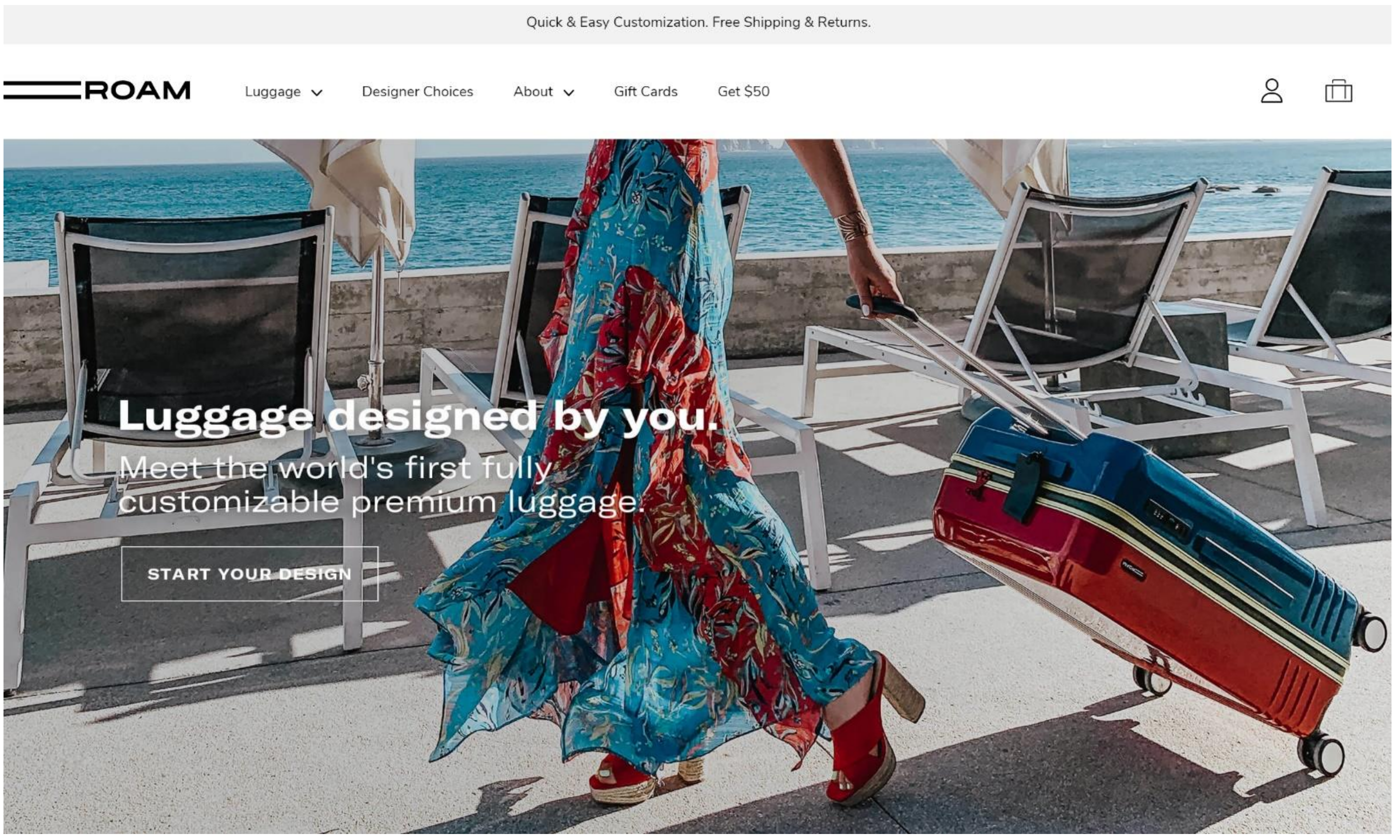
Time to ROAM

Segmenting Markets by Lead-time to Support Mass Customization



This case was written by Dana Cattani (The Kelley School of Business, Indiana University) and Kyle Cattani (The Kelley School of Business, Indiana University) as the basis for class discussion rather than to illustrate effective or ineffective handling of a business situation. Some numbers were adjusted to simplify the case analysis and to protect confidential business information. The authors are grateful to Larry Lein, Charlie Clifford, and Louis Monoyudis for their help.

ROAM

The ROAM Leadership Team

Louis Monoyudis, Chief Marketing Officer (CMO)
Larry Lein, CEO and Co-founder; Former Executive Vice President at TUMI
Charlie Clifford, Board Member and Co-founder; TUMI founder and longtime CEO

Where to ROAM?

