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On the Case.

## SMALL BUSINESS.

# Go big or go boutique?

Jane Walter says she's developed a better baby bottle. Now she has to choose her sales channel



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DEVELOPING A NEW PRODUCT IS AN EXCITING PROCESS. IT'S ESPECIALLY REWARDING WHEN YOU GENERATE EARLY INTEREST FROM PROSPECTIVE CLIENTS. BUT THAT DOESN'T MEAN YOU'VE SCORED A SLAM DUNK. YOU STILL HAVE A LOT OF HEAVY LIFTING TO DO, EVEN WHEN CUSTOMERS

ARE BEATING A PATH TO YOUR DOOR. ASK JANE WALTER. SHE HAS TO CHOOSE WHICH SALES CHANNEL WILL BEST SERVE HER NEW BABY BOTTLE COMPANY IN ITS FIRST YEAR — SMALL BOUTIQUES OR MAJOR RETAIL CHAINS? THE FUTURE OF HER BUSINESS MODEL RESTS ON HER DECISION.



JANE WALTER, founder of Calgary-based organicKidz, was thrilled and apprehensive at the same time. It was Sept. 8, 2008, and she was in the midst of her second day at a major trade show for children's products in Las Vegas. Walter hadn't expected that her company would get in to such an event. OrganicKidz was still in start-up mode, and she'd learned of the Vegas show only a few weeks earlier. But a last-minute cancellation by another vendor created an opening in the otherwise fully booked show. It was a lucky break, and she jumped on it.

Even better, organicKidz had been given space in the trade show's "natural products" section, a perfect fit for Walter's product: a stainless-steel baby bottle that was shatterproof, bacteria-resistant and free of a chemical called BPA, found in plastic baby bottles, which had been drawing fire from government regulators and the public as a potential health risk. Trade show visitors were impressed with Walter's concept, and she was rapidly writing up orders.

But such wide interest from retailers also brought one of Walter's business problems into sharp relief: What form should her distribution strategy ultimately take? Should she establish her market presence and develop her brand through the baby boutique sales channel? The margins would be good, but the overall sales volumes were relatively small. Or should she start big and chase mass merchandisers? Maybe she could do both. But that raised a host of other issues, including

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whether she should try to sell the same product into both channels. Making these questions more urgent was the fact that Walter was writing up orders at a rapid pace during the trade show — even without the benefit of having prototypes on site (they were stuck at customs). And as each potential new client stopped by her booth, the pressure to determine her ultimate sales strategy increased.

Walter came up with the idea for a stainless-steel bottle during a shopping trip the previous June, while gift shopping for a family member who was expecting. New baby bottles were on her list. But while Canada had banned the use of BPA additives in bottles a few months earlier, she couldn't find products that met the new requirements. At that moment, Walter determined that she had spotted a potential business opportunity. Over the next few weeks, she conducted research and focused her concept, coming up with a plan for a company that would sell a range of narrow-necked, stainless steel bottles in various colours. The retail price for each bottle, she estimated, would fall between US\$19 and US\$24.

The fact that Walter came from an entrepreneurial family helped her put her plan into action quickly. Tapping into family connections in China, she was able to locate suppliers who could make bottle moulds and produce prototypes. A few weeks later, she chanced upon the Las Vegas trade show and started calling its manager to see if he could find her a space. Even though she did not receive her prototypes in time to make the opening of the event, the trip was a resounding success.

The main lesson Walter learned in Las Vegas was that she would be dealing with a wide variety of customers once she had her business up and running, based on the orders she had taken. On one end of the spectrum there were independent boutiques, which targeted upscale consumers. Typically owner-operated, these boutiques would be good outlets for Walter's products, and

she could expect to earn relatively high margins. But Walter didn't want to focus on this sector alone. After all, the volumes would be relatively low and servicing boutiques would be time-consuming, as each account would have to be managed independently.

Mass merchandisers presented a whole other level of opportunity, but opening that channel would be demanding. For starters, Walter would need to be able to deliver large volumes of bottles at specific intervals. In addition, the mass retailers reset their product shelves based on annual buying review periods. Miss a review, and a product would have to wait for the next annual review before being considered for listing. Keeping up with such demands wouldn't be feasible for Walter, at least not in her first year of business, due to the working capital requirements to manufacture and deliver product to thousands of stores. That said, Walter had received tempting offers to list her products on a few mass merchandisers' online stores. The volumes required for these online stores could be lower, which seemed like a way to start working with large retailers at a lower level. But Walter worried about how a mass merchandiser customer would price her product. If a key mass account were to deeply discount her product, Walter's prices and margins in the boutique channel would be affected.

