

LAMBTON CUSTOM FLOORING

Case Study Analysis 1

Revitalizing LCF through new revenue streams
and increased visibility to secure
growth and profitability

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Executive Summary

This case analysis outlines the concern facing Adam Pierce, the co-owner of Lambton Custom Flooring (LCF), a flooring company in Sarnia, Ontario. From 2021 to 2022, LCF profits declined significantly, prompting concern and consideration of marketing investments, business expansion, or buying out his partner, Marlin Jervis, to reverse this trend in 2023. The report highlights key data and decision criteria that Pierce must consider before making a decision, prompting three alternatives. The first alternative is that LCF can focus on the growing customer interest in bathroom renovations, which could require additional labour, overhead costs and investments in training. The second alternative is to invest in digital advertising and sponsoring local teams to increase brand visibility and attract more customers. The third alternative is to expand the business to London, Ontario, to penetrate a larger market which offers greater potential for growth and sales, requiring significant investment and management oversight. It is recommended for Pierce to combine bathroom installations with increased digital and social media advertising. This strategy taps into growing customer demand while enhancing the LCF's competitiveness through online visibility and brand awareness.

Overview

Lambton Custom Flooring (LCF) was founded by Pierce's father and Jervis, specializing in retail flooring and installation services within Sarnia, Ontario. LCF relies on retail sales to generate 88% of its revenue, with the remaining 12% coming from installation services. As a result of the economic downturn, increased operating expenses and consumer hesitation for larger projects, LCF saw a decline in profits, prompting Pierce to take action for 2023.

Problem Statement

What strategy can Pierce employ to reinvigorate LCF's business through considerations of marketing investments, service expansions or buyout of Jervis to reverse the decline in profits? LCF faces challenges of economic uncertainty, rising costs and shifting customer demands. Pierce needs to consider the risks, constraints, and potential for growth of each alternative. He must carefully weigh these factors to ensure long-term profitability and competitiveness of LCF.

Data Analysis



Net income fell from \$91,873 in 2021 to \$79,521 in 2022, a 13.4% decrease, even though revenue rose from \$2.15M to \$2.37M (+10.5%)



Wages increased by \$60,000 (from \$292,000 to \$352,000) and utilities rose by \$4,520 (from \$42,973 to \$47,493), while fuel stayed flat at \$20,800. These higher costs reduced profitability



Bathroom installations average \$12,000 per project; at 2 jobs per month (24 annually), this would generate about \$288,000 in yearly revenue.



Google Ads cost \$1.50 per click; buying 8,000 clicks (~\$12,000) could yield about 24 projects, each averaging \$4,000, for roughly \$96,000 in sales



Together, bathroom installations (\$288,000) and Google Ads (\$96,000) create about \$384,000 in new revenue potential, enough to offset rising costs and restore profitability.

Key Descision Criteria

1

Profitability

LCF's net income has fallen from 2021 to 2022. Decisions moving forward need to protect profits and create new growth.

2

Demand

Walk-in and non-contractor consumer base eager for installation services, especially tiled showers and back-splashes. Strong market for installations beyond flooring, focusing on positioning the company to meet this demand.

3

Competition

Jackson Select Flooring (JSF) has a hold on installation services. JSF owns a strong hold in the market, particularly high income customers.

4

Reputation

LCF already has a very high customer satisfaction rate. Protecting that trust is crucial through expansion.

5

Resources

Limited time and financial capacity, so the plan has to include using resources wisely.

Alternatives Analysis

■ Expanding into Bathroom Installations

Over 80% of LCF's revenue is generated from retail sales, which shows opportunity for growth in the installation industry. Customers have mentioned wanting floor tiles on shower walls and countertop backsplashes, indicating willingness to spend (opportunity). Competition with Jackson Select Flooring (JSF) must be considered, entering their established installation market in SW Ontario. LCF would need to complete 20 installations to make the expansion viable, according to Pierce, 2 jobs monthly is attainable (24 yearly ~ estimated \$14k profit yearly). The key hurdle is labour and overhead. \$30/hour for competitive wages, \$2k in insurance, \$200 in tools and fuel per project, plus \$2.5 annually in training and compliance.

■ Expanding Social Media & Local Advertising

A focus on local advertising with Google Ads revenue or sponsoring the Sarina Sting, a local hockey team is another alternative. Only 1% of clicks on LCF's Google ads led to a request for consultation, of which 30% led to an actual purchase. This resulted in an average of \$1.50 per click, and Pierce is looking to buy 8k clicks, which would cost \$12k. Most purchases made by consumers who made a purchase from seeing an ad were smaller installation projects costing around \$4k each.

