

Case 7

The Box Factory, Inc.

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Charles Smith was wondering what his next move should be in developing the market for his die-cast toy car display case. He knew he had to use a cost-effective marketing strategy based on his limited financial resources. He did not feel he had developed his ideas well enough to secure a bank loan or to interest potential investors, but he knew he had a product with good potential sales if he could just get it launched. He was even more encouraged when a friend showed him all the Web sites related to collecting die-cast toy cars and trucks and the widespread interest in these collectibles.

Background

Charles and Cindy Smith incorporated Box Factory, Inc., in 1994 for the purpose of making and selling woodwork crafts. The Box Factory developed a product for the storage and display of die-cast toy cars. The basic design of this product is a wooden shadow box in the form of an eighteen-wheeler truck (see Photo C7.1). Encouraged by friends and relatives, the Smiths set up a mail-order system for consumers to purchase the product. The Box Factory advertised the display case in *Country Sampler* magazine in April 1994. Response to the advertisement was overwhelming, so the Smiths decided to keep concentrating on mail-order sales. The success of the wooden product prompted the Box Factory to research producing the truck in plastic and distributing it through retail outlets. A patent was obtained for the plastic display case.

To act as an agent for the production and sale of the plastic product, the Box Factory entered into an agreement with a design company. A



PHOTO C7.1. The Wooden Display Unit

prototype of a plastic, injection-molded truck was developed and displayed at a convention in 1995. At this time, a major toy manufacturer requested a proposal on licensing the product from the design company. The design company responded to the Box Factory with a new agent agreement that drastically increased the design company's commissions. The Smiths refused to sign the new agreement and all communication with the design company ceased. Since that time, no further attempts to commercialize the product have taken place.

The contract established with the design company expired in August 1997, thus releasing the Box Factory from any obligations. This created the opportunity for the Box Factory to enter the market with the plastic, injection-molded, wall-mounted display case for die-cast toy cars. Die-cast toy cars considered to be collectibles ranged in price from .99 to \$99.00.

Market Analysis

Collecting stamps, baseball cards, or bottle caps has always been a favorite pastime; this does not differ in the case of die-cast toy cars. Many people collect Hot Wheels and Matchbox brand cars; like most collectors, these individuals want to showcase their collections.

Customers of Box Factory, Inc., are mainly adults. Men mostly collect Hot Wheels and Matchbox cars, while women tend to buy them as gifts for collectors or for their children. The Internet contains numerous Web sites devoted to the collection of Hot Wheels and Matchbox toy cars. These data reinforce the belief that a market for the Box Factory's product exists.

Parents will buy the product to fulfill two purposes: first, to provide a place for their children to store the cars when they are not playing with them, and, second, as a way to decorate their children's rooms. Collectors need a place to store their cars, showcase their prized collectibles, and organize their collections.

Since the majority of the purchases are gifts, sales for the wooden display case typically increase during the months between October and January (due in large part to Christmas). Women make the majority of the purchases of the display cases, and men make most of the individual toy car purchases.

Product Analysis

A wooden version of the mounted display case enjoyed a great deal of sales success in the years leading up to this point. Advertising in only one hobby magazine produced sales of over \$50,000 in the first year. These magazine ads generated sales for five years, with a number of sales occurring after the ads were cut at the beginning of 1996. The sales of the wooden display case provided evidence that a market for this type of product existed. Table C7.1 shows the sales of the wooden display case; however, promotions for this product were cut in 1996.

The new product would be an injection-molded, wall-mounted display case designed to house twenty die-cast cars (Hot Wheels and Matchbox cars). The case is fashioned in the design of an eighteen-wheeler truck; it is 28 inches long, 8 1/2 inches high, and 3/4 inches deep. The estimated production cost per unit is \$3.50.

The product would be shipped in a protective cardboard box, the same type of package used by the Box Factory to send the wooden display cases to its customers. This package costs approximately \$.40 per unit.

