

Groupe Bikini Village

ADMN 404: Assignment 3

Executive Summary

Groupe Bikini Village is a leader in swimsuit and beach accessory retailing in Eastern Canada. The company was founded in 1978 and has 57 stores that are mostly situated throughout Quebec and Ontario. The stores are located in convenient mall locations and they sell swimwear all year round. The company has made some much needed improvements lately to overall company efficiency and has upgraded their inventory system but still has a long way to go before they reach profitability and stock price levels of 5 years ago.

The analysis of the external environment reveals that the highest competitive force in the industry is rivalry among competitors which then spawns high bargain power in consumer buying groups. Barriers to entry for new competitors are at a medium level and bargaining power of suppliers and threats of substitutes are low. When analyzing the macro environment, several opportunities are available in the industry. The most important ones include; growth in the Canadian economy, more discretionary spending by men and the coming of age of the “echo boom” demographic. The major macro threat is the ever changing trends in the fashion industry.

The internal strengths of the company are offering superior quality product, superior service and efficient distribution and inventory systems. The company’s weaknesses are that they still have to finish renovating the rest of their stores, a low current ratio and seasonality of their sales.

The 3 strategic alternatives in this report are a geographical expansion strategy and 2 product expansion strategies with one focusing on expanding the men’s line and bringing in a sunglasses line while the other will expand into winter accessories.

The product expansion with focus on men’s line and sunglasses is the recommendation of this report. Implementation includes renovating all stores, finding suppliers, marketing the new products and finding display areas.

Introduction / Company Overview

Groupe Bikini Village is a leader in swimsuit and beach accessory retailing in Eastern Canada. The company was founded in 1978 and has 57 stores that are mostly situated throughout Quebec and Ontario. The company has three separate banners that its stores are branded under; Bikini Village, Ocean Bikini Village and Lanai. Since the overwhelming majority of its stores are under the Bikini Village brand, this report will focus on it. The company carries very popular swimsuit brands such as Roxy, Bodyglove and Quicksilver as well as its own line of products. The stores are located in convenient mall locations and they sell swimwear all year round. The company is currently listed on the TSX and as of the time of this report it is trading at \$5.36 per share. GBV has made some much needed improvements lately to overall company efficiency and upgraded inventory system which has shown favourably on the company’s most recent income statement. The company still has a long way to go to get back to the days that its stock traded at around \$20 dollars a share. The industry is very competitive with numerous independent stores, chains and department stores all selling swimwear. The company must keep

innovating its strategy to stay on top of the industry and return to the days of significantly higher profitability.

This report will analyze the internal and external environments of the swim suit and accessories industry. It will also propose several viable options for the company to consider. It will conclude with the best possible strategic recommendation as well as thorough implementation plan.

The financial statements for the year ending Jan. 31, 2011 were used exclusively in this report because the current financial statements for GBV have not yet been released.

Mandate

After thoroughly looking through the financial reports and the company's website (Website), this report has come to the conclusion that BVG does not have a published mission statement. The company's mission statement should be to provide a convenient place to purchase swimsuits and accessories that are fashionable and of superior quality. The company's focus on service and differentiation will help maintain its status as a leader in the industry.

BVG lists the following as its future goals:

- To continue building perception of our stores as shopping destinations.
- To maintain our strategy to reduce the size of our stores: smaller stores reinforce the "destination" status, and we can immediately re-invest occupancy cost savings in value creating initiatives. To choose only those suppliers/brand owners who proactively manage their brands' distribution, and are firmly committed to supporting their brands' value and prolonging their life cycles.
- To raise brand owners' awareness of the importance of a targeted distribution, in terms of both strengthening their own brands and preparing for increasing competition from vertically integrated challengers promoting their own brands. (Financial Statements)

It is evident by the company's goals that maintaining the best possible overall experience for the customer is the key to their success. The stores have to be conveniently located, have the best brands and have excellent customer service.

The company doesn't publish any core values or guiding principles but essential core values would integrity, quality, teamwork, responsibility and community. To have loyal consumers you need to develop integrity and trust. A passionate and responsible team that works in harmony is essential to any business. Since it's the community that buys the products in order for the company to stay in business it is very important that all companies do their part and give back to their communities.

