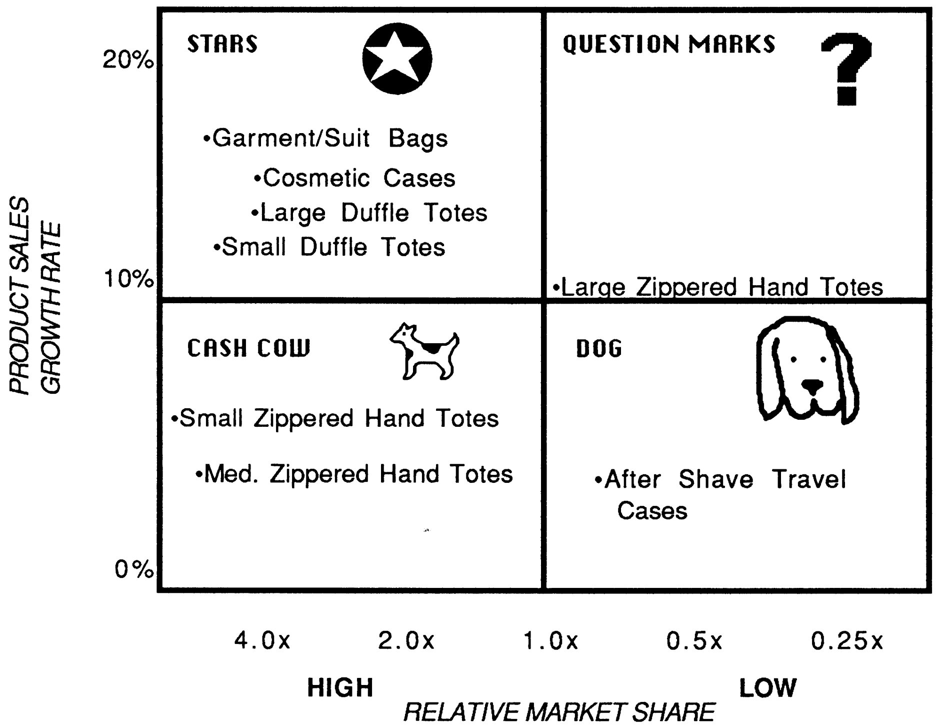

FIGURE 2.
The Boston Consulting Group's Growth-Share Matrix
Source: B. Heldey, "Strategy and the Business Portfolio, "Long Range Planning, February 1977, p. 12.
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Management also realizes that After Shave Travel Case sales have been steadily declining at an average annual rate of 3%. The future plan for this category is to harvest it and introduce a new product to take its' place.

Industry Analysis

The luggage industry has experienced a dramatic increase in competition, changing distribution channels, and rapid technological innovation. Due to the dramatic increases in manufacturers of luggage products, differentiation strategies based on perceived consumer benefits, features and cost are also on the rise.

The industry can be broken into three basic markets: Hard bags (22%), Soft-sided bags (63%) and Soft-sided framed (15%). These include textile covered, plastic and leather type items.

Relevant industry data indicates that a hefty 27% of luggage sales are in the 26-inch and larger category--something of a surprise considering the continuing strength of carry-on luggage. However, garment bags come in second with 18% of sales, followed by the under 24-inch category at 15%-which when added together reveals 33% for the popular carry-on items. Totes, which many stores are enjoying a resurgence in growth, turn up fourth, representing some 14% of luggage sales.

Of the overall industry competitors, Samsonite remains the number one U.S. manufacturer of luggage (Ermatinger, 1990). It is estimated that of the hard bag industry, Samsonite maintains a healthy 50% share; and between a 22.5% share of the soft-sided industry (see Figure 3).

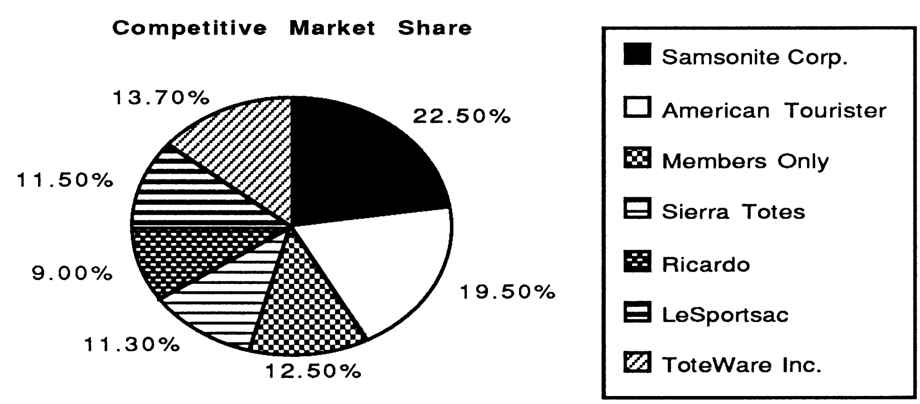


FIGURE 3.
Source: Ward's Business Directory of U.S. Public and Private Companies, Volumes 1 and 2.

Samsonite which possesses a hefty 22.5 % of the soft-sided luggage market is clearly the industry leader. Samsonite sells primarily to the mass and department store markets. Along with continuing its' strategy of dominating the market through product proliferation, it has also realigned its advertising efforts by initiating a consumer and TV campaign. The print ads will feature well known designers in the home furnishings, architectural and fashion fields, discussing the benefits of softside lines. The budget for the over-all campaign is estimated at $4,000,000, with $3,000,000 of that amount going toward the six week TV blitz. Of the estimated $500 million soft-sided industry, Samsonite enjoys a hefty 60% of its sales dollars in this category. Samsonite also attributes most of its' success to strong consumer loyalty and solid dealer networks.