TABLE C7.1. Sales by Year

Year	Sales (in dollars)
April 1991 to December 1993	200,000
January 1994 to December 1994	60,000
January 1995 to June 1995	20,000
July 1995 to December 1996	20,000

The two target markets identified by the Smiths (collectors and children) complicate the product decision. In order for the same product design to relate to different market segments with such vast distinctions, the product must differ in some way. One inexpensive means of changing the product might be accomplished by varying the color. For the product to appeal to the collectors' market segment, a wood finish appearance could be used. The children's segment could implement a more "playful" image with red, blue, and yellow to better relate to this target market.

Competitive Analysis

Presently, there was no direct competition for the Box Factory's mounted display case. However, a few similar products could pose a threat. A handful of companies produce plastic display cases designed and marketed to display much larger cars. These cases could be used to showcase seven to ten die-cast cars; however, they do not have any eye-catching features. They are made up of plastic bases and clear plastic detachable domelike boxes. Some companies also produce these cases to mount on a wall. Another possible more direct competitive threat is carrying cases for small die-cast cars. Numerous types of cases are designed to house many die-cast cars yet they are not fashioned to be fixed display cases. Rather, they are designed to transport or store the toy cars. Table C7.2 shows current competitive cases available and their prices.

TABLE C7.2. Carrying Cases and Prices

Product	Price
Hot Wheels Sto & Go (drag race case and playset)	\$12.99
Hot Wheels City Playset	6.99
Hot Wheels Sto & Go (parking and service)	14.99
Hot Wheels Sto & Go (super city playset)	14.99
Hot Wheels Cargo Plane	14.99
Hot Wheels Super Rally Case	9.99
Tara Toy 48 Car Case	6.99
Fast Lane (Toy Car Briefcase)	9.99
Garage (Toy Car Storage Case)	5.96

Financial Analysis

The Smiths need to develop an analysis of their breakeven point for the plastic display case based on sales of the product directly to consumers as well as through retailers. If the product is sold to retailers, the price would have to provide an adequate markup. Table C7.3 presents the expected cost structure for the Box Factory display case.

The production cost of \$3.50 was based on a production run of 5,000 units in one color. At 10,000 units production cost would drop to \$2.75 per unit. The company that would produce the plastic unit had a production capacity of 25,000 units a year. The injection model itself would have to be designed and manufactured by a design company. The cost of the mold was estimated to be about \$7,500.

The Smiths need to estimate how much additional investment is needed to launch the new product (including the injection mold, purchase of an inventory of shipping boxes, and an investment in inventory of 5,000 display cases) and how much operating capital is needed to cover expenses until the sales volume is high enough to cover operating expenses.

TABLE C7.3. Display Case Cost Structure

Costs	Per item
<i>Variable costs</i>	
Production	\$3.50
Packaging	\$0.40
Shipping (from factory)	\$0.50
Comment card and postage	\$0.45
Total variable costs	\$4.85
<i>Fixed costs</i>	
Storage	\$500.00
Salaries	\$25,000.00
Advertising	\$600.00
Insurance	\$250.00
Total fixed costs	\$26,350.00

Marketing the New Display Case

The financials for the product indicated that even at sales of 5,000 to 10,000 units, the product could be very profitable. The Smiths' previous marketing approach had been fairly successful for the wooden display case, although they felt they were in the dark about what past customers thought. The Smiths wondered how, in the future, they could obtain feedback from purchasers and exactly what information should be sought to be managerially useful.

The ads they had run produced sales for several years. However, they were not sure about how to reach the children's market or how to get their product into retail stores. The Smiths wondered if there might be a number of children's magazines in which to promote the product or if there were some good specialty magazines carrying unique products that could generate mail orders. They had also thought about approaching one of the toy car manufacturers and trying to negotiate a license agreement to manufacture and distribute the display case but were not sure about the implications of such a move.

Their accountant had also suggested contacting one or more major retail chains as possible distributors. The volume that could be generated by any one of these large retailers would probably be enough to handle their current production capacity, especially if they were producing three different colors of the case.

All of these options were evaluated before a decision was made about proceeding with trying to raise the money to launch the new product.