
DIANA'S FLORAL STUDIO: A NEW MARKETING ARRANGEMENT

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CASE DESCRIPTION

The primary subject matter of this case is differentiation of products and services in a relatively competitive market during challenging economic periods. In particular, this case highlights how business owners identified a specific market segment on which to focus their efforts without incurring additional marketing costs in traditional media channels. This case has a difficulty level of three and up, appropriate for junior level and beyond. The case is designed to be taught in two to three class hours in a management, strategic marketing management, or an entrepreneurship course, and is expected to require about three hours of outside preparation for students, consisting mainly of reading the case and familiarizing themselves with the business environments on the U.S. territory of Guam in the Western Pacific region.

CASE SYNOPSIS

The case is about Diana's Floral Studio, a small family-owned business on Guam that today provides floral arrangements and consulting services for the island's functions and events. The case traces the business through the early years of Diana's Floral Studio as a small flower shop to a business that specializes in floral design services. The business had undergone a transformation in focus and strategy in response to trends in the marketplace resulting from macroeconomic conditions affecting Guam's tourism dependent economy. This reorientation of its business operation also resulted in a change from originally serving mainly a clientele of individuals to entering into contractual agreements for business services with larger clients like the island's major hotels. As such, Diana's Floral Studio has changed its marketing strategy from utilizing traditional media channels to reach individual customers to one that relies on word of mouth advertising from existing large clients. With Guam's highly transient population and the impending military build-up, the business owners must continue exploring new marketing strategies to maintain its position as one of the island's leading floral design studios.

BACKGROUND

Diana's Floral Studio, also known as Diana's Florists, began as a small flower shop retailing fresh flowers and floral accessories on Guam. They catered to a limited customer base with average annual revenues of approximately \$18,000. The business began operating in 1991 at its first location, which was out of a retail store with a small window space totaling approximately 1100 square feet. Slowly, the small studio blossomed and made a name for itself among its competitors, many of which were much larger in size of operation and volume of business. The business eventually moved to a second location consisting of a space where there was a large store front studio section displaying various floral arrangements, accessories, and props, staged for prospective clients to preview. In the new location, Diana's had a very retail-like atmosphere in the early years of operation. In the early 2000s, the floral studio moved to a third location where it currently operates, and along the way adopted a new business strategy. This new business strategy led to a change in their marketing strategy, from one that mainly targeted retail sales with individual customers to one that focused on selling floral design services to large clients like the island's well-known hotels. At this location Diana's Floral Studio utilizes 2,500 sq ft, which is one-third of a shared warehouse building located in an industrial area in the central Guam village of Tamuning. These changes were made in response to changes in Guam's economy.

From the early 1990's, Guam experienced severe hardships in the economy. Some of these came in the form of disasters, such as Typhoon Chata'an in July 2002 and Typhoon Pongsana in December 2002, which was recorded as the strongest typhoon to hit Guam in the past century. Even before these two major typhoons, Guam was just in the process of rebuilding and recovering after being devastated by Typhoon Paka in 1997. In addition, regional and global economic and financial problems dating back to the Asian financial crises of 1997-98 plagued the island's recovery from the bursting of the Japanese bubble economy in the early 1990's. Just when signs of recovery were appearing with many of Guam's retailers hitting record sales in August 2001, the September 11 attacks and SARS came along and dropped tourist traffic, from Guam's tourist dependent economy, as much as 60 percent. The rollercoaster ride that Guam's economy has taken made Diana's Florists change from one type of business to another. The adjustments made to the business may not have been obvious, but the family owned flower shop began to make subtle changes.

Diana's Floral Studio is owned by Guam's Yang family. Diana Yang, the principal owner and president took the shop from a small window front store to a large design studio and retail flower shop and transformed the business to what it is today. With the help and guidance over the years of her three daughters, Diana's Floral Studio has survived the economic turmoil of Guam's past decades. Daughter Wennie was the first to assist her mother run the family business, using her University of Guam education. Annie, a University of California-Berkley

graduate, then took her place. Today, Jennie, a graduate of University of California at Los Angeles now runs business operations for the studio. Her mother, Diana, focuses on the floral design and now plays less of a role in the office. The business has substantially grown its annual gross sales with the majority of the revenue generated from floral design services.

