

## **Case study: Transforming from a service to a products based business**

John A. Kaliski  
Minnesota State University, Mankato

Queen Booker  
Minnesota State University, Mankato

### **ABSTRACT**

This paper describes how a family-owned, portable sawmill business transformed from a services-only business to a products-based business, moving from a focused differentiation strategy to a differentiation strategy to support profitability growth. The business began as a profitable, service-based sawmill specializing in on-site, small to medium-sized sawmilling jobs. After 8 years in business, the company shifted strategy away of a services-orientation to a products-based business. While still providing onsite milling services, the company primarily focuses on milling, drying, finishing environmentally-friendly hardwood lumber and finished wood products. This paper investigates the motivations for this strategic change, the risks involved, the process of transforming this business, the implications on profitability and scalability . Also discussed are the personal implications of this change to the owners of this business.

Keywords: Strategy Change, Small Supply Chain Manufacturing, Entrepreneurship

**Note: This is a fictitious case developed for educational use. All statements, names, numbers, dates, etc. used herein were created for the purposes of this case and should not be construed as factual.**

## INTRODUCTION

According to Michael Porter, businesses must have a competitive strategy, that is, a plan to compete in a particular market or industry. His framework for competitive strategies is well accepted, that is, that firms compete on cost, differentiation, or a focused model of either cost or differentiation. Small business owners are no different. They too must decide how they plan to compete in a particular industry or market segment, and how the selected competitive strategy will contribute to a competitive advantage leading to profitability growth. (Dessler and Phillips, 2008; Allen, 2007)

The business described in this paper is a small, family-owned, portable sawmill business named Run Of The Mill (RTM) located in Southern Minnesota. RTM began in 2001 as a services sawmill specializing in on-site, small to medium-sized sawmilling jobs. Through the use of a portable sawmill, the original business model was to pull the sawmill to a customer's site and cut the customers logs into custom-sized lumber to be dried. For the RTM, the advantages of this model included profitability, ease of operations and planning, and flexibility to the needs of the owner. The advantages for the customer were the elimination of the need to move heavy logs, reuse of logs that would have otherwise been wasted, and access to custom sized lumber at costs far lower than typical retail rates.

This paper describes how RTM transformed from a services-only business to a products-based business, moving from a focused differentiation strategy to a differentiation strategy to support profitability growth. While RTM still provides onsite sawmilling services, the company primarily focuses now on milling, drying, finishing and selling environmentally-friendly hardwood lumber and finished wood products. The purpose of the change was not to grow in size but to benefit more from the value earned by the customer. With the services-based model, the cost savings (value added) to the customer was the production of lumber at a small fraction of the price the customer would have paid to a lumber yard. The goal of the strategic shift to a products-based model was to retain more of the cost savings from the business process for the business itself rather than passing all the cost savings to the customer. The owners wanted a business process that did not require fundamental change in the core competencies and equipment assets of the business.

## COMPANY OVERVIEW

RTM is a family-owned, portable sawmill business located in Southern Minnesota specializing in on-site, small to medium-sized sawmilling jobs and hardwood lumber sales. The company was formed in 2001 in response to a perceived need for small scale, boutique sawmill services to the private individual. The stated goal of RTM is to "...convert your logs to valuable lumber where the trees once stood. Our milling is environmentally friendly and lawn safe....We are environmentally sensitive. We do not use heavy equipment that can damage your landscaping or compact the earth. Keep your trees from the landfill. Recycle the wood. Save money and the environment..." (RTM 2011) RTM's original business model was to provide an environmentally-friendly and economically attractive option to disposing of unwanted or damaged/dying hardwood trees.

RTM has 2 employees: the founder of the business and an hourly employee. While a small scale operation, RTM is a full service, vertically integrated business. Starting from a fallen tree, RTM is able to produce wide variety of product in a wide variety of finished states. RTM can produce rough sawn lumber of virtually any size/cut, can kiln dry the lumber, and surface the dried lumber into finished lumber, tongue and groove flooring, moldings, etc. RTM's significant market differentiator is that it offers an environmentally-friendly, full service, one stop, custom hardwood manufacturing focused on the end consumer or small business.