As with any company listed on the TSX or any stock exchange for that matter, the most important stakeholders are the shareholders. They are technically the owners of the company and the company would not exist without their investment. In order for the shareholders to receive maximum return on their investment, it is important other stakeholders such as customers, suppliers, creditors, employees

and communities are being properly valued. All the stakeholders are in an integrated web and it only takes one group to be mistreated in order to start a domino effect that will end with reduced profits.

External Analysis

Competitive Forces

The swimsuit and beach accessory segment of the clothing industry is very competitive. There are numerous competitors that include independent stores, chains and department stores. GBV currently sees themselves in as a leader amongst its competition because of their specific strategy of only focusing on this segment.

The barriers to entry can be categorized as medium into the swimsuit and beach accessory segment. Opening a single location can still take a large sum of capital but may not be as much as average person would think. BVG spent 1.7M last year on renovating its distribution centre and opening 4 new stores. Even if the renovations were not considered, that leaves costs of around 400 thousand to open a BVG style store. Of course, this does not include investments made into marketing, distribution and inventory but it places the capital intensity in the medium category. Also any current functioning store can add a swim suit and beach accessory line for a relatively medium cost. Obviously it is much easier to open one independent store rather than opening a whole chain that could directly compete against a segment leader such as BVG.

As mentioned in the opening of this section, competition among the rivaling companies is very high in this industry. BVG's main competitors are chain companies such as Sports Check, Boathouse and West 49 but they also face competition from independent stores and department stores like Sears, Bay, etc. There is also the rising trend of outlet malls uprising in Quebec and Ontario (Outlet Malls) where customers can buy directly from name brand manufacturers such as Nike, Adidas or Nautica. There is also more competition from a new online trend, where people can go to websites such as <http://www.chynnadolls.com> and design their own swimsuits. With all the options available to a consumer to buy a swimsuit, it is clear the rivalry among competitors is extremely high.

One person doesn't have a lot of buying power individually but as seen in the above section they do have a lot options. As is the case the consumer goods industry, as a group, consumers have very large buying power. This buying power makes the industry very susceptible to changing fashion trends, perceived quality and price. If any three of those factors are not on point, a company can lose a lot of sales in this industry very quickly. Therefore when buying power is viewed in segments of consumers, it can be considered very high in the swimsuit and beach accessories segment.

The threats of substitutes and bargaining power of suppliers are both quite low. There really isn't a substitute for swimwear; therefore it can't be anything but low. The suppliers on the other hand want to sell their products in stores such as BVG because the store solely focuses on selling swimwear and rarely sells of inventory at discount prices. This allows the suppliers products to maintain high brand quality perception and they get full price for their merchandise.

The relatively highest force in the industry is rivalry among competitors which then spawns high bargain power of consumer buying groups. Barriers to entry for new competitors are at a medium level and bargaining power of suppliers and threats of substitutes are low.

Macro Environment

There are numerous macro environmental forces that are affecting the swimsuit / accessories segment. The most important ones are macroeconomic factors such as consumer discretionary spending and social forces which factor in new styles and trends. Demographic forces are also important because the baby boomer's children are at an age where they are doing a lot of discretionary spending.

Just recently Canada overcame an economic recession but even now conditions are improving the country isn't back to growing at its optimal rate just yet. Discretionary spending on such things as swimsuits is usually one of the segments to rebound last after recession. However companies such as GBV have shown growth in sales in 2010 compared to the recessionary year of 2009.

Social forces are very important especially in a segment of the fashion industry. Trends and styles are constantly changing and companies that want to be successful have to react quickly to these changes. Another changing social trend is that men are caring more and more about their appearance (Men care). It only makes sense that this trend which is already evident in hygienic goods and clothing will trickle its way to down into the swimsuit segment.

A very important demographic is coming of age, the "echo boom" generation. The demographic is made up of the children of the baby boomers and they already make up a third of the US population (Leung, 2011). This group spends around a 170 billion in the US and its mostly on discretionary items (Leung, 2011). Canada is demographically very comparable to the US; therefore the aforementioned data creates huge opportunities for companies in the swimsuit segment.

By analyzing the macro environmental forces, numerous opportunities for companies in the industry have been unveiled. This includes growth in the Canadian economy, more discretionary spending by men and the coming of age of the "echo boom" demographic. A definite threat in the industry is changing of fashion trends; if companies don't stay on top of these changes they can lose a lot of sales very quickly.

Internal Analysis

GBV's main competitive advantage is one of differentiation rather than low cost. Their products aren't cheap, they can actually be classified as expensive in the swimsuit / accessories segment. The company is able to sell their products at a higher price because they build around the blocks of superior quality, efficiency, innovation and customer responsiveness.