Jennie Yang credits the success of the studio mainly on her mother's desire and the drive to work hard to be one of the best floral designers on Guam. However, the three sisters' business degrees have also had a large impact on their decision-making. The input from the daughters was crucial in the decision-making when the family decided to give up being a flower distributor, which involved selling flowers to other retail stores for resale. This decision helped to minimize costs associated with ordering and storing flowers that would not be used for services provided by Diana's Floral Studio. The family also decided to remove the storefront to cut operating costs. In addition, Wennie and Annie, being a few years older than Jennie, had moved on with their careers, leaving their mother to run the business by herself. Streamlining the business was a necessity due to the downturn in the economy. At the time the decision was made, Jennie was still finishing up her education at UCLA. Now, with the youngest daughter handling business operations, Diana's Floral Studio is beginning to pursue new ways of growing their business.

MARKETING STRATEGY ANALYSIS

After selling their share of an established partnership as a flower distributor in 2000, the Yang's shifted gears to being a service provider, contracting with larger customers in the tourism industry while continuing special event services. Though they still provide retail and small custom order services to a small degree, the warehouse location's layout truly reflects their new strategy. Diana's Floral Studio is now likened to a consulting firm or contractor that is paid for recommendations based on expertise in their field. Diana's Floral Studio provides services that include the coordination, design, and placement of floral arrangements for special events such as weddings, funerals, birthday parties, and corporate functions. The business does this with a personal approach. This shift in their marketing strategy can be described as a down-shift in their marketing strategy.

Diana's Floral Studio relies heavily upon its reputation in the small island community to generate new business and positive first experiences encourage repeat business. Their pricing strategy is a large part of their marketing strategy. Commenting on Diana's Floral Studio's marketing strategy and direction, Jennie Yang states, "We want to charge a bit higher than market to convey we provide customized designs for the average customer. Each design is made specifically for the individual thus providing the customer with individualized service" (J. Yang, personal communication, September 10, 2009). In discussing their customized approach, even their large corporate customers, like Guam's Hyatt Regency Hotel, are described and handled as "individuals" symbolizing the personalized approach to the services they provide to them.

As in most cases, pricing above competition works only when the product is distinctive or when the seller has acquired prestige in its field (Etzel et al. 2007: 339). This is the case with Diana's Floral Studio. The business owners accept being known as a pricier option for floral services only because they maintain that the quality and creativity behind their arrangements and services are deserving of the price. It is not within their marketing strategy to be known as a cheap alternative. In fact, that is counter to their goal. They aim to set the bar for floral design services on the island and be the best in their industry. Diana's Floral Studio is arguably one of the best in its field, having won the designation for "best design" in recent years at Guam's annual Bridal Show.

With the prestige that comes with design awards often results in a competitive advantage over competition. However, a business cannot rely only on seeking a competitive advantage but it must also sustain this advantage over the long haul. Sustaining competitive advantage requires erecting barriers against the competition (Jain 1999: 100). For Diana's Floral Studio, one of the key barriers against the competition is the inventory of design skills of the studio's designers. However, this barrier may not be sustainable over the long run unless turnover of designers is controlled and that competitive intelligence, (i.e., the design skills) is not transferred to the competition.

Diana's Floral Studio does little to no advertising via the island's traditional media channels. They rely on the business' reputation and the satisfaction expressed by their clients to other prospective clients. Being one of the longest running floral studios on Guam is a major strength. They are almost at the level of being iconic for their industry. Because of this status, the business owners find little benefit with costly mass media advertising, which would not be most effective in advertising its services to its target market. This conclusion is also based on their newly established focus on being a service provider to a customer base of larger, repeat clients.

SUMMARY OF SUCCESS

The image that Diana's Floral Studio established has clearly positioned them as an above-market priced, high quality service provider similar to quality hotel chains that have used this approach effectively. In this regard, their marketing strategy is a clear-cut success. As a retail store and distributor, the business was successful during the 1990's, which was when they relied on traditional advertising media, such as Guam's Pacific Daily News newspaper, radio, local magazines, as well as word of mouth advertising.

Today, the shift to being a service-providing firm has proven to be a success as well. The new marketing strategy has made the business known throughout the island community as a very reliable special event services provider. This result has been in no small part due to being less focused on individual sales and more aggressive in working with Guam's well-known clientele such as the island's large hotels, which in turn has led to greater exposure.