## **ORIGINAL BUSINESS MODEL**

For the first several years of RTM's operation, only a services model was pursued. "All of our work is completed on site starting from the fallen tree. The sawmill is pulled to the job site and quickly setup... After the log is placed on the mill and squared to a cant, the lumber production begins. The rough sawn lumber is then stacked for drying; after the lumber is dried a single pass through a surface planer is usually enough to finish the wood." (RTM, 2011)

This services model has several significant advantages. The first is ease of starting and maintaining the business. After a startup phase, the majority of effort was spent in directly billable activity. Overhead activities such as maintaining the equipment, and advertising were relatively small investments of time and money. Most of the effort and expense with the services-based model coincide with revenue generation. This coordination between revenue and expense made managing the business relatively easy. After the business startup phase, cash flow was generally positive because the structural, fixed costs were relatively small. The owner is accustomed to and successful with the services business model. The business was stable and profitable for more than 8 years.

The portable sawmill service business model is dramatically different when compared to the traditional sawmill business model. Compared to a traditional sawmilling operation, RTM's fixed costs tend to be much lower with the portable sawmill because there is little need for a physical factory location, for a large array of material handling equipment, for dozens/hundreds of employees and the associated high insurance and tax rates, and for the acquisition and inventory of raw material and finished goods. These differences make the portable sawmill services business model more sustainable, flexible and less exposed to the natural fluctuations of the hardwood commodity markets.

Unfortunately the services model is not without its challenges. The primary challenge is scalability. Operating a portable sawmill is a physically demanding, dangerous occupation. Extra vigilance towards safety must be maintained to reduce the likelihood of injury. Obviously there are a limited number of hours an individual can do such work within a given period of time. To scale the services model of the business, owner is faced either with purchasing additional, more efficient equipment to speed production or hire and train additional employees. Given the likelihood of personal injury, the worker's compensation insurance for such employees is daunting. Of course taking these growth steps implies a significant increase in the fixed costs and liabilities.

Another challenge associated with scaling the services model is the nature of the sales. Most of the transactions are with private individuals since few business's have access to a small quantity of logs. In a short period of time, sawmills can produce a large quantity of material; the volume of material can fill the needs of a typical individual customer for months/years. Even though customer satisfaction is high, the likelihood of even yearly-repeat business from a given customer is low. With the services model, reoccurring revenue is severely lacking. Future revenue requires that the business generate a constant stream of new customers.

## **CONVERTING TO THE PRODUCT-BASED BUSINESS**

During 2007, RTM's owner had a desire to expand the business. Initially the owner investigated hiring additional employees to expand the services business but this initiative was soon abandoned. In addition to the increased wage and insurance costs, it became apparent that finding a supply of diligent, reliable, safety-conscious workers was problematic. Also the owner found that his management duties increased dramatically as workers were added. Unlike many sawmilling operations the owner had made the conscious decision that he wished the business to remain a small, family run enterprise.

As an alternative grow path RTM decided to add product sales to RTM's operations, while still maintaining some of the service-based business model. The motivation for this decision was driven by the desire to obtain better marginal returns for the resources expended. The owner explains:

“When we saw and dry a hardwood log for a customer, the customer gets tremendous value for their money. If all of the customer's costs are added together, their total out of pocket for our services usually hover around \$1.50 per boardfoot.... Depending on the species, the retail value for that board is dramatically higher than that. For example if we are cutting walnut or cherry for a customer the retail price can be \$9 per boardfoot or more. My goal with adding the product sales was to keep some of this different for myself. If I sell that same board as a finished product for \$6/boardfoot I can beat the pants off of any big box retailers in the area. My customers want both great prices and environmentally friendly wood. I want to offer my retail customer a great deal while simultaneously increasing my revenue. Everybody wins.”