The purchase experience of that perfect swimsuit can be one of frustration. Customers look for something that is fashionable but also high in quality and most importantly it needs to fit perfectly. GBV offers convenient mall locations that have friendly atmospheres and are very well lit. The company only

chooses suppliers / brands that proactively manage their brand distribution and fully support their brands value (Financial Statement). This means you won't find discount brands on display at GBV but rather brands such as Roxy, Body Glove and Quicksilver which are known to closely follow fashion trends while keeping quality high on items at the same time. The service received from the staff is another very important element in this industry. If customers are going to spend more money on a certain product, they definitely expect a higher level service. GBV does not disappoint by having informed customer service representatives who can give personalized care to each customer, this personalized service is a bi-product of having smaller stores that specifically focus on a small industry segment. There is also an expectation when walking into a specialty store that they will have all sizes available. GBV has been focusing a superior inventory system that allows them to keep up with all trendy sales and have a very wide range of sizes of their entire product on hand. The company is also doing a good job renovating existing stores and opening new ones with a strategy of focusing on smaller locations that are brightly lit and inviting. But 33% of the company's stores still haven't undergone these renovations and the company needs to finish them so that a concise brand image can be maintained throughout all of its locations.

Superior efficiency is another very important building block for any company in the retail industry. GBV has made it a strategic goal to become more efficient by applying tighter controls on direct and indirect expenses by investing money into better inventory control management (Financial Statement). These strategies seem to be working as net earnings as a percentage of sales have drastically increased from - 3.6% in 2009 to 0.9% in 2010 (Financial Statement). The improved inventory control system which benefited from a needed renovation to the distribution centre has substantially increased the full price sales and company takes in the biggest profit margin on these products. These efficiency improvements also go hand in hand with the superior quality building block as the improved inventory system has allowed all products and sizes to be available to customers. GBV also closed 4 underperforming stores in the fiscal year ending Jan 21, 11, by closing underperforming locations this not only improves the overall efficiency of the company but also allows the company to reinvest that money into superior performing locations.

Companies that are in the fashion retail industry have to be always concerned about innovation. Always innovating ones product is a necessary building block or a company won't last, especially if they are in the business of selling differentiated products. GBV has good buyers and good working relationships with its suppliers to buy whatever is fashionable at the time. The company has also invested money into improving their distribution centre and inventory management systems.

The superior customer service responsiveness building block has pretty much been covered in the analysis of the 3 aforementioned blocks. Customers in this industry mostly respond to trends in superior service. Customer satisfaction is closely monitored by BGV and the company is constantly working on upgrading its customized service.

Clearly BGV has numerous strengths, a lot of them have been analyzed in the building blocks analysis done up above. The most vital ones for the company to be able to sustain and thrive in this industry are to offer superior quality and trendy products, offer superior overall service that consists of having friendly

staff to having inviting store fronts, having an efficient distribution and inventory systems and to keep innovating and pay attention to new fashion trends. The company has to maintain and build on these strengths, if it wants to maintain its differentiation strategy.

BVG has been working hard as of late to try to fix some its weakness. As mentioned in the analysis the company has taken some significant strides but it still has some ways to go. Currently the company's stock is trading at \$5.36 this is an improvement from last year when it trade at around \$4.50 but still it is far removed from the \$20.00 range it traded at 5 years ago. As mentioned in the analysis above, 33% of stores still haven't been renovated; this is definitely a weakness for the company. Also looking at the balance sheet, the company has some significant current debt of around 6 million, with cash and cash equivalents of around 6 million as well (Financial Statements); this only puts the company's current ratio at around 1 which is risky territory as far liquidity ratios go. Another company weakness is the seasonality of their sales; lease payments have to be made on a consistent basis but most of the company's revenue comes in the second and fourth quarters. This can create cash flow problems and liquidity issues in the future.

Strategic Options

There are 3 different strategic options that can be pursued by GBV. In all 3 options it is recommended that the 33% of stores that are not currently renovated either be renovated within the next 2 years or chosen or be shut down. Also all stores should be evaluated on a year to year basis and those not performing up to a high efficient standard should be closed as well. The 3 strategic options are a geographical expansion strategy and 2 different product expansion strategies with one focusing on expanding the men's line and bringing in a sunglasses line while the other will expand into winter accessories.