American Tourister which is the challenger in this category with 19.5%, continues its advertisement efforts to protect its position by continuing its strong retail co-op advertising programs. It has also continued to place more emphasis on product development as their source of strategic edge. However, they continue to struggle in the distribution arena with strong competition from Samsonite due to shared retail shelf space.

Members Only has 12.5% of the soft-sided market. It has built its' business primarily in the catalogue and specialty markets. However, with strong import competition, they are developing a new strategy to selectively grow their business with mass and department store markets.

Sierra Totes occuppies 11.3% of the market. In the past, they focused on small soft-sided items such as plastic shoe covers, cosmetic cases, travel cases and small zippered tote bags. Most recently, due to the growth in the soft-sided luggage industry, Sierra has begun new efforts to grow their business through extensive retailer promotional programs and selective product introductions.

Ricardo and LeSportsac represent the remaining 20.5% share of the soft-sided luggage industry. They have postitioned themselves along with ToteWare, as niche players in the industry. They have successfully done this by solidifying their presence in retail and discount outlets that are of little interest to and are not occuppied by the industry leaders.

ToteWare also faces strong import competition. Importers introduced low cost items in the early 1980's and quickly gained market share. Because labor costs represent such a high proportion of total production costs, U.S. luggage manufacturers will continue to face significant import competition, especially from developing countries where wage rates are far below U.S. levels.

In 1990 the value of imports of luggage and personal leather goods rose about 15% to an estimated $3.96 billion. The import to apparent consumption ratio for the group rose to 66% in 1990 from 62% in 1989. This means that 66% of all U.S. luggage purchased by the consumer for 1990 were imported versus 62% in 1989.

Primarily because of the weaker U.S. dollar, the value of exports for the group in 1990 also rose a substantial 21% to an estimated $195.7 million. The quality of these imports was initially very poor. Importers have since upgraded their products to meet and in some instances surpassed that of domestic products while remaining significantly lower in price.

In 1990, the value of all (imports and domestic) luggage product shipments increased about 3.5% to $967 million. In constant dollars, however, product shipments declined about 2% (U.S. Industrial Outlook, 1990).

Apparent consumption, by value, of luggage in 1990 was up about 13% over 1989 to an estimated $2.1 billion. Imports rose 22% to $1.22 billion, with the largest shares of U.S. imports of luggage produced by Taiwan (37%); China (21%); Korea (19%); Thailand (4%); and Mexico (4%) (U.S. Industrial Outlook, 1991).

Exports of luggage in 1990 increased about 25% to an estimated $82.5 million. Mexico, Japan, Canada, Ireland, the United Kingdom, and West Germany were the largest importers of U.S. luggage. (U.S. Industrial Outlook, 1991).

In 1990, demand for luggage and leather products remained at about the level achieved in 1989. Constant Dollar product shipments increased one-third percent. Growth rates for 1990 varied among the constituent industries as follows:

CATEGORY	(%) OF INCREASE
Luggage	1.9
Leather	3.9
Leather Apparel	3.9

(U.S. Industrial Outlook-Leather & Leather Products, 35-10)

An increasing number of U.S. luggage manufacturers are looking offshore for new marketing opportunities. Ultimate success in the export arena will depend on a variety of factors, the most of which is the relative stability of currency markets.

The textile industry poses an even greater threat to the U.S. luggage manufacturers. Rising prices result in higher consumer costs. This in turn can result in potential loss of sales for ToteWare as well as its competitors. Consumers may not be willing to absorb the additional cost passed on to them unless they are able to see additional value has been added to the product which increases its value in their minds.

The textile industry bounced back somewhat in 1989, after a slip in demand penalized earnings in 1988. Profitability in recent years has been aided by a major industry restructuring since the early 1989's, when the industry was hit hard by recession and stiff competition from low cost imports.

To combat the onslaught of low cost imports, the domestic textile industry has attempted to stress economies of scale and state-of-the-art technology. Domestic manufacturers have de-emphasized or shut down product lines that compete directly with imports and have instead refocused on becoming low-cost producers in areas less susceptible to the import threat. The decline in the dollar from 1987 until early 1989 and an increasingly competitive retail environment have helped to shift attention back to domestic suppliers. The advent of "quick response" techniques eventually should give domestic manufacturers an edge against foreign competitors.

Although the domestic market is mature, production is well suited to automation, enabling U.S. companies to keep production costs competitive with those of foreign manufacturers, despite wage differentials. In the 15 years from 1974 through 1989, total domestic mill shipments, measured in constant dollars, expanded at a compound annual rate of 4.6%, according to the U.S. Department of Commerce.

Domestic firms have also attempted to enter niche-oriented, high-margin areas. Aside from the benefits of modernization and automation, margins expanded significantly from 1985-1987 as a result of lower raw material costs.

Price changes for raw materials were mixed in 1990. Following 18 months of steady increases, prices of synthetic fibers began dropping in late 1989, mainly due to volume expectations for 1990.

In conclusion, with the economy still soft, the textile industry will remain depressed for the balance of the year. Textile profits are expected to be hurt by slower volume, increased raw material prices, and renewed competitive pressure from imports.

Market Analysis

ToteWares' primary buyers are women who make up 60% of its buying market. While men make-up a greater percentage in relation to the frequency of use, management continues to focus its designs based on fit, form and function of all its users. This strategy allows them to meet the ever changing life-styles and demographics of its consumers.

Demographic factors shown in Table 3, suggest that future growth in consumer demand for luggage products will be healthy based on the changes shown in the data. Increased white-collar employment should result in increased purchases of leather office products while growing numbers of women in the workforce will lead to increased sales of business cases. The expanding rolls of retirees coupled with increases in disposable income, may stimulate more travel, and corresponding increases in luggage sales (U.S. Industrial Outlook, 1991).

