



Market Expansion: Leon's Furniture Ltd.

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COMPANY INTRODUCTION

Leon's Furniture Ltd. ("Leon's" or "the company") (Toronto Stock Exchange: LNF) is a Canadian furniture retailer originating in Welland, Ontario in 1909 as a general merchandise store. Leon's operates 304 stores across the country, with the majority located in Ontario, and employs nearly 10,000 employees nationwide. It holds the title of being the largest furniture retailer in Canada.

Since its conception in 1909 under founder Ablan Leon¹, Leon's has positioned itself as a brand based upon selling mid-high range furniture, appliances, and electronics at affordable prices. Included within their core values are promises of fast delivery and clear, honest communication with buyers, resulting in a "guarantee of satisfaction" and loyal customer base. Today, Leon's has cemented itself as a name synonymous with Canadian homes.

PRODUCT ANALYSIS

The company's primary focus is on home furniture, ranging from seating (office chairs, guest chairs) and storage units (bins, cabinets) to workstations (individual, collaborative), tables (conference, dining), and other accessories. Leon's additionally offers a wide range of merchandise, including major appliances and home electronics. Furthermore, Trans Global Service, a Leon's subsidiary, provides supplementary installation and repair service for all brand products.

Notable aspects of Leon's consumer-friendly strategy lie in their flexible payment options. Leon's offers a "buy now, pay later" program where consumers can opt to defer a transaction with 0% additional interest². Furthermore, the company presents consumers with the ability to finance a purchase through monthly installments and an "Integrity Pricing" condition to ensure that a consumer pays the lowest price of a good through 60-day reimbursement guarantees.

Leon's was the first Canadian retailer to offer a "Big Box" store layout, where furniture is displayed live inside of a building to be observable and interactable. The public immediately welcomed these showroom style arrangements. A furniture set within the customer's grasp is more likely to invoke a purchase than one stowed away in inventory.

¹ Ablan Leon's family remains deeply involved with the company's board and executive committees, ensuring that its founding values are never forgotten.

² Leon's accomplishes this in partnership with Visa Desjardins.

Big Box layouts also confer the retailer the ability to embellish the appearance of a product through strategically placing the right colours and shapes in its surroundings, making the product look more aesthetically integrated than it perhaps would in a customer's home. As well, furniture retail differs from more delivery-friendly forms of retail products and consequently discourages furniture return.

While showrooms are a source of allure for an experience-orientated audience, high leases make it increasingly difficult for Leon's to develop stores of full sizes. Leon's has attempted to counter this problem by pioneering methods involving compact, tech-outfitted stores to minimize their footprint across the nation. Their technology allows the customer to inspect a furniture set digitally in its actual size and also offers an augmented reality feature to display two products next to each other for visual comparison.

SITUATIONAL ANALYSIS

As the company begins a new chapter in 2021, Leon's has been able to reconcile the losses suffered from the beginning of the pandemic, including their initial layoff of nearly 40% of nationwide associates. From Leon's Q3 2020 report³, a defying performance by Leon's team was evident. There were noticeable increases in year-over-year revenues across all product categories, with an emphatic 47.9% increase in net revenue contrasting with Q3 of 2019. Additionally, e-commerce revenue increased 235%, showing the viability of an online furniture retailing experience.

Leon's strengths, including its 1/3 ownership of the land it uses and \$638 million in available and unrestricted liquidity,⁴ put the company in a favourable position to weather the storm and maintain initiatives as the year progresses. Regardless, the business faces the growing problems of changing markets as consumer demographics alter their needs and preferences.

INDUSTRY ANALYSIS

The Canadian furniture industry is unlikely to see any substantial growth, with growth projected to reach 2.1% through 2025.⁵ While expansion is slow, Leon's benefits from its unique position as a dominant firm within the Canadian furniture retail market, especially after the 2012 acquisition of its rival, The Brick. Nonetheless, competition may

³ As listed here: <https://www.lflgroup.ca/English/home/default.aspx>

⁴ Liquidity definition: <https://www.investopedia.com/terms/l/liquidity.asp>

⁵ Significant catalysts in Canada's home construction patterns may disrupt this trajectory and increase furniture sales due to families moving into homes. However, the ongoing shortage of housing will continue to suppress the furniture industry's potential.

emerge from entrenched multinational retailers offering cost-effective alternatives to Leon's.⁶

With a constrained Canadian housing supply, consumers are adapting their furniture tastes to cope with living arrangements. Specifically, a lack of space has spurred the need for furniture that is multifunctional or retractable (i.e. a Murphy Bed). Also, concurrent with society's increasing awareness of environmental problems is a shifting preference for furniture made from eco-friendly materials. Lastly, an additional consideration is the consumers' desire for the personalization of services— consumers are looking for more than a transactional connection to brands.⁷

The rise of automation and e-commerce has profoundly influenced a number of fields, and the furniture industry is no different. It is clear that a 'digital shift' in the home merchandise consumer market is occurring, with an emphasis on online shopping standards. For Leon's, a Canadian pioneer of the traditional brick-and-mortar furniture venues, adaptation is required to ensure success in the market.

SUMMARY

Firmly adhering to Ablan Leon's founding principles, the furniture retailer that started as a general merchandise store has stood the test of time and forged itself an enviable position in the domestic market. Having digitized its revolutionary Big Box store model, and technologizing its sales channels once again to cope with the pandemic, Leon's seems to be coming out of COVID-19 not only unscathed but strengthened. Underlying issues in the Canadian housing market plaguing the industry's growth possibilities and the potential for competitors to arise out of other markets are reminders that Leon's dominance is not guaranteed.

⁶ Additionally, competition within a specific product category can prove to be challenging, such as in the mattress market against a niche-retailer like Sleep Country Canada. Leon's opportunity may reside in its role as a one-stop-shop for furniture.

⁷ An example of this is Ikea's foodservice expansion, developing customer relationships through a feeling of home and comfort.

THE CHALLENGE

As of current, Leon's faces discrete problems regarding a common theme of changing markets and customer preferences.

Your team are Leon's consultants. Using this case study as a glimpse of the situation, you may use additional research to capture an all-encompassing view.

- Perform a complete analysis on Leon's.
 - How well has Leon's maintained their brand promise?
 - How is Leon's positioned to handle the specific issues and changes in the overall industry?
- How can Leon's expand/adapt/create company initiatives to better accommodate the needs of changing markets?
 - Remember to consider arising trends in the furniture industry.
 - Should foreign expansion be considered?
- What does it mean for existing stores if e-commerce is the future? How should Leon's balance between refining the Big Box retail experience vs. the e-commerce experience?

YOUR TASK:

Create an 8-10 minute presentation on your analysis, your recommendations, and your implementation of such recommendations.

In your presentation, remember to include:

1. **Problem Identification** (What are the key issues?)
2. **SWOT Analysis** (What are Leon's internal/external strengths/weaknesses?)
3. **Target Market** (Who is Leon's targeting? Describe their consumer profiles.)
4. **Competitor Analysis** (Who is in the market already? Who will soon enter the market? How do they compare to your company?)
5. **Solution** (What strategies will you employ?)
6. **Implementation Plan** (How will you implement your solutions?)
7. **Risks & Mitigation** (What are the risks involved with your changes, and how can they be reduced, if not prevented?)
8. **Conclusion** (What was the problem? How did you solve it?)