Geographical Expansion

This strategy is based on the facts that BGV has a strong distribution centre, brand name and inventory system along with strong managerial expertise to make everything run smoothly.

Geographical Expansion
Arenas
Reach more customers by opening more stores in the eastern Canadian Market
Vehicles
By leasing more store strategically located store fronts in mall locations.
Differentiators
Use current strategy of differentiation, image and customization and apply it to more stores.
Staging
Immediately look for expansion locations with the goal of opening around 4 new stores per year.
Economic Logic
Sales will increase if there are more locations selling the company's current product.
Pros
- Distribution centre already in place. - Existing expertise in management of current stores. - Large economies of scale give higher bargaining power against suppliers.
Cons
- Doesn't eliminate the trend of seasonal sales - Not a lot money available for expansion purposes

This takes BGV's already successful formula and expands its storefronts throughout Eastern Canada. The more efficient income producing stores BGV has in its cavalry, the more profit the company can expect to make. The company should immediately look for expansion stores and they should have similar convenient mall locations as their most profitable stores. The goal for this expansion strategy is to add 4 new store fronts every year.

As seen in the aforementioned internal analysis, BGV is already very strong in selling differentiated products. This strategy allows the company to continue with that strategy but at a larger scope. Customers are very familiar with BGV brand names and this strategy will make more locations available for these customer's convenience and more successful stores equals more sales. This strategy will be easy to execute

because the distribution centre is already in place and freshly renovated. Management already has the expertise to execute this strategy and the economies of scale will give management even higher bargaining power with their suppliers. However, there are two main issues with this strategy going forward; the first being that the seasonality effect will not be eliminated. The second being that company doesn't have a lot of money available for expansion, as was mentioned in the internal analysis the current ratio is already at a low figure of around 1.

Product Expansion – Men / Sunglasses

The second strategy entails keeping the current number of stores the same number for the time being but generating more sales on a per store basis.

This product expansion strategy will have two separate steps; the first is to bring in more products that appeal to men. Currently BVG stocks about 75% of women's products comparing to only 25% men's. In the external analysis it was revealed that men are starting to spend more money on appearance and BVG should take advantage of this trend and adjust their inventory accordingly. The second product line the company would expand into is sunglasses. Sunglasses tie in nicely with the beach themed accessories that the company already sells and there is a very high profit margin to be made. The company should immediately start contacting its current and new suppliers to inquire about the new products and have them on the store shelves as soon possible.

Costumers that buy higher end swimwear and accessories look for similar attributes when they buy sunglasses. They want a differentiated product that is fashionable and high in quality. This already is in

Arenas
Reach more customers with the current store locations by expanding product lines such as more men's products and sunglasses.
Vehicles
Work with current suppliers to expand men's product line. Develop new relationships with suppliers to bring in sunglass lines.
Differentiators
Use current strategy of differentiation, image and customization and apply it to expanded product line.
Staging
Immediately contact current and new suppliers and work on expanding the line as soon as possible.
Economic Logic
Sales will increase with more available product lines plus the sunglasses line will slightly lessen the seasonal impact of sales.
Pros
- Distribution centre already in place - The sunglasses line will bring in higher margin product into the store - Leverage high end brand status to sell a wider variety of product
Cons
- Not a lot room in the stores for more product - Not a lot money available for extra product line inventory

the realm of BVG's expertise making the transition to also selling sunglasses an easy one. With this strategy a store can increase its sales by having expanded merchandise which will equal to higher profits.

The main pro from this strategy is the company can leverage its existing strengths of distribution, brand image and service expertise to expand an existing line and sell a new line. The negatives being that the company is already focused on using smaller store fronts, which may limit the amount of new inventory that they can expand. Also there are some upfront costs to buying new inventory and the company isn't super cash rich right now.

Product Expansion – Winter Accessories

The second product expansion strategy is very similar to the first except instead of expanding into more men's swimsuits and sunglasses, it's an expansion in winter accessories. The arenas, vehicles, differentiators and economic logic stay exactly the same except it's a different product in the expansion strategy. The store will be able to sell winter accessories such as hats, gloves, snowboarding goggles and other winter miscellaneous items. These products will only be featured during the fall and winter seasons and all other regular BVG products will remain on sale during that time. BVG will have to immediately contact suppliers of these winter accessories and work out distributorship for this upcoming fall and winter season.