The stability of the this market segment is rapidly growing, based on soft-sided luggage category performance over the past two years. It is estimated that this category will continue to grow an average of 5% per year. However, U.S. luggage manufacturers will continue to face stiff competition from abroad. It is highly unlikely that much of the U.S. market lost to imports during the last decade can be recaptured in the next decade. But a lower valued dollar should help American manufacturers maintain their present share of the expanding U.S. market for luggage (James E. Byron, personal communication, Office of Consumer Goods, (202) 377-4034, September 1990).

TABLE 3. MARKET SEGMENTATION FOR TOTEWARE, INC.

VARIABLE	TYPICAL BREAKDOWNS	1991	*1992	% Change
Geographic				
Region	Continental U.S.			
City Size	Under 5000	9%	7%	-2%
	5,000-20,000	34%	36%	+2%
	20,000-50,000	50%	47%	-3%
	over 50,000	7%	10%	+3%
Density	Urban	4%	7%	+3%
	Suburban	33%	33%	N/C
	Rural	63%	60%	-3%
Demographic				
Age	Under 20	6.4%	6.4%	N/C
	21-34	32%	32%	N/C
	35-49	26.1%	29%	+2.9%
	50-64	28.5%	24%	-4.5%
	65+	7%	8.6%	+1.6%
Sex (Users)	Male	57.2%	54.4%	-2.8%
	Female	43.8%	45.6%	+1.8%
Sex (Purchasers)	Male	40%	38%	-2.0%
	Female	60%	62%	+2.0%
Income	Under $10,000	3%	3%	N/C
	$10,000-$20,000	15%	15%	N/C
	$20,000-$30,000	25.5%	24.2%	-1.3%
	$30,000-$40,000	30.7%	32%	+1.3%
	$40,000-$50,000	17.8%	15.8%	-2%
	Over $50,000	8.0%	10%	+2%
Occupation	Students	5.5%	5.5%	N/C
	Clerical	19.5%	22.3%	+2.8%
	Professional & Technical	31.0%	33.3%	+2.3%
	Managers	35.6%	35.6%	N/C
	Other	8.4%	3.3%	-5.1%

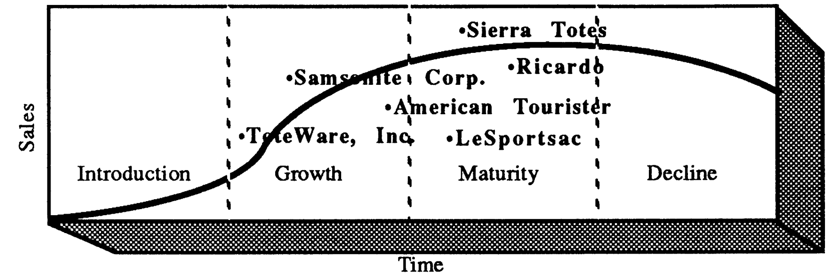
***Projections** are based on predicted changes in white collar employment, growing number of women in business and the growing number of retirees coupled with growth in disposable income.

Because ToteWare produces in a differentiated market structure, ToteWare's management has to constantly be aware of the effects of rival's expected responses due to any changes in the market place or within the industry.

The differentiation within a market structure of this type can occur along the lines of quality, features, styling or service. It is therefore apparent that each competitor can seek leadership along one of these major attributes, attract the customers who favor these attributes and charge a premium for that attribute.

By identifying where each intra-industry competitor is in relation to the industry Product Life Cycle, displayed in Table 4, ToteWare can better evaluate current and potential characteristics, marketing objectives and strategies that may be implemented by any of its' competitors. It also allows ToteWare's management a greater ability to set future strategic plans for itself.

TABLE 4. INDUSTRY PRODUCT LIFE-CYCLE COMPETITIVE COMPARISON CHART



Characteristics

Sales	Low sales	Rapidly rising sales	Peek sales	Declining sales
Cost	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adapters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number

Marketing Objective

	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand

Strategies

Product	Offer a basic product	Offer product extensions, service warranty	Diversify brands and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go Selective: phase out unprofitable outlets
Advertising	Build product awareness among early adapters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hardcore loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Source: John A. Weber, "Planning Corporate, Growth with Inverted Product Life Cycle", *Long Range Planning*, October 1976, pp. 12-29.

Operation & Labor Analysis

ToteWare began its operations with 55 hourly employees in 1982. Today, the hourly work force has decreased by 35%. This decrease is the result of new technology and machinery. Currently, ToteWare operates with 36 hourly employees in a 150,000 square foot facility in Southport, South Carolina. The facility is currently operating at 80% capacity.

Like the machinery, raw materials come from various suppliers. These materials include leather, plastics; fabrics, such as nylon, cotton and linen; and metals. Combinations of these materials are frequently used. Construction methods include sewing, molding, and laminating. The company has not experienced any significant production problems or delays due to defective goods, shortages of materials or components.

All material inventories are stored in the South Carolina facility, with levels kept as low as possible. A ninety-day supply of raw materials and a three day work-in-process inventory is maintained. Despite the economic impact on the travel industry caused by the1991 Gulf war, ToteWare has continued to maintain its' levels of sales as evidenced by their inventory turnover ratio of 6.0x. This is right in line with the industry average of 6.5x.