It is not RTM's goal to directly compete against with the well established, multinational manufacturers of high-volume, low-margin commodity wood products. RTM's owner views his business as a boutique operation. One obvious implication of the shift to a products model is the need for a reliable stream of raw material. The owner now does environmentally-friendly harvesting of logs from his local area. Most of the raw materials come from recycled resources such as storm damaged trees, urban timber from tree services, standing dead timber, etc. The ability to harvest in an environmentally friendly, cost effective, sustainable manner was consistent with the Minnesota State Forests Certified Sustainable Initiative (MnFSC, 2006). The type of equipment and the available timber combined to provide RTM its competitive advantage over the larger companies.

In addition to the green manufacturing part of the strategy, RTM also chose to vertically integrate their operation in an attempt to capture more stages of the value chain. According to RTM's owner:

“We wanted to be a full services shop. I wanted to be able to start at the log as my raw material and finish at the locally-sourced, environmentally friendly, finished hardwood boards, crown molding, tongue and groove flooring, paneling, etc. By doing so, I can attract more customers and charge a premium for my product. I can then sell to not only the hobbyist but also to other small businesses which allows me to attract repeat business.”

The goal of vertical integration is itself fraught with challenges. In the wood business vertical integration would typically translate to long process times, large capitalization, large physical plant, space and equipment to maintain the raw material, in process, and finished goods inventory. Of course employees would need to be added to perform all of these tasks.

To avoid the added size, complexity, and risk, the owner adopted a modified supply chain model. Traditionally in lumber processing most of the operations can be completed quickly with the exception of kiln drying. With the usual technology this stage requires 6 to 10 weeks to complete for one inch thick boards. During this drying only one type and thickness of lumber can be dried at a time. Because of this delay, most businesses then need to process large quantities of a particular species and thickness combination with which each run which in turn causes the need for large inventories sited above.

To avoid this delay and to more closely emulate a supply chain, RTM chose to different wood drying technology that reduces the drying times down to 5 to 7 days. While this technology is more expensive to purchase, maintain and operate, it allows RTM to maintain a just in time approach to their orders. While a small inventory of commonly requested finished products are maintained, the work and expense for most orders begin only once the order has been received. This helps RTM to avoid carrying significant in process and finished goods inventories and the associated the physical plant and labor. Also, RTM does not need to guess at what the market demands; instead RTM's modified supply chain strategy responds to those shifts automatically without risking large quantities of unsellable inventory. The primary inventory needed for the business is a small supply of hardwood logs and on-demand access standing dead trees in local forests.

To support the vertically integrated supply chain RTM did a significant renovation on an existing building and equipment at its current location; the renovation cost in excess of \$30,000 and took almost 1 year to complete. While the renovation was in progress the business continued full operations. The building houses RTM post-sawing operations.

## IMPLICATIONS OF THE SHIFT

### Business Velocity and Complexity

RTM's shift from the services-only to product-focused model has been in effect for approximately two years. Many advantages and disadvantages are now apparent from the shift. The owner views the shift as:

“Selling mostly products has been a real culture shift for us. It has been a great growth experience for me. I've learned a lot. Initially I thought that I would just setup the production facilities and we'd be off and running. Wow, I wish it were that simple. There are so many more things to think about and learn and do than there used to be.

In general customers like our products and services. Our revenue is up more than 30% over what it used to be. I think adding to the product side has helped us to survive an awful market slump; I'm not sure we would have been able to survive these last couple of years on just custom sawing.

With that said there is a lot more to it as well. I'm working more hours than I used to. Some days I feel pulled in a thousand directions; there seems to be more ups and downs than when I was just a guy with a portable sawmill.”