The biggest advantage of this strategy is that BVG's sales would flatten out significantly and become a lot less seasonal in nature. The company pays high lease payments on a month to month basis and this would help avoid any cash flow problems. The biggest drawback with this strategy is that it doesn't work with the company's current branding. The company's Bikini Village brand makes people focus on swimwear and beach accessories, if winter wear were added into the mix this would be very confusing for consumers.

Product Expansion – Winter Accessories
Arenas
Reach more customers with the current store locations by expanding product lines by selling winter accessories.
Vehicles
Develop new relationships with suppliers of winter accessories.
Differentiators
Use current strategy of differentiation, image and customization and apply it to expanded product line.
Staging
Immediately contact current and new suppliers and work on expanding the line for the upcoming 2012/13 fall winter season.
Economic Logic
Seasonal sales will flatten and overall sales will increase by giving customers options for the winter season while still maintaining the swimsuit line throughout the year.
Pros
- Distribution centre already in place - Sales will be distributed more evenly throughout the year. - Leverage high end brand status to sell a wider variety of product.
Cons
- Not a lot room in the stores for more product - Not a lot money available for extra product line inventory - Selling winter accessories does not flow very well when stores are branded as bikini village

Recommendation and Implementation

The chosen recommendation of this report is to go with the product expansion strategy that focuses on the men's line and sunglasses. This strategy was chosen over the other two because the company doesn't have enough cash right now to open up 4 new stores a year and the company has to focus on making its current stores more profitable before it should geographically expand. The product expansion strategy focusing on winter accessories was also heavily considered but in the end it was decided it would cost too much money to rebrand the company and is not an extreme action that needs to be taken at this time.

As it was stated in the strategic options section, one of the first priorities in all the strategies was to finish the renovations on all the remaining stores or decide to shut them down. It is essential that this is made a priority for GBV because brand consistency is very important. Once a customer attains a certain experience or level of customer service they will expect that same experience when they walk into any GBV location. The focus of this strategy is to increase sales and efficiency on a per store basis and eliminating underperforming stores is the vital first step.

The implementation of adding more men's product to BVG's current line will be the easier portion of the expansion strategy. Management already has a lot of experience and relationships with suppliers for buying men's swimwear and accessories; they just now have to do it at a larger scope. The new product line will have to be added to the company's website (Website) as currently it features mostly women's styles.

The implementation of adding a line of sunglasses will be a lot more complicated. First management has to do significant research about what types of glasses it wants to carry. The brands should be coordinated with the company's business model of selling differentiated products. Brands such as Ray-bans, Oakley and Bolle fit nicely with the company's current line of products. Next, GBV needs to search out the distributors for these glasses and work out similar arrangements that the company already has with its swimsuit apparel. Each store should have a specific section laid out for sunglasses. Once this is in place, GBV needs to come up with a new marketing strategy to announce to its customers that they now sell sunglasses. The products should definitely be featured on the company's website along with flyer advertising. Another way to reach the "eco boomers" consumers is through social media. The company currently doesn't have a Facebook page and they're missing out on a key medium that targets their specific market. Once a page is complete, they can start a campaign that gives consumers a chance to draw a free pair of designer sunglasses, if they like the company's page. This is an easy and inexpensive campaign but can be very successful and get the word out that BVG is now selling sunglasses.

As with any new strategy numerous things can go wrong at any point but the main two problems BVG may have implementing this strategy are that they don't have enough money or store space. Renovating stores and adding new product lines can take a lot of cash initially, especially if they're dealing with a lot of stores. When working out initial inventory contracts for the new lines the company could try to work out credit arrangements with its suppliers. This is fairly common practice in the industry and BVG can show a history of good faith payments throughout the years it has been in business. If that doesn't work there are always other ways to attain more money. The company could take out more short term bank loans to get them through that initial inventory purchase and be able to pay them back once the

inventory starts selling. They could also issue bonds which means they wouldn't have to pay back the principle for at least 10 years (assuming 10 year maturation) but will have to make semiannual interest payments. The last option is to issue even more stock, the company just issued shares within the year and they might not want to dilute the value of their shares even further but it is another option. The problem with not having enough floor space for the new product lines might force management to get creative. If needed, new efficient shelving can be installed to hold all the product lines. The inventory system has to become even more essential because large quantities of product might not be able to be kept at each store's location. It is with the outmost importance that if this strategy is implement that it is implemented to every store in order to maintain brand consistency.

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