Wages for the ToteWare hourly work force vary according to task. On average, workers are paid $7.34 per hour. Since these wages are in the median range for the South Carolina area, an incentive plan is in effect. If a worker produces 86.3 percent of a set quota, he or she is paid 100% of the base salary. If that same worker makes anything over the 86.3% required, then he or she is paid the additional percentage amount above the 86.3%. The employees view the quota as very achievable, with 90% of them exceeding the standard. To assist those employees in developing the skills needed to meet standard production rates, ToteWare provides in house training and retraining programs. After three attempts of employee training within six-months, those employees who cannot achieve and maintain the standard are terminated. Labor at ToteWare is unionized and operates on two shifts, five days per week.

Financial Analysis.

Currently, ToteWare's financial objectives are to: (1) Earn an average rate of return on investment of 25% after taxes. (2) Produce net profits of $5 million from 1989 to 1993. (3) Produce a cash flow of $7.75 million over the same period.

In reviewing their financial ratios, ToteWare's current ratio of 1.92x is slightly below the average for the industry, 2.2, but not low enough to cause concern. Since current assets are near maturity, it is highly probable that they could be liquidated at close to book value. With a current ratio of 1.92x, ToteWare could liquidate current assets at only 52% of book value and still pay off current creditors in full.

The industry average quick ratio is 1.3x, ToteWare's 1.5x ratio compares exceedingly favorable with other firms in the industry. ToteWare's management knows that if the marketable securities can be sold at par and if they can collect the account receivables, they can pay off current liabilities without selling any inventory.

The debt ratio is 58%; this means that creditors have supplied over half of the firm's total financing. ToteWare could find it difficult to borrow additional funds without first raising more equity capital.

ToteWare's inventory turnover of 6.0x compares favorable with the industry average of 6.5x. This suggest that ToteWare does not hold excessive stocks of inventory. ToteWare's high inventory turnover also reinforces their faith in the current ratio. ToteWare uses the LIFO method for inventory tracking. ToteWare's management finds this method advantageous especially during inflationary periods. The use of LIFO allows management to maximize the cost of goods sold expense and thus minimize the profit reported in the Income Statement. To do this, inventory is reported at the lowest cost in the Balance Sheet. This method also allows management to err on the downside and not be accused of overstating profits or assets.

The average collection period, which is a measure of the accounts receivable turnover, is 34.1 days. ToteWare sales terms call for payment within 45 days, so the 34.1 day collection period indicates that customers on the average are paying their bills on time.

The fixed asset turnover is 24.0x, this compares poorly to the industry average of 38.9x. This indicates that ToteWare is not using its fixed assets to as high a percentage of capacity as are other firms in the industry.

The asset turnover ratio is 1.34x, compared to an industry average of 2.2x. This shows that ToteWare is not generating a sufficient volume of business for the size of its' asset investment. Sales should be increased, some assets should be disposed of, or both.

ToteWare's profit margin is 30%, slightly below the industry average of 33%. This indicates that prices are slightly low, that cost are slightly high, or both.

Return on Total Assets are 40%, compared with an industry average of 13.6 percent. The high rate results from the high profit margin on sales and from the high turnover of total assets.

The debt to equity ratio is 1.36x, compared to the industry average of 1.2. This is marginally below the industry average and indicates the company is using $1.36 of liabilities for every $1.00 of owners' equity in the business. ToteWare's Historical Sales Data is shown in Table 5 followed by their comparative Income Statement and Balance Sheet.

TABLE 5. Historical Sales Data

VARIABLE	*1991	1990	1989
INDUSTRY SALES-in units	7,692,308	7,307,700	6,796,155
Company market share	0.137	0.137	0.135
Avg. price per unit	$22.80	$22.21	$23.05
Variable cost per unit	$5.84	$4.35	$4.00
Gross contribution margin per unit	$16.96	$17.86	$19.05
Sales volume in units	1,053,846.20	1,001,154.90	917,480.93
Sales revenue	$24,027,608.00	$22,214,969.00	$21,157,113
Gross Contribution margin	$17,873,231.50	$17,880,626.51	$17,478,011.62
Cost of Sales $	$10,572,148	$9,774,586	$9,309,130
Net Contribution Margin $	$7,301,083.48	$8,106,040.51	$8,168,881.62
Other Expenses	$199,381.48	$2,353,482.51	$2,690,255.62
Net operating profit $	$7,101,702.00	$5,752,558.00	$5,478,626.00

***PROJECTED**

TABLE 6.

ToteWare, Inc.
Statement of Income
Year Ended December 31

	*1991	1990	1989
Sales	$24,027,608.00	$22,214,969.00	$21,157,113.00
Cost of Sales			
Raw materials	$2,402,761.00	$2,221,497.00	$2,115,711.00
Labor	$4,805,522.00	$4,442,994.00	$4,231,423.00
Overhead	$3,363,865.00	$3,110,096.00	$2,961,996.00
Selling cost	$1,331,604.00	$1,297,308.00	$1,235,532.00
R & D	$140,971.00	$1,031,174.00	$982,071.00
General Administrative	$1,268,220.00	$1,399,011.00	$1,332,392.00
Total	$13,312,943.00	$13,502,080.00	$12,859,125.00
Inc. From Operations	$10,714,665.00	$8,712,889.00	$8,297,988.00
Interest Inc. & Exp.			
Interest Income	$30,660.00	$33,822.00	$32,211.00
Interest Expense	$54,247.00	$59,842.00	$56,992.00
Income Before Taxes	$10,629,758.00	$8,619,225.00	$8,208,785.00
Taxes on Income	$3,528,056.00	$2,866,667.00	$2,730,159.00
Net Inc. After Taxes	$7,101,702.00	$5,752,558.00	$5,478,626.00

***PROJECTED**

TABLE 7.