On the advantage side, the hoped-for increased revenue opportunity has materialized. The customer base for RTM has expanded and word of mouth advertising has increased dramatically. The business has completely paid off the sunk cost of the change. The marketability of RTM products closely aligns with green, sustainable movement in the construction industry. RTM's products are derived from logs harvested using sustainable logging practices; all materials are locally sourced with a small carbon footprint. This is a sustainable differentiator for the company. The company's diversification (service and product) has allowed RTM to survive difficult economic times.

Since the shift RTM has started to accumulate several consistent repeat customers. This is something the owner has been trying to do for many years. The repeat business represents a more consistent source of revenue and provides some stability for the business. It also lessens the need to generate a constant stream of new leads. Most of these customers are from the construction industry; they tend to request more finished products such as hardwood flooring, paneling, and mantels for project they are working on.

Unfortunately the shift has not been without its disadvantages. Clearly the owner feels the complexity and stress level associated with the business has increased dramatically. The product-based, supply chain business model is more intricate; it requires the careful timing of a continual supply of raw materials, additional inventory holding space for both raw materials and finished goods, a process for waste removal, more involved bookkeeping and reporting, careful process and quality control measures, and a process for handling product returns. Further the raw material acquisition is dependent on weather, disease and other natural phenomenon to provide the timber for

harvesting. These external factors are difficult to predict when calculating the need for raw materials inventory. Also this dependency on already damaged or downed trees creates a necessary change in alliance strategy. The owner has proactively sought to develop business relationships with local tree services and others with access to the resource. With this added complexity of the supply chain business model, a much larger percent of the owner's time is now spent in activities that are not immediately billable.

### **Human Resources**

With the addition of product lines, the complexity and velocity of the business has increased dramatically. Coupled with this increase is an increase in the importance of RTM's single employee. The owner relies on his single employee to perform an amazing variety of tasks:

"I have had a series of employees one at a time, on and off, for many years. In the past they have tended towards hourly people who would help with some of the muscle work around the shop and did basic fixing and maintenance on machines. Now with our product activities, my current employee has really become key. Of course he still helps with all of the muscle work and maintenance, but he also does so much more. He has redesigned a couple of our machines to work more consistently, we both are constantly tweaking the shop layout to be more efficient, he has designing a new way for us to handle our in-progress and finished inventories, and so much more. I am considering having him become the contact person for some of our new accounts. I couldn't keep up without him."

Unintentionally RTM has shifted its human resource strategy. Previously employees were hired and viewed as low-skilled, hourly people to help the manual labor. The employee is now viewed as a strategic asset. Because of this, the owner has decided to pay a much higher wage rate and has spent a significant amount of effort in training. On a frequent basis, more responsibilities are added to the employee job description.

### **Accounting**

An unanticipated effect of the strategic shift is the increased importance of accounting in general, and account receives and collections specifically. The owner laments:

"When we are only services I never had to think about Accounts Receivable. It was simple. We would cut a job; at the end of the job we'd get a check and that would be it. Now that we are doing products for lots of construction projects I need to submit bids, track the customer deposit, do the work, submit a final invoice, monitor my receivables. I learned very quickly that if I wasn't careful with what people owed me that it was easy to build up a large, overdue AR. Collections have become important."

## **IMPACTS ON THE OWNER**

Two years after the strategic shift, the personal impacts on the owner have been mixed. Now that the expenses from the shift have been paid off, his return potential from the business has substantially increased. The shift has also the owner to professionally grow in a variety of ways. He derives tremendous satisfaction at learning how to operate new equipment, successfully modifying his plant and equipment to work more efficiently and effectively, and exploring different markets for his products. He thrives with the hands-on portion of the business.

In addition to the operational growth cited above, the owner has also matured as a business person. The shift to a product strategy has forced him to carefully consider and study aspects of his business that were previously underdeveloped during the service-only days. His understanding of marketing, operations, accounting, and financial has improved dramatically in a short period of time.

As with any strategic business change, there have been challenges to the owner as well. He is consistently working much longer hours than before in a physically demanding environments. Because of the location of the business the owner frequently has to cope rigors of a challenging climate. It is hard on both the owner and his equipment.

