



Rideau Artisanal Chandlery:

Online, Offline or Bust?

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It is based on publicly available information and conversations with former managers in the industry.

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The Rideau Artisanal Chandlery (RAC), located in Westport, Ontario, had grown from its founding in 1992 to being the largest manufacturer of artisanal candles in Canada by 2016. Johanna Perkins, the founder and owner of RAC, had graduated from Queen's in the late 1980s. She had always been fascinated with persistent popularity of candles despite the electrification of her country for more than 100 years. From a small shop serving local tourists in Westport, RAC had grown to more than \$20 million in sales. Products were distributed through specialty stores such as Bed Bath and Beyond, Home Sense, Marshall, and Williams-Sonoma in Canada and the North-Eastern USA.

Its offerings consisted of standard and citronella candles.¹ Both product types were offered in a variety of scents (see Exhibit A), with Lavender, Vanilla Getaway and Morning Spice being the most popular. The disparity in sales across the scents was high: according to Johanna, 20% of RAC's scents accounted for more than 80% of RAC's profit. Nevertheless, new innovative scents were what distinguished RAC from its key competitors (Crandall Candles of Ottawa and Lighthouse Wax Limited of Antigonish). Not only did new scents keep RAC top-of-mind with distributors, they brought new customers into the artisanal candle market.

Typically, candles were distributed in boxes of six (jar, pillar, taper and votive) and the costs to manufacture were relatively similar for all styles of candles (approximately \$4.45 per box in variable costs, and \$5.50 after allocating fixed costs). RAC's pricing to its distributors was \$8.00 per box (on average), and its candles typically retailed at \$16.00 per box.

Axel Campbell, formerly of P&G, was the Sales and Marketing Director of RAC. In early July 2016, he and Oleg Fetisov, Johanna's husband, argued vociferously about pricing in RAC's new online store. RAC Online had been set up under her guidance by her web designer husband in January 2016. Consumers could order candles direct from RAC at the following prices for a standard six-candle box.

	Traditional	RAC Online
Variable Cost per Box	4.45	4.45
Fully Allocated Cost per Box	5.50	5.50
Wholesale Price*	8.00	n/a
Shipping Cost per Box	n/a	2.50
Retailer Margin	8.00	n/a
Price to the Consumer	16.00	14.00
Profit per Box	\$3.50	\$6.00

*Retailers were responsible for shipping costs from Westport to their shops.

Axel was furious about the price discrepancy between the traditional retail channel and RAC Online. He felt that Oleg's initiative made life impossible for his sales people, who claimed that it was cannibalizing sales from traditional channels. These accounted for 90% of RAC sales, but volume growth flattened in the second quarter of 2016. While RAC Online represented a mere 10% of RAC sales, it accounted for more than 14% of its profit, and volume growth was approximately 15% per month.

1 Citronella candles were an important segment of the candle market in Canada, particularly in the summer months in regions with severe mosquito problems.

Oleg suggested that within two years RAC would be almost entirely an “online play” – and why not? With profit per box that was 71% per higher (\$2.50 per box), RAC would be significantly more profitable if all its sales were online.

Johanna understood Oleg’s argument but had her doubts. The importance of having a channel where consumers could experience new scents seemed critical to introducing newbies (people who had never tried artisanal candles) to the pleasure of naturally-scented artisanal candles. Partnering with distributors to launch new flavours was especially attractive during holiday seasons. Shopper research showed that attractive scents “in store” increased the size of the customer’s shopping basket, even without accounting for the value of increased sales of candles.

But Oleg was protective of his digital creation. He argued that sales data from the online store provided precise and immediate feedback on the sales performance of major scents. Not only could sales dips be spotted quickly, each scent could be analyzed for profitability so that marketing efforts could be maximized behind the most popular scents.

Johanna agreed that controlling the ‘interface’ with consumers had become increasingly important for companies to collect data and gain customer insight. Still, she was not convinced that all relevant data could be gained from RAC online. In late 2016, negotiations started with Home Sense, a key distributor. The basic idea was that Home Sense would share information in return for promotional pricing around key holidays such as Thanksgiving, Christmas and Valentine’s Day. Home Sense proposed to provide RAC with detailed monthly sales information on the entire artisanal candle category *by store*.

Johanna felt that this information would be helpful to understand trends in the marketplace as well as competitor performance. Promotional pricing would reduce profit per box by 50 cents for the holidays, but RAC had almost no information on how its competitors were performing. As Axel repeatedly reminded her, “It’s not like AC Nielsen is going to call tomorrow and offer us sales data on the artisanal candle category.” Since the launch of RAC Online, the strong initial interest shown by Home Sense seemed to have waned. Axel felt this was not by coincidence.

Oleg believed that his online store represented the start of an online artisanal candle community. On the RAC website, a community forum had more than 450 members and a feedback blog for RAC products. Oleg proposed that RAC Online be used as a source of advertising revenue. Why not solicit advertising from manufacturers of candle accessories, decorative table items, holiday accessories, and patio and terrace lights? Clearly, people who purchased artisanal candles were high-potential consumers of these items.

Axel listened, but with only six sales representatives for the entire country, how could they possibly find time to sell online advertising?

Johanna needed to resolve these issues quickly. The conflict between Axel and Oleg was making the atmosphere at RAC unpleasant. But even more important, Johanna always had reservations about having her husband work at RAC. Now she was in the difficult position of having to deal with him as a subordinate in the workplace and as an equal at home.

Exhibit A
RAC Best-Selling Candle Scents

1. Lavender – smells like flowers in the spring.
2. Vanilla Getaway – original flavor candle that is roasted
3. Morning Spice – berries infused with pears and spice
4. Rose Passion – roses with strong musk.
5. Mulberry Bush – aromatic and tart
6. Blackberry Cilantro – sweet blackberry with hints of coriander
7. Almond Creme –almond creme sweet candy-coated vanilla
8. French Garden – fresh acacia
9. Fruit Salad – peach, strawberry, raspberry, cherry, orange
10. Jasmine – jasmine and roses
11. Strawberry – strawberry, honey and vanilla
12. Sandalwood –sandalwood, cedar and maple
13. Green Tea – green tea and jasmine
14. Lilac – spring forest and lily of the valley
15. Pine Forest – pine needles and roast hickory

RAC has more than 50 scents available for sale. The list above shows the 15 best-selling scents.