ToteWare, Inc.
Balance Sheet

	*DEC. 31,1991	Dec 31, 1990	Dec 31, 1989
ASSETS			
CURRENT ASSETS:			
CASH	$9,904,273.00	$8,844,158.00	$8,423,008.00
INVESTMENTS	$275,000.00	$137,891.00	$131,325.00
ACCOUNTS RECEIV.	$2,275,000.00	$2,399,308.00	$2,285,055.00
NOTES RECEIVABLES	$375,000.00	$468,830.00	$446,505.00
INVENTORY	$4,010,000.00	$3,806,460.00	$3,625,200.00
Total Current Assets:	$16,839,273.00	$15,656,647.00	$14,911,093.00
Plant & Equipment			
BUILDING	$943,000.00	$1,040,252.00	$990,716.00
OFFICE EQUIPMENT	$35,000.00	$27,578.00	$26,265.00
LEASEHOLD IMPROV.	$27,500.00	$30,336.00	$28,892.00
LESS: ACCUM. DEPREC.	$5,500.00	$6,067.00	$5,778.00
Toal Net Prop. & Equip.:	$1,011,000.00	$1,104,233.00	$1,051,651.00
OTHER ASSETS	$130,000.00	$143,407.00	$136,578.00
TOTAL ASSETS	$17,980,273.00	$16,904,287.00	$16,099,322.00
LIAB. & OWNER EQUITY			
CURRENT LIABILITIES:			
SHORT TERM DEBT	$3,345,000.00	$3,480,375.00	$3,314,643.00
ACCOUNTS PAYABLE	$1,332,245.00	$1,294,427.00	$1,232,757.00
INC. TAXES PAYABLE	$3,528,056.00	$2,886,667.00	$2,730,159.00
ACCRUED LIABILITIES	$575,000.00	$546,049.00	$520,047.00
Total Current Liabilities:	$8,780,301.00	$8,207,518.00	$7,797,606.00
LONG TERM DEBT	$1,589,304.00	$1,753,209.00	$1,669,723.00
TOTAL LIABILITIES	$10,369,605.00	$9,960,727.00	$9,467,329.00
OWNER/STOCKHOLDER EQUITY			
COMMON STOCK	$840,000.00	$918,763.00	$894,091.00
RETAINED EARNINGS	$6,770,668.00	$6,024,797.00	$5,737,902.00
Total Equity	$7,610,668.00	$6,943,560.00	$6,631,993.00
TOTAL LIABILITIES & EQUITY:	$17,980,273.00	$16,904,287.00	$16,099,322.00

***PROJECTED**

ToteWare, Inc.
Notes To Financial Statements

1. Accounting Policies: The accounting policies of ToteWare, Inc. considered significant to understanding its financial statements are:

Real property sales: Income from sales of real property is recognized when cash received as percentage of total sales price is at least 10% for residences, 25% for raw land and 20% for other real property, collection of the balance of the sales price is reasonably assured and risks of ownership have passed to the buyer.

Investments: Investments in common stock and/ or ventures are accounted for by the equity method. Other investments are stated at cost or estimated realizable value if less than cost.

Inventories: All inventories are stated at the lower of cost or market. The cost of certain raw materials and supply inventories is determined using the last-in, first-out (LIFO) inventory method. The cost of other inventories are determined principally by the first -in, first-out or average methods. Merchandise inventories in retail stores are determined by the retail method, which involves pricing individual items at current selling prices and reducing such amounts by the application of departmental mark-up ratios to the lower of average cost or market.

Property, plant & equipment: Property is stated at cost. In order to include all applicable costs, interest on funds borrowed for construction of buildings costing over $1,000 is capitalized during the construction period. Depreciation is provided using the straight line method over the estimated economic lives for financial reporting purposes and accelerated methods as permitted for income tax purposes. The principal lives used for financial reporting are 20-40 years for land improvements, 25-40 years for buildings, 3-18 years for machinery and equipment, and the term of the lease if less than the previously mentioned lives for leasehold improvements. Maintenance and repairs are charged to operations. Renewals and betterments are capitalized. When properties are retired or otherwise disposed of in the normal course of business, the original cost, reduced by any salvage realized, is charged to accumulated depreciation, with no gain or loss reflected in income. Gains or losses on specifically identified abnormal retirements are reflected in income.

Stock options: No accounting entries are made when stock options are granted. When options are exercised, proceeds are credited to common stock.

Income Taxes: Federal income returns are filed on a consolidated basis. Income taxes are reduced by investment tax credits using the flow-through method. Deferred income taxes are provided on items (principally depreciation, installment sales and uncollected revenues) recorded in different periods for tax than for financial reporting purposes.

2. **Accounting Changes:** Under new accounting methods adopted in 1987,

   (a) estimated profits are deferred until sales are ultimately made by ToteWare, Inc. to its customers, (b) investment in ToteWare is stated at equity and (c) retail purchase discounts are deferred until sales are made to customers.

DESCRIPTION OF ALTERNATIVE SOLUTIONS

ALTERNATIVE A: Concentration Strategy

The business that selects this srategy is strongly committed to its current products and markets. It will strive to solidfy its position by re-investing resources to fortify its strength.

While ToteWare's current situation reflects some of this strategy, it does not reflect the future direction management wishes to grow the business. In reviewing ToteWare's resources for re-investment, their financial base is fairly strong to support any such re-investments. However, because ToteWare wants to selectively grow its business due to recent market changes and trends this strategy will not allow them the opportunities to do so.

Based on managements plans, the Return on Investment generated by utilizing this strategy would not be an improvement in the performance already being obtained by ToteWare.

The major advantage associated with implementing this strategy would be:

(1). Allows for re-investment of resources to defend its position.

The major disadvantage associated with implementing this strategy are:

(1). No realized increase in market position or revenues.