Beyond the physical demands the owner feels more stress from the business. Because of his increased investment in the business, increase in RTM fixed costs, and stringent time schedules and for product delivery and very little available inventory, each job causes its own tension.

## **LESSONS LEARNED**

After surviving the difficulty of starting a business, many small business owners face the question of next stages of development for a new business. Does the business easily scale? What is the best way to grow the business? Many business owners choose to invest heavily in capital equipment and/or to hire many addition employees. In doing so, the owners dramatically increase their fixed costs and risk their current success for the promise of future gain. RTM owner choose a different path. By modifying his offering to produce specialty products, by shortening the production cycle and by adopting a supply chain mentality, RTM's owner has found a way to have both grow the business and increase his market reach.

While in general the strategic change has been a positive for RTM, it has not been without its challenges. The owner has experienced several unanticipated consequences from the change such as the increased importance of his employee and the need for collections. Even after two years new consequences arise occasionally.

With his modified supply chain, the owner has learned several important lessons:

“Our supply chain was key to the switchover, without it we could not have afforded to pursue our products business. It keeps us in the ballgame – we can compete with much larger outfits because of how we have things setup. With that

said, supply chain is also really nerve racking. There are no tolerances for error – and errors happen all the time. When a piece of equipment breaks down or a storm slows our operation, we have to really scramble to get the order out on time and on budget. That is the hardest part of the business to deal with. Sometimes I think we should increase inventory to make our lives easier. The problem there is that I'm not sure where I'd put the inventory and which items I would stock.”

### **Future Direction(s)?**

The owner is exploring several different options for the future. On one end of the spectrum, RTM is considering re-emphasizing services instead of products. Because of the personal toll the business extracts from him he is considering scaling back on the product side of his operation and returning to the services model he had previously. He knows that doing so would reduce the RTM's size and revenue potential but it may be a more sustainable in the long run.

On the other end of the spectrum, the owner is in active discussions with a local cooperative that focuses on producing a huge variety of reclaimed lumber products from old barns and warehouses. RTM's operation could be used without modification to produce those reclaimed products. If RTM were to join the cooperative, all parties would benefit; the cooperative would simultaneously expand its products offering and would reduce its costs of goods sold. RTM would add a new outlet for its products at favorable price points.

If RTM continues with its product focus, the owner is also considering adding facilities to maintain a more significant finished goods inventory. While he is aware that doing so will increase his fixed costs, the increased inventory may help to reduce the daily stress levels caused by disturbances in RTM's operations.

### **Conclusions**

The product based model offers greater potential for growth. This assumption is consistent with traditional business models when a company has a consistent product to offer, it can increase its profit margins. However, the potential for growth is limited to the restrictions logging opportunities and the shelf life of the sawn lumber. If fewer trees die, fall or are affected by nature, then supply has to turn to non-damaged trees. The owner must carefully balance the ease of his services operation and the market potential of his products business. How would such a process fit into the larger, environmentally safe harvesting? The raw material factor plus the limited inventory holding space and management creates additional challenges.

Even with strong business plans and feasibility, actual sales and actual processing gives the owner insight into what can be accomplished which frequently results in interesting refinements of the original business idea. Without explicitly stating it, the owner of RTM essentially does his own informal SWOT analysis of the business repeatedly. This owner has learned that market demands change frequently and he feels a need to remain nimble in the market. While time must pass to determine if the chosen

path of environmentally safe harvesting and a primarily product based focus is the correct, sustainable path to grow profitability, the owner must continue to adapt his business model and expectation to meet the demands of a dynamically shifting market.