July 2019: ROAM Headquarters, New York City

1,000 suitcases a month by 2020. Louis Monoyudis had heard it often in the six months since he had started at ROAM, a premium, customizable luggage firm. He thought that the 1,000 by 2020 was aggressive but doable within the framework of his multifaceted marketing plan. Since joining the company in November 2018, he already had increased ROAM's email list subscribers by over 50 times and sales were now running over 4 times the old monthly rate. But now the target was moving.

Louis exhaled and looked out the window. ROAM's office overlooked New York's iconic Fifth Avenue, although the modest entrance to the co-working space called The Yard was actually around the corner on West 28th Street. Larry Lein, CEO and co-founder of ROAM had recently reiterated his goal: the year-old startup should ship 1,000 customized suitcases a month by August of 2020. But now, based on the process analysis and recommendations of a team of MBAs, Larry wanted to add 200 units of time-insensitive orders to the target of 1,000 time-sensitive custom orders. So, now Louis was supposed to generate orders for 1,200 suitcases a month by August 2020. And these new orders had to be from a different market segment, so they would not cannibalize ROAM's primary source of revenue from individual custom orders.

Oh, is that all? Louis thought as he stared out the window.

Then he smiled and turned to Larry.

"I'm on it. I'll gather ideas for time-insensitive orders, evaluate them, and select the strongest. Then I'll present you with a recommendation and mock-up of a marketing plan within a week."

Then it was Larry's turn to smile.

Louis stood and walked into the hall before pulling out his phone. Then he texted a professor he knew: *Help. I need 3 ideas for generating time-insensitive orders —that will not cannibalize our regular time sensitive orders—and a marketing plan mockup by Wednesday.*

February 2019: ROAM Manufacturing Facility, Poway, California

Larry Lein welcomed a team of four MBA students to ROAM's manufacturing facility near San Diego. He minced no words. "Our target is to build and ship 1,000 suitcases a month by August of 2020. Your task is to assess the factory's capacity to meet this goal. To maintain ROAM's exacting standards, the capacity must support building and shipping each suitcase within three 3-5 days of order placement."

With this mandate, the students went to work.

The team conducted a process analysis of the Poway factory and concluded that with some recommended changes to the layout and equipment, there was sufficient capacity to build 1,000 suitcases a month. However, this analysis assumed that daily production would be stable and level. To account for the normal, erratic demand of online orders, the team recommended layout and equipment to support a capacity of 1,200 per month. This capacity would be necessary to ensure a 3-5 day turnaround from customer order to shipment. (See Appendix A for a brief explanation of their analysis.) To be successful, this plan would require orders for 1,000 time-sensitive and 200 time-insensitive cases per month.

The time-sensitive orders are from ROAM's current target market of online customers who expect quick delivery. In contrast, the time-insensitive orders would be from a new target market of customers willing to accept a longer lead time (e.g., 4-6 weeks) and who would also expect a discount.

How to ROAM?

The Case Question: How can ROAM generate more time-insensitive orders?

Your Role: MBA student consulting team working for ROAM

Your Audience: Louis Monoyudis, Larry Lein, and Charlie Clifford

Your Deliverables: PowerPoint slides and presentation

Your Task: Recommend 3 possible new markets and corresponding strategies to generate time-insensitive orders. Choose the strongest option. Create a PowerPoint slide deck to present your marketing plan including

- target markets,
- strategies, and

- channels.

For the presentation, prepare to explain and defend your

- recommendation,
- choice of it as the strongest option, and
- process for ensuring engagement and buy-in from all team members.

This live case could play out in many different ways. There is no one right answer. As in real life, you will have to make a recommendation without complete information.

When no data is available, make reasonable estimates. Use big, round, ballpark numbers. List and explain your assumptions.

Scope for this Case

In terms of core MBA skills, this case focuses on a **Marketing** need that is motivated by an **Operations** problem. Additionally, strong recommendations will reflect **Critical Thinking**, and strong presentations and slides will demonstrate persuasive and audience-centered **Business Communication**.

Finance, Accounting, Economics, Strategy, and **Quantitative Methods** are not the focus of this case.

Appendix A: You Want It *When*?

The Need for Buffer Capacity

Larry projected demand to be at the level of 1,000 units per month by August 2020. This would be 33 1/3 orders per day (assuming 30 days in an average month), or 50 units per working day (assuming 20 working days in an average month).