ALTERNATIVE B: Product & Market Development Strategy

With either or both of these strategies the business attempts to broaden its operations. Market development will allow ToteWare's existing products to be sold to new customer groups while product development will provide existing customers with products believed to have an interest in products related to the firm's current lines.

This strategy is clearly in line with the direction ToteWare's management wishes to develop the future growth of the business.

Again, as the presence of women in business continues to grow, management continues its' efforts to enter the business case sales arena in the soft-sided product category. Management feels confident that the introduction to this category will be relatively modest in terms of the associated risk (see Cost/Benefit - Appendix B for comparison in profits realized if ToteWare were to enter into the business case sales arena).

The main threats, management feels, will be the introduction of similar products by competition, ToteWare's relative market share within the industry and the potential impact on profits caused by increasing cost of textile prices. Rising prices will not only effect the potential profit benefits but could hurt their current profitability in their existing product categories.

On the other hand, new channels of distribution to the mass market and wholesale clubs, would increase sales. Management feels that marginal increases in textile prices can be offset by growth within these channels.

With the planned implementation of a new strategy and market direction, management hopes to take advantage of the growing opportunities in soft-sided women's business case sales market. During 1989, business case sales increased by over 7% (Ermatinger, 1990). However, with major competitors such as Samsonite, American Tourister, Members Only, Sierra Totes, Ricardo, and LeSportsac in the soft-sided luggage industry; management realizes they will have to develop a product that is in line with current market trends, utilizes current company resources and fits a niche unoccuppied by major competitors.

The present trend in soft-sided business case sales for women provides the opportunity for ToteWare to expand into this product category. Their current resources allows them to enter into this area with little investment in start-up cost since the plant is currently operating at 80% capacity. Management also realizes that if they are to grow their market niche, they will have to begin efforts of increasing their current customer base by increasing current distribution channels by implementation of a market and product development strategy.

The major advantages to be realized by implementing this strategy are:

(1). Increased Profits by $216,173.30 in 1992, $281,991 in 1993 and $350,166 in 1994.

(2). Increased market share by 3-5% within the next two years.

(3). Utilization of excess plant capacity by use of existing underutilized plant equipment.

(4). Expanded distribution channels by gaining new retail accounts and developing new inter/intra company promotions.

ALTERNATIVE C: Do Nothing

The last alternative available to ToteWare, is to do nothing. If ToteWare's management wanted to be very conservative in its marketing approach, this alternative would be feasible for them. However, it does pose one very real problem and that is it does not provide the company an opportunity to grow the business. In fact, in the long-term it could result in huge losses of profits and market share. Management must realize that if this alternative were chosen it could mean "corporate suicide" for ToteWare. Success of any consumer or industrial firm is directly dependent on how well the company can respond to the changes in the marketplace.

The major advantage to be realized by implementing this strategy are:

(1). In the short-term it provides stability for the firm.

The major disadvantage in implementing this strategy are:

(1). In the long-term, loss of opportunities due to changes in the marketplace. These opportunities include: (a) loss of potential profits from new product introductions foregone, (b) loss of customers by not repsonding to their needs and (c) loss of market share by not responding to competitive changes.

RESOLUTION

The alternative best suited for implementation is that of Alternative B: Market and Product development. Since ToteWare has positioned itself as a niche player within the soft-sided luggage category, ToteWare must continue to respond to current market trends and changes within its' internal structure.

In reviewing the other alternatives in relation to the selection of Alternative B, Alternative A: Concentration strategy would have allowed for re-investment of ToteWare's resources but it did not allow for growth based on the changes in the marketplace and did not allow management to grow the business based on reacting to changes in the marketplace. Alternative C: Do Nothing would have resulted in short-term maintenance of their current position but would have caused long-term detriment to the company's market position and overall profitability. In essence, this alternative would have ultimately led to the demise of ToteWare.

To implement a Market and Product Development strategy, ToteWare must first develop a program to sell off any inventories related to the After Shave market category. This has to be done before any inventory is purchased for the manufacture of the soft-sided women's business cases. Since ToteWare will not have to expend dollars on captial purchases to manufacture the business cases, the only cost incurred to produce this new product will be $20,000 required for re-tooling of current equipment to be used to manufacture this product. Not only will this save money for ToteWare, it will also allow them to invest the $375,000 which would have been needed to purchase additional machinery to manufacture the new women's business cases. The savings realized by not having to purchase additional machinery can be rolled back into the company for possible future expansion of current or other future products.

Because there are no immediate substitutes for soft-sided business cases within their direct competitive arena, management realizes the price will be inelastic therefore, potential customers will be less sensitive to the price of the product.
ToteWare plans to use market skimming as their pricing strategy. The objective of this

strategy is to establish a high price to secure initial maximum profits. This high price will be lowered at stages as the market for this product begins to expand.

Management plans to launch the new product in March of 1992. Since the luggage industry sales seem to be cyclical in relation to the transportation industry, the new product introduction will be timed with the beginning of the peak travel period for the airline industry. Management also plans to do heavy consumer promotions during this period at an estimated cost of $255,000. The promotions will be targeted at the female business traveler. They are currently working on joint promotional programs with a major airline, current store customers and will implement a manufacturer's agent sweepstakes that will award a prize to the agent or agency who increases sales the most by the selling of the new business cases.

The implementation of this alternative will not require the addition of any staff or personnel. ToteWare does plan to increase its sales force by addidng more manufacturers Sales Representatives. Since these firms are self maintained, the addition of these representatives will not require any additional cost on ToteWare's behalf.