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## CASE TEACHING NOTES

### Suggestions for Using the Case

This case is suitable for a small business strategy course. It is useful for:

- Exposing students to the strategic challenges from the perspective of the owners of small local businesses.
- Exposing students to the typical daily business experience of an entrepreneur.
- Helping students to understand that setting the strategy for a small business is a complex, evolving process that must be frequently revisited.
- Helping the student to fully explore the interconnected web of the implications for the strategies they set for a business.
- Exposing students to the relationships between goals, strategies, and operations for a small business.
- Illustrating the advantages of being an agile company. Frequently small businesses must be creative in structuring their business model and strategy especially when they are competing against much larger, better funded competitors.
- Weighing the pros and cons of expansion decisions.
- Drilling students in SWOT applied in a boutique, manufacturing environment.
- Examining what a company has to do to successfully implement and execute its strategy. Exploring the effects a strategy can have on the daily operations of a small business.

### Assignment Questions

1. What are the key elements of the strategy at RTM? Which of the five generic competitive strategies is RTM pursuing?
2. What competitive pressures must RTM be prepared to deal with? What do we learn about the nature and strength of the competitive pressures RTM faces from doing a five-forces analysis of competition? Which of the five competitive forces is the strongest?
3. Based on your analysis of the competitive pressures, is the lumber/sawmilling industry in the region where RTM is located competitively attractive? Why or why

not? Is there a potential for a company like RTM to realize above-average profits and return on investment?

4. What driving forces are operating in the region's sawmilling industry?
5. What are the key success factors for competing in the region's sawmilling industry?
6. What does a SWOT analysis reveal about the attractiveness of RTM's situation? Just how attractive is the company's situation and position?
7. Based on your analysis of the region's sawmilling industry, what problems and issues should the owners of RTM consider? Which ones are top priorities? What are low priorities?
8. Provide a framework to help the owner decide which possible future direction he should pursue. Justify your recommendations.

### Teaching Outline and Analysis

1. What are the key elements of the strategy at RTM? Which of the five generic competitive strategies is RTM pursuing?

RTM's strategy is predicated mainly on a selection of products with a focus on quality, excellent customer service, and best-cost provider type of competitive strategy. Its focus is on a limited number of products and services. As noted in the case, RTM wants to be known as an environmentally conscious lumber and sawmilling provider at a competitive price.

2. What competitive pressures must RTM be prepared to deal with? What do we learn about the nature and strength of the competitive pressures RTM faces from doing a five-forces analysis of competition? Which of the five competitive forces is the strongest?

Rivalry among lumber providers -- Strong

Students should realize that rivalry in the sawmilling industry is driven by the following factors:

- Slow industry growth
- High fixed costs for existing competitors
- Consumers have low switching costs between providers
- Most lumber retailers are diversified in their product offerings so there are low strategic stakes
- There are high exit barriers in terms of fixed assets and real estate leases

Threat of Entry – Moderate to Strong

In the case of the lumber market, the second area of intense competition is that of new entrants to the market. Using RTM's business model, there are relatively low barriers to entry into the environmentally conscious lumber industry. New entry can take the form of other small specialty, environmentally sensitive providers as well as entry from firms with existing operations in other markets.

As evidenced in the case, new entrants can change the lumber retail landscape as more cost efficient providers enter the market and more consumers prefer green-oriented lumber at a lower cost. Entry threats in region's market are shaped by the following factors:

- Growth minded competitors are always looking to expand into profitable segments. Environmentally safe harvesting is becoming a popular marketing tool. Larger competitors have the potential for reducing the cost of environmentally safe harvested timber.
- There are economies of scale for other companies that offer lumber. For example, larger chains such as Lowes, Menards and Home Depot have substantially greater bargaining power with suppliers than small enterprises like RTM.
- Brand preferences could play a role in this industry but price is often more important.
- Capital requirements can be low to moderate and can be overcome by small enterprises as evidenced by RTM
- Slow industry growth but growth in interest in environmentally safe products is likely to be higher.

Threat of substitutes – Moderate

The pressure on retail outlets on lumber choices is increasing as “green technology” and environmentally friendly concepts become household terms. As the larger retailers begin to offer “green” alternatives, many environmentally conscious consumers may choose that alternative driven by the convenience of doing so.