For two reasons, ROAM's commitment to quick order turnaround makes it difficult to keep daily manufacturing schedules level. First, actual daily demand varies significantly. For example, two or three days of randomly high demand might quickly overwhelm available capacity. Second, orders arrive 7 days a week while production occurs only 5 days a week. As a result, the factory begins the week on Monday with all the orders from the weekend in the backlog. Figure 1 shows a sample demand profile (left panel) and that same demand with weekend orders pushed to Monday (middle panel). The right panel maps the demand into production's capacity constraints. Production for any demand in excess of capacity must be pushed to the next day.

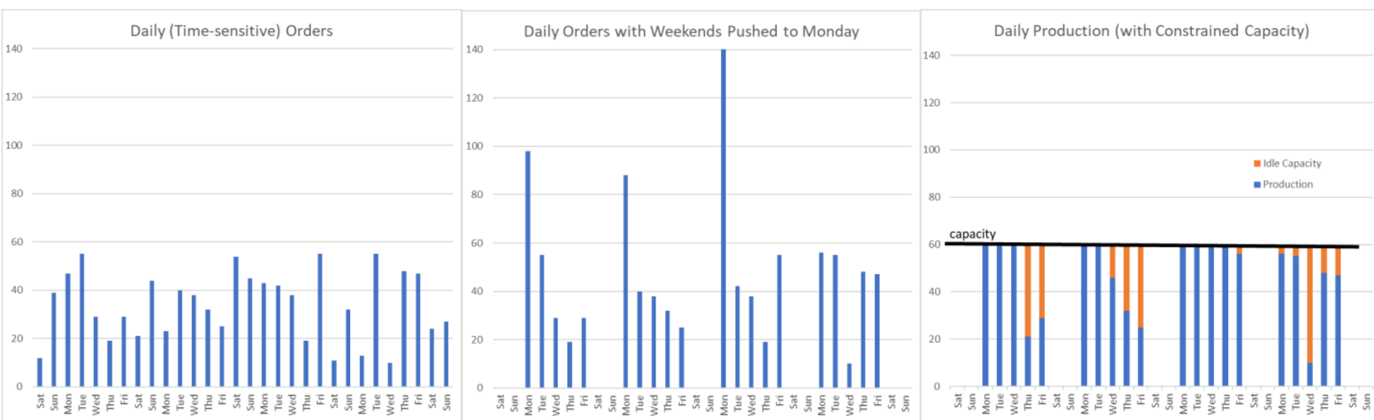


Figure 1: Translating Demand into Production

To achieve consistent 3-day turnarounds, ROAM needs a capacity buffer. The student team estimated that ROAM would need a buffer of 10 units per day (200 per month) for a total capacity of 60 units per day (1,200 per month). Note that even with this 20% buffer capacity, weekend orders sometimes spill into Wednesday or even Thursday, as seen in the right panel of Figure 1.

However, 1,200 units of monthly capacity for 1,000 units of monthly demand is problematic. Fixed costs in the form of salaries, buildings, utilities, equipment and other overhead all need to be paid for each month. Having 200 units of idle capacity would be very expensive.

Wait for It

In order to achieve the efficiencies needed to keep the factory humming at full capacity (and absorbing those fixed costs), ROAM needs to find additional monthly demand of 200 time-insensitive orders. Then ROAM could backfill the daily production of time-sensitive Internet orders with the time-insensitive orders, thus achieving 100% factory utilization. Essentially, ROAM would be filling the idle capacity with time-insensitive orders.

Essentially, Louis now was tasked with identifying and developing separate markets where, for a discount, customers could receive custom suitcases after a wait of as much as 4 to 6 weeks. **Larry reiterated that this additional demand must come from customers who would not otherwise have purchased a full-priced suitcase.** That is, he did not want to cannibalize demand for full-price suitcases. In order to achieve this objective, the new markets were likely to emerge from a B2B (business-to-business) rather than the current B2C (business-to-consumer) focus.