■ Expansion into London, ON

Expansion into London offers LCF access to a market 6x that of Sarnia, with the average household income \$20k higher. Pierce's familiarity with the city during his time at Western University, along with 1 hour distance allows manageable oversight. JSF success in multi-region model across SW Ontario, highlighting viability. Aimed to diversify revenue, attract high income customers and pose a stronger market position.

■ Supplementary Solutions

- Focus on contractually negotiating a deal with suppliers to keep sourcing and COGS predictable
- Run a limited promotion to reduce on hand inventory, converting assets into cash, allowing flexibility
- Implement new payment structure plan, aiming to reduce outstanding income (accounts receivable), potentially offering discounts for lump sum payments

Our Recommendation & Action Plan

LCF should run short-term promotions and look to negotiate contracts with sourcing, reducing excess inventory and unlocking capital to execute bathroom installations and social media advertising. This strategy will improve cash flow, brand growth, and efficiently expands the business to ensure profitability and competitiveness long-term.

1. Hire & Train an Installer

LCF should recruit a skilled installer dedicated to custom bathroom projects. Provide targeted, in-house training to maintain LCF quality standards. Equip employees with the necessary tools and vehicles to create immediate readiness for action.

2. Launch Bathroom Installation Services

Initiate bathroom installation services with a clear project target. Position LCF to specialize in custom bathrooms, capturing a market demand that competitors are leaving unmet. Emphasize consistency and competence to build reputation, drive referrals, and establish a secondary steady income stream.

3. Strengthen Digital Advertising

Expand Google Ads investment to accelerate lead generation. Prioritize campaigns to ideally convert clicks into consultations, giving LCF the opportunity to sell their expertise, resulting in more signed contracts. Increased volume of jobs, irrespective of size, helps spread LCF's name, contributing to the goal of growth.

4. Expand Social Media & Local Presence

Leverage social media to showcase results and expertise through visuals, client testimony, and trend based content. Strengthen that local visibility through selective, lower-cost sponsorships and community events to promote exposure without overcommitting resources.

5. Monitor & Review Performance

Implement quarterly reviews to assess installation volume, advertising ROI and overall profitability. Use performance data to refine strategy, and reassess scalability. Once targets are consistently achieved, expand capacity by adding a second installer, ensuring growth remains disciplined and profit driven.

| Step | Key Costs | Projected Revenue | Benefits |
|------------------------------------|--|---|---|
| Hire & Train Installer | \$62,400 wages + \$2,000 insurance + \$2,500 training + \$40,000 van + \$5,000 van equipment + \$10,000 training time + \$200 per project tools and fuel | This is a supporting role. Necessary step for expansion. | Ensures quality control. Expands capacity. |
| Expand into Bathroom Installations | \$200 tools and fuel per project. Expected 24 projects per year (\$4,800 annually). | 24 projects per year * \$12,000 per project = \$288,000 | Captures strong customer demand Consistent high value work. |
| Short-Term Promotion | Admin Time Added Sales Labour | At 20% liquidation, LCF could gather \$75k-80k | Freed working capital for growth investments |
| Google Ads Campaign | 8,000 clicks * \$1.50 per click. = \$12,000 | 24 projects * average job of \$4,000. = \$96,000 | Generates smaller projects. Diversifies income. |
| Social Media & Local Ads | Social Media costs will vary. Local sponsorships estimated at \$1,000 - \$2,000 each. | This is a supporting role. Increased visibility and customer trust. | Builds reputation. Affordable compared to large sponsorships. |
| Review & Monitor | Admin time. | This is a supporting role. Improved efficiency. Reinvest if ROI > 8%. | Track results quarterly. Increase staff if demand supports it. |

Conclusion

Our recommendation is that Lambton Custom Flooring move forward with a combined strategy of expanding into bathroom installations while also increasing social media and local advertising. We believe this is the most effective way to address declining profits and to position the company for future growth. Bathroom installations will add a new and profitable service that customers are already interested in, while digital and community advertising will make sure that more people learn about your services and are encouraged to choose you over competitors.

This plan balances what you already do well with the changes needed to grow. It protects your reputation, creates new sources of income, and helps you stand out in the Sarnia market. By following this approach, you can build a stronger future for Lambton Custom-Flooring and continue the success your family started.