From a financial standpoint, ToteWare has assembled Pro-forma Financial Statements (Appendix A) that show the increase to the business if the planned stategic goals are achieved. ToteWare anticipates an increase in net profits of 18% by 1993 with the addition of the women's business case sales. The expansion into other retail channels will also allow ToteWare to achieve their planned goals (see Figure 4 ToteWare, Inc., Distribution Channels By State). The major factor which could effect planned financial objectives would be considerable increases in the textile industry above what ToteWare management expects will occur. As stated in the industry analysis section, textile profits are expected to be hurt by slower volume, increased raw material prices, and renewed competitive pressures from imports. This would equate to potentially lower sales and profits for ToteWare.

From a distribution standpoint, ToteWare will continue to ship direct to the customer or to customer distribution centers by use of trucks and rail cars. This helps ToteWare maintain a profitable pricing strategy because it eliminates the cost incurred by use of middlemen such as wholesalers, jobbers, etc.

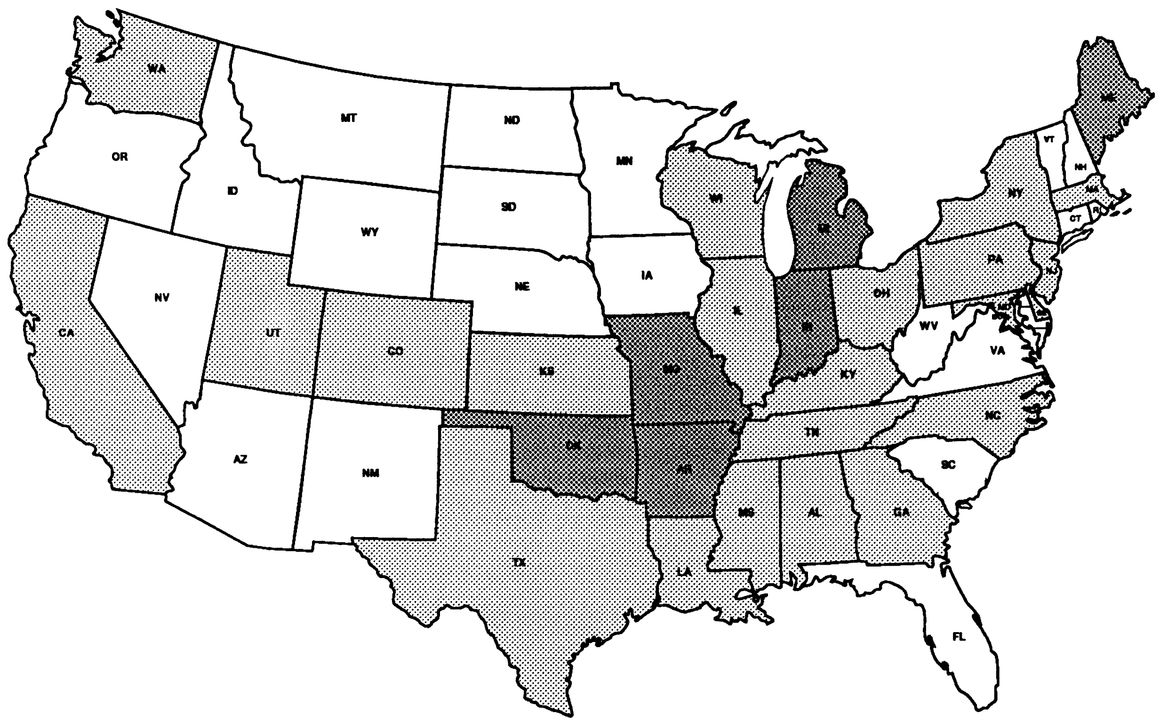


FIGURE 4. ToteWare, Inc., Distribution Channels by State

ToteWare's current customers are located in the areas shaded light gray . With the implementation of their new strategy, ToteWare's management projects they will be able to expand into the areas shaded dark gray due to the addition of manufacturing representatives who currently handle retail and specialty accounts of interest to ToteWare. This would bring the total states served in their distribution channel to 27, an increase of 10% for 1992. The increase in states represent an additional 15 new customers. Seven of these are speciality stores while the remaining eight are new retail accounts.

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APPENDIX A

Pro-Forma Financial Statements

TABLE 8.

ToteWare, Inc.
Pro-Forma Statement of Income
Year Ended December 31

	*1991	*1992	*1993
Sales	$24,027,608.00	$26,505,576.00	$28,360,966.00
Cost of Sales			
Raw materials	$2,402,761.00	$2,650,558.00	$2,836,097.00
Labor	$4,805,522.00	$5,301,115.00	$5,672,193.00
Overhead	$3,363,865.00	$3,710,781.00	$3,970,535.00
Selling cost	$1,331,604.00	$1,468,933.00	$1,571,758.00
R & D	$140,971.00	$155,510.00	$166,395.00
General Administrative	$1,268,220.00	$1,399,011.00	$1,496,942.00
Total	$13,312,943.00	$14,685,908.00	$15,713,920.00
Inc. From Operations	$10,714,665.00	$11,819,668.00	$12,647,046.00
Interest Inc. & Exp.			
Interest Income	$30,660.00	$33,822.00	$36,190.00
Interest Expense	$54,247.00	$59,842.00	$64,030.00
Income Before Taxes	$10,629,758.00	$11,726,004.00	$12,546,826.00
Taxes on Income	$3,528,056.00	$3,891,904.00	$4,164,337.00
Net Inc. After Taxes	$7,101,702.00	$7,834,100.00	$8,382,489.00

***PROJECTED**

Assumptions: The increase of 10% for 1992 is based on the increased profit incurrred by the addition of the women's business cases. The increase in 1993 of 7% is based in projected growth in sales volume of all ToteWare's product lines. Note: ToteWare estimates a 6% growth in profit per year for the next 3 years in the women's business cases.

