

EASYWOOD FURNITURE

Market entry
Consumer goods

Low difficulty
Interviewer-led case

This case discusses the option to enter the coffin market in Germany. It covers all elements of the case interview scorecard.

Problem definition

Our client, Easywood, is a bedroom furniture maker serving Germany. Last year, Easywood had revenues of around \$20m and operating profit margins of around 20%. Easywood is not concerned about growth and profitability in the long term, but they are worried about cyclical in the business.

Business is good during sales times, but other times can be quite slow.

The CEO is considering entering the coffin market. He wants your opinion on whether this would be a good idea for Easywood.

Should Easywood enter the market for coffins?

Additional information

If asked, please share that the client's objective is to find an additional source of revenue and profits that has more stability throughout the year than their core business

Question 1 (Structuring)

How would you structure your approach to the question?

Possible answer

1. *Is the coffin market attractive?*
 - a. *Is it big enough?*
 - b. *Is it profitable?*
 - c. *Does it have stable demand (i.e. no strong seasonality)?*

2. *How much profit could Easywood make?*
 - a. *What is the expected revenue?*
 - *How many coffins can Easywood expect to sell per year (i.e., share of the market)?*
 - *What price would the market tolerate?*
 - b. *What are the expected costs?*
 - *Variable costs: materials, labour, transport, etc.*
 - *Fixed costs: machinery, warehousing, etc.*

3. *What risks should we be aware of?*
 - a. *Strategic alignment/effect on brand. Are consumers reluctant to buy a bedroom set from a brand associated with coffins? Or, positively, do some consumers like the literal cradle-to-grave brand association?*
 - b. *Operational capabilities*
 - c. *Opportunity cost – are there better alternative investments?*

Question 2 (Numeracy)

What do you expect the total value of the coffin market to be in Germany?

Additional information

If asked, please share the following information:

- Total population in Germany = 80 million
- Average life expectancy = 80 years
- % of people using coffins: No data - a reasonable assumption can be made
- Average price of the coffin = \$1,000

Once the candidate has completed their market sizing, ask an additional question: "Which of the assumptions in your market sizing are you least sure of, and could have the biggest impact on our assessment?" The answer should be either:

- The % using coffins instead of cremation without coffin (especially if they made a high % assumption)
- The evenly-distributed population, since in reality populations skew towards older demographics in Germany – affecting the estimate for # deaths per year

Possible answer

Life expectancy is 80 years. No. of people dying per year = 80 million / 80 years = 1 million

*No. of people who have a coffin burial, as opposed to cremation without coffin: assumption at 80%. $80\% * 1 \text{ million} = 800,000$*

*Given a price of a coffin at \$1,000, the total value of the market = $\$1,000 * 800,000 = \800 million*

Given the client has a current revenue of \$20 million per year, a market size of \$800m seems potentially attractive.

Question 3 (Judgement & Insights)

What other data points would you need to determine the attractiveness of the coffin market?

Possible answer

- *Competitive landscape – is there one large competitor or are there numerous small ones?*
- *Profitability of the current players – is it a high margin market?*
- *Market trends – is the market growing?*
- *Barriers to entry – do current players have long-term contracts with distributors, for example?*

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Question 4 (Judgement & insight)

We've gathered the following data about the competitive landscape [share Exhibit 1].

What does this tell you about the attractiveness of this market? Beyond the exhibit, what else might make this market attractive for Easywood?

Possible answer

Based on our previous estimate of coffin sales, it looks like these three players comprise the total market. The market is therefore quite concentrated. It's likely scale in this market provides economic advantages, though given the client's existing size this could be surmounted.

From a profitability standpoint, the market does look attractive: All players are more profitable than Easywood's current profit margin of 20%. This appears to be a high-margin industry.

Beyond the exhibit, it's unlikely that the market for coffins exhibits dramatic seasonality – we would expect death rates to be relatively stable throughout the year, though there may be some limited variation (e.g. due to weather).

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Exhibit 1: Competitors in the coffin market

	Coffins sold (million)	Price per coffin (\$)	Profit Margin (%)
Player 1	0.45	1000	30
Player 2	0.175	1,200	35
Player 3	0.175	800	25

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Question 5 (Creativity)

What factors should Easywood consider in assessing the feasibility of entering this market?

Possible answer

Economic factors

- *Does Easywood have the required capital to invest in the new business?*
- *Are there really synergies between bedroom furniture and coffin making? Can we produce the latter economically, leveraging our existing capability?*
- *If Easywood gains further scale from this expansion, will it reduce their costs of materials more broadly (e.g., volume discounts on wood)?*

Non-economic factors

- *Does Easywood have the knowledge and capability to make and sell coffins?*
- *Where should Easywood position themselves in the market, i.e. mass market vs high-end?*
- *Are relationships with morticians required to sell coffins, or do consumers seek them out on their own?*
- *How will this new business venture affect Easywood's brand and reputation?*
- *Do Easywood staff have the capacity to take on the extra work and manage a second area of business?*

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Question 6 (Judgement & Insight)

It turns out that the client does have the financial capital and capabilities to enter this market. However, the client has an additional concern regarding the effect entering this market might have on their brand, given the importance of their core furniture offering.

How would you solve for this?

Additional information

- The interviewer should keep probing until the candidate states the idea of creating a separate brand

Possible answer

We could try various approaches to reduce the risk of a negative association with the brand, such as using our PR relationships to downplay coverage of the new business.

*In practice, however, Easywood should create a new, separate spin-off brand specifically for **the coffin** aspect of the business. While this would require some up-front investment, it allows us to **promote the new coffin business** without compromising the core brand.*

Question 7 (Synthesis)

What is your final recommendation for Easywood?

Possible answer

We were asked whether Easywood should enter the market for coffins. I recommend that they do so, for the following reasons:

- *Coffins is a \$800M with a profitability in excess of 20% in the industry. Capturing even 5% of this market would triple Easywood's current revenues of \$20M*
- *The market is likely to have stable, rather than seasonal, demand. This was a core priority for the client.*
- *Operational feasibility does not look like a concern, given Easywood's expertise in making and selling furniture.*

We should launch a separate brand to enter this market, to avoid any negative impact to our core furniture offering.

If we had more time, I would want to consider options for how Easywood could differentiate its brand in the coffin market, to compete against the major players, and understand the role morticians play in selling coffins to consumers.



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