Bargaining Power of Supplier – Moderate to Strong

RTM itself is not large enough to retain a high level of inventory. Rather RTM relies on job shop model, manufacturing the product the consumer needs once an order is placed. This model is sustainable as long as the required raw material remains available and the time to do so is short enough to limit the inconvenience to the consumer.

The bargaining power of suppliers is influenced by the following factors in the industry:

- Seller switching costs to alternative suppliers is low.
- The items supplied is available from many suppliers.
- There supply of timber available for harvesting could be limited.

Bargaining Power of Buyers – Strong

As stated in the case, RTM customers often ask if prices have “wobble room”. Students are also likely to point out that though RTM per boardfoot is cheaper; however the company is not on the “beaten path” meaning the customer has to go out of his or her way to purchase the product. There are low switching costs for the buyer.

3. Based on your analysis of the competitive pressures, is the lumber/sawmilling industry in the region where RTM is located competitively attractive? Why or why

not? Is there a potential for a company like RTM to realize above-average profits and return on investment?

Students should notice that all the suppliers of lumber regardless of environmentally harvested or not will experience some drop in lumber sales due to the slowing demand in the construction industry. Large competitors rely on their size, access to capital, and a large, diverse inventory to survive downturns. Even with the market downturn and RTM's limited inventory, students should be able to discern that given RTM's competitive pricing, very low fixed costs, flexibility of manufacture, and focus on environmentally safe, "green" products, RTM is especially attractive and positioned to do well going head-to-head with the larger retail companies such as Lowes, Home Depot, and Menards.

4. What driving forces are operating in the region's sawmilling and lumber?  
Based on the information in the case, students should point to several factors happening locally including
  - Decline in the construction industry thereby creating a decrease in demand for lumber.
  - Changing patterns due to the emergence of higher demand for environmentally harvested wood products.
5. What are the key success factors for competing in the region's lumber industry?  
Students should be able to see that key success factors as being:
  - Differentiation via customer service, environmentally friendly message and good value for the money spent.
  - Supply chain management
  - Low fixed costs of operation. Limited need for access to large infusions of capital.
6. What does a SWOT analysis reveal about the attractiveness of RTM's situation? Just how attractive is the company's situation and position?

Strengths:

- Private ownership, no need to answer to shareholders
- Successful services business model
- Variety of services as well as lumber products
- Current management
- Solid knowledge of hardwood industry
- Strong reputation – assists in sales lead generation and raw material acquisition.
- Strong financial standings
- Quality of offerings

Weaknesses:

- Lack of a succession plan
- Limited access to production resources
- Lack of offering of complimentary goods
- Relatively weak buying power
- Limited financial capital for expansion and growth

#### Opportunities

- Demand from customers needing custom-sized product
- Increasing demand for environmentally harvested, locally sourced wood products
- Increasing reputation results in improved access to logs that can be harvested and prepared for custom orders
- Consumer changing patterns for lumber

#### Threats

- Intensifying industry competition due to the downturn in the construction industry
- Low barriers to entry into market
- Increasing volume of business stressing current product limits. No clear plan for growth management.

7. Based on your analysis of the region's lumber industry, what problems and issues should the owners of RTM consider? Which ones are top priorities? What are low priorities?

Students should consider the effects of growth on RTM's ability to manufacture product on a timely basis. A core assumption the owner has made is that product can be produced quickly enough to limit the need for carrying significant levels of inventory and hence limit the need to grow the size of the business, in terms of both employees and physical plant and equipment. As the pace of business continues to grow, RTM may need to consider doing larger production runs and maintain more inventory in order to keep up. Such larger runs would imply a future need for increased space for operations and inventory as well as the need for additional employees. Doing so will increase the fixed costs of the business and the inherent risk to the owner. To facilitate continued growth, RTM's owner will reconsider his current, risk aversion strategy.