TABLE 9.

ToteWare, Inc.
Pro-Forma Balance Sheets

	*12/31/91	*12/31/92	*12/31/93
ASSETS			
CURRENT ASSETS:			
CASH	$9,904,273.00	$10,925,701.00	$11,690,500.00
INVESTMENTS	$275,000.00	$303,631.00	$324,596.00
ACCOUNTS RECEIV.	$2,275,000.00	$2,509,621.00	$2,685,294.00
NOTES RECEIV.	$375,000.00	$413,674.00	$442,631.00
INVENTORY	$4,010,000.00	$4,423,551.00	$4,733,200.00
Total Current Assets:	$16,839,273.00	$18,576,178.00	$19,876,221.00
Plant & Equipment			
BUILDING	$943,000.00	$1,040,252.00	$1,113,069.00
OFFICE EQUIPMENT	$35,000.00	$38,610.00	$41,312.00
LEASEHOLD IMPROV.	$27,500.00	$30,336.00	$32,460.00
LESS: ACCUM. DEPREC.	$5,500.00	$6,067.00	$6,492.00
Toal Net Prop. & Equip.:	$1,011,000.00	$1,115,265.00	$1,193,333.00
OTHER ASSETS	$130,000.00	$143,407.00	$153,445.00
TOTAL ASSETS	$17,980,273.00	$19,834,850.00	$21,222,999.00
LIAB. & OWNER EQUITY			
CURRENT LIABILITIES:			
SHORT TERM DEBT	$3,345,000.00	$3,686,970.00	$3,948,268.00
ACCOUNTS PAYABLE	$1,332,245.00	$1,469,639.00	$1,572,514.00
INC. TAXES PAYABLE	$3,528,056.00	$3,891,904.00	$4,164,337.00
ACCRUED LIABILITIES	$575,000.00	$634,300.00	$678,701.00
Total Current Liabilities:	$8,780,301.00	$9,682,813.00	$10,363,820.00
LONG TERM DEBT	$1,589,304.00	$1,753,209.00	$1,875,934.00
TOTAL LIAB.:	$10,369,605.00	$11,436,022.00	$12,239,754.00
OWNER/STOCKHOLDER EQUITY			
COMMON STOCK	$840,000.00	$942,034.00	$1,004,476.00
RETAINED EARNINGS	$6,770,668.00	$7,456,794.00	$7,978,769.00
Total Equity	$7,610,668.00	$8,398,828.00	$8,983,245.00
TOTAL LIAB. & EQUITY:	$17,980,273.00	$19,834,850.00	$21,222,999.00

***Projected**

Assumptions:
1992 & 1993: Increase in current asset section due to anticipated growth in sales and addition of retail and speciality accounts. This would cause increases in cash, accounts receivables, and inventories to accommodate demand in sales.
Liabilities are being estimated high to accommodate increased expenses involving the the increases in the liabiliaties (i.e., increases in accrued expenses and income taxes payable due to increases in income before taxes as a result of increases in revenues).

APPENDIX B

Cost/Benefit Analysis
For New Product Introductions

TABLE 10.

COST/BENEFIT ANALYSIS FOR NEW PRODUCT INTRODUCTION

<u>BENEFITS:</u>	
•Profits from projected Business Case Sales	
(110,770 units @ $16.75 per unit)	$1,855,340.0
(110,770 units @ $4.30 variable cost per unit)	<u>$476,311.0</u>
Gross Contribution Margin	$1,379,029.0
Less: Fixed Cost & Other Expenses Associated with product (Promo cost of $255,000)	<u>$575,732.70</u>
Net Operating Profit	$803,296.30
<u>COST:</u>	
•Cost of declining sales in After Shave Case Category	
(165,708 units @ $7.25 per unit)	$1,201,380.0
(165,708 units @ $1.56 variable cost per unit)	<u>$258,504.00</u>
Gross Contribution Margin	$942,876.00
Less: Fixed Cost & Other Expenses Associated with product (Prior Promo cost $35,000)	<u>$355,753.00</u>
Net Operating Profit	$587,123.00
Benefits less Cost:	**$216,173.30**

<u>*Assumptions:</u> Business Case sales will represent 7% share of product offering. This will replace the 5% share formerly held by the After Shave case category and management feels there will also be a decrease in the Small Zippered Tote category by 2% the first year of soft-sided Business Case sales. As Business Case sales continue, management realizes the Small Zippered Tote category could diminish. However, this does not pose a considerable problem for ToteWare since the primary buyers and users of the Small Zippered Totes were business women who often utilized them for business use.

Note: Benefit Units are derived by annual sales multiplied by per product percentage sales for the year. Projected sales for 1992 are $26,505,576 x 7% (Dollars generated by anticipated sales of Womens Business Case Sales)=$1,855,390.3/16.75 per unit cost=110,770 units. Cost unit sales are based on projected 1991 sales of $24,027,608 multiplied by 5% (After Shave Case sales). Promotion costs are associated with the individual products, not all product categories.

Subtracting cost from benefits shows that ToteWare, Inc. will earn an additional net profit of $216,173.30 the first year of soft-sided Business Case Sales. Taking it a step further by factoring in the annual 3% decline currently being experienced by ToteWare in the After Shave Case Category and and estimated 6% increase per year in the sales of Business Cases, the net profit realized in year two will be projected at $281,991 and for year three a projected $350,166.

Note:
Year Two Projections are calculated as follows: ($803,296.3 x 1.06) - ($587,123 x .97) = $281,991
Year Three Projections are calculated as follows: ($851,494 x 1.06) - ($569,503 x .97) = $350,166