SUMMARY OF FAILURES

Diana's Floral Studio is constantly losing its individual retail customer base because of the change in strategy. The business owners knew there would be a drop in retail sales to individual customers, but it is nearly non-existent today. According to Jennie Yang, the business only receives a few calls per day for orders and deliveries to individual customers. This was previously a major source of revenue for the business, accounting for well over 50 percent of annual gross revenues. Additionally, they are also losing business to smaller shops and studios that are physically located in more visible and highly trafficked locations. Though the business' reputation precedes them, Guam's relatively small population of 170,000 is growing with the impending military build-up involving the relocation of U.S. Marines from Okinawa, Japan. The relocation is to involve the movement of 8,600 Marines and 9,000 dependents as well as non-military support staff, and an additional 600 Army personnel and their 900 dependents (Joint Guam Program Office 2009). The movement of people is scheduled to happen between 2010 and 2014, with parts of the move already underway. This market segment will be made up of new entrants who have never heard about Diana's Floral Studio or they may hear about them when it is too late, resulting in missed opportunity and loss of revenue.

SWOT ANALYSIS

Strengths

Diana's Floral Studio has a loyal existing customer base. Hyatt Regency Guam, their largest customer, has used their services for over 3 years and even before this period, had conducted business with Diana's Floral Studio on an event-by-event basis. Among its customer base are the local high schools. For over a decade, Diana's Floral Studio has been utilized by Guam's John F. Kennedy High School students for their special events like proms, balls, and graduations. This relationship was well established during the high school years of the Yang sisters. Each graduated from JFK and has continued to support the school with special pricing when asked. This reputation for the business' flexibility with pricing has been conveyed to the rest of the community's high schools.

It is also commonplace for subsequent generations within large families to return to Diana's Floral Studio for the commemoration of life events, such as weddings, funerals, birthdays, and graduations. This is due in part to their reputation and the emphasis on quality, personalized service. Also, their current workspace is organized to fulfill this personalized service. Over 80% of their workspace is a dedicated design workspace. There is very little space used for displays. Additionally, the business' prices, reputation, and quality are well defined.

They can all be described as being above market. Their steeper prices go with a highly regarded reputation of having an elevated degree of quality in their product.

Weaknesses

For the purpose of branding themselves as high quality designers with higher than market pricing, Diana's Floral Studio does very well. However, this strength can also be a major weakness. It leaves the door open for other shops to undercut their prices, but it is simply a risk that the business is willing to take to maintain their image. Another weakness is that despite the layout of their workspace being perfectly geared towards their current strategy, the physical location puts them at a disadvantage. The location is not in a heavily trafficked area. The studio is located amidst other warehouses in an industrial area and their signage is not clearly visible. One other disadvantage with their current location is that it has very little room for displays. The display/welcoming area is roughly the size of a medium-sized living room or family room. An additional weakness not related to their workspace is that there is no tangible way to "brand" their product. Branding is limited to their business name being announced or publicized for acknowledgement associated with various events. Placing a logo on every arrangement or flower is not only challenging, but is also not an acceptable way of doing business in the floral design business. In floral sales, however, logo placement is less challenging. In most occasions people give a bunch of flowers – not just one, wrapped in some paper, plastic or other form of packaging, and where there is packaging, there is scope for branding.

Opportunities

Diana's Floral Studio still has a number of potential clients in hotels that have not yet signed a contractual agreement for their business. An additional contract or two with any of the larger (100-room plus) hotels with food and beverage facilities on island would greatly increase their revenues and allow for expansion. Also, with becoming a sole source for a hotel, negotiated pricing for floral services could be included in packages for special events such as wedding receptions and other functions being held in the hotel ballrooms and restaurants. This sort of joint venturing would create better access to special event opportunities.

Another type of joint-venturing or partnership could be made possible with the island's large retailers like K-mart that do not yet sell floral arrangements. Travel agencies make up another type of clientele that Diana's Floral Studio has yet to approach. The business may provide discounted pricing for the large amount of leis used to greet tourists as they arrive at the Guam International Airport.

Threats

There are approximately twenty to thirty floral businesses that are currently operating on Guam, mainly in the retail sector. Though the actual size of the floral market for Guam is undefined, the number of competitors in business still inherently translates into a great degree of competition