Walter's initial strategy was to offer her current lineup to all customers at the same retail price, with the same margins. But she was also toying with the idea of developing a second line of products that were visually different — with limited features and more subdued designs — for the mass merchandise market. Doing so would be difficult, however. She would have to make the bottles less expensively than her main line, as the final retail price would have to be in the US\$12 to US\$15 range. She would have to invest in new moulds and new design work. And she would have to coordinate with her factory contacts in China. It would be an added layer of complexity. And the product would not be ready for at least six months, meaning that she would likely miss the mass merchandisers' review sessions for this year.

At the same time, Walter wondered if she should hold off on taking any listings with mass merchandisers, for now at least, and focus initially on the boutique market. That was an easier route. But, as there were signs that economic turmoil lay ahead in North America, Walter wondered whether she would regret passing on the opportunity to list with a national chain (or even two) at the outset. If she waited a year, that window might close, leaving her with the boutique channel alone — whether she chose it or not.

**“Walter shouldn't build her company around the mass-merchandise channel. Her sector is hyper-competitive”**

INNOVATIVE IDEAS.  
RELEVANT EXPERTISE.

# The Expert View

**By Samuel Leung, CFA**  
Director of Corporate Development  
Monteco Ltd.

MOST START-UPS can only dream of instant demand for their products, so Walter is fortunate. But she needs to focus her distribution strategy. I recommend she concentrate first on the boutique channel, and delay listing with mass merchandisers. Walter's product is new, so she needs to establish its market presence as well as the organicKidz brand. She also faces operational issues (her product is still at the prototype stage). Her business should be running smoothly before she starts selling into high-volume, low-margin channels.

Walter worries that she might lose an opportunity if she doesn't list with a mass merchandiser right away. But I don't see much risk. Being a first mover should help her defend against future competitors. Furthermore, selling to higher-end boutiques, whose customers are more likely to be trendsetters, should improve her chances of garnering a loyal following and staving off other competition.

Finally, when Walter moves into the mass market, she should do so with an "economy" line, so that she does not cannibalize her high-margin boutique sales. She can build the working capital to develop her second line with income from boutique sales. She could also approach her manufacturer with a cost-sharing agreement for the second line, given that success would mean higher revenue for both firms. In addition, she should hire junior sales staff or independent sales reps to manage the boutique channel, once it is established. This will help her focus on the demands of the mass-merchandise channel when the time comes.

**By Brian Edgeworth**  
Co-Owner/Founder  
Pediped Footwear

WALTER PROBABLY SHOULDN'T build her company around the mass-merchandise channel. The children's consumer-product industry is hyper-competitive, and I'm not sure organicKidz can compete at that level. I base my conclusion on a cursory review of the company, using the Porter Five Forces model to determine a business's viability.

Here's a summary of my thoughts. (1) Consumer Power: National chains will want proof that Walter can provide required quantities. She'll need strong financial backing and an infrastructure to support UPC labeling and EDI for ordering and shipping. (2) Supplier Power: Walter's initial orders will be small, so she won't be that important to her suppliers. She won't have much power to ensure quality or timely delivery. (3) Barriers to Entry: It's not hard to find suppliers who'll make stainless-steel bottles at modest prices. If Walter's concept is viable, expect a lot of competition. (4 & 5) Threat of Substitution and Competitors: Walter faces major, entrenched competitors in firms like Evenflo and Avent. They'll be promoting BPA-free plastic products. Unless consumers perceive those products as unsafe, it will be hard for Walter to take market share away from the convenience of plastic.

Considering the factors above, I suggest Walter build her business, and more importantly, her brand name, in the boutique channel. As the brand develops, she can introduce new products. The boutique channel is large, 2,500 stores. If Walter is driven and believes in her products, hurdles can be overcome.

# The Outcome

WHEN WALTER officially launched organicKidz in September 2008, she decided that she didn't yet have everything she needed to do business with mass merchandisers. The demands of serving such clients — not to mention the cost of creating a whole new product line for them — appeared too complex for a start-up firm.

Instead, Walter set her sites on the boutique channel, where she could build her brand, earn good margins and start accumulating capital reserves to fund her eventual entry into mass retail.

Despite the severe economic downturn of the past year, organicKidz bottles gained momentum, and Walter built up a list of client stores in 12 countries. She also invested in developing a second line of products that are designed specifically for mass-market retailers — thus eliminating any risk that a mass-market version of her bottles would cannibalize boutique sales. Walter launched a second product line in September 2009, exactly a year after she launched her company. **FP**

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