Appendix B: The Origin Story

Act 1: TUMI

After earning an MBA in marketing at Indiana University (now the Kelley School of Business) in 1967, Charlie Clifford spent two years in Peru with the U.S. Peace Corps. Following his return to the U.S., he worked as marketing director for a supplier of material handling equipment for several years and then left to join a couple of fellow Peace Corps alums, who were selling handcrafted products from South America, including leather bags from Colombia. In 1975, he founded TUMI with a partner and a combined investment of $10,000. Named after a Peruvian ceremonial knife, TUMI became by the 1990s an iconic brand known for its line of stylish, durable, and highly-functional black luggage for business and other frequent travelers. Charlie noted that "in those days, the luggage industry was based on relationships" and there was no substitute for spending time on the frontlines meeting with shop owners, retail salespeople and customers ("How I Did It"). Over time, he expanded the business into Europe and Asia, and TUMI became the brand of choice for frequent travelers around the world.

Charlie left TUMI as it was being sold to a British private equity firm in 2004. TUMI went public in 2012, and Samsonite acquired the company for $1.8 billion in 2016.

Act 2: ROAM

In 2018, Charlie re-united with Larry Lein, former Executive Vice President at TUMI, and two other veteran luggage retailers to found ROAM Luggage. With over 100 years of experience in the industry, the founding team brought a deep understanding of travelers' needs and preferences to this venture. However, in the intervening years, the market had changed in at least three crucial ways:

- Online sales had skyrocketed, offering unprecedented opportunities to connect directly with customers. At the same time, serious new competition had emerged in the form of multi-brand, e-commerce giants like Amazon, eBags and Zappos as well as some nimble new D2C (direct-to-consumer) competitors such as Away.
- The personal relationships that had been the heart of successful businesses like TUMI had become much less important. Consolidation within the specialty luggage channel sharply reduced the number of points-of-sale, and the surviving department stores carried fewer brands. Increasingly, short-term performance metrics drove buying decisions, which left little opportunity for new brands.
- From cars to kale to streaming services, millennial consumers had emerged as a powerful and demanding demographic group. Their unprecedented expectations to have input on-product quality and design, supply chains and the manufacturing

process, and near-immediate delivery to their doorsteps presented new opportunities and challenges.

In response to these changes, Charlie and Larry created a new luggage experience. ROAM offers:

- a sleek, user-friendly design module within the website,
- *simple* customization (2 trims) for people who want fewer choices,
- *full* customization (9 trims) for people who want more choices,
- more than a million color combinations,
- monogramming for a personal touch,
- live-chat support during the design process,
- US-made premium polycarbonate thermoformed into outer shell pieces in South Bend, Indiana,
- made-to-order manufacturing,
- vertical integration of the supply chain—including upstream assembly and downstream D2C sales—which allows prices 30-40% lower than comparable products from Rimowa and TUMI,
- delivery in 1-10 days, depending on the level of service the customer chooses, and
- no shipping costs and generous return policies with a 100-day trial period and a limited lifetime warranty.

Competitive Advantage

Within this crowded industry, ROAM has a clear competitive advantage: quick customization.

Quick customization protects ROAM (at least for now) from competitors because it is a very difficult feature for existing competitors to replicate. Virtually all other luggage brands are produced in Asia, so they are subject to high minimum order quantities for each stockkeeping unit (SKU) and a 4-month production/delivery cycle. If any of these brands wanted to shift from mass production in Asia to quick customization within the US, they would face significant barriers to entry, including an expensive overhaul of their supply chain and a dramatic change in manufacturing philosophy, training, and practices.

However, quick customization requires relative proximity to customers and an efficient manufacturing process for customized (i.e., non-standard) orders. ROAM meets one and a half of these requirements. This case is about completing the last half.

Proximity to Customers: Check.

Domestic production is the key. ROAM manufactures in California and at this time ships only within the U.S., so delivery time is relatively quick, even accounting for the last mile. (Delivery to Alaska and Hawaii have longer lead times.) Manufacturing and delivery occur on the same continent.

Manufacturing Efficiency/Efficient Process for Custom Orders: Partial Check.

At ROAM, the standard order *is* non-standard. Every order generates a suitcase that is customized. In this setting, manufacturing will not be as efficient as mass-produced, standard (i.e., non-customized) products, but it still needs to be as efficient as possible in order to maintain reasonable margins on each sale. At ROAM, where every customer expects a quick shipment of a customized product, manufacturing requires a significant capacity buffer (as shown above) to ensure timely delivery. However, an unused capacity buffer (i.e., an idle factory) is expensive and can be a significant threat to ROAM's margins. To control costs, ROAM must find time-insensitive orders that can keep the factory consistently busy by filling the gaps around the production of time-sensitive orders.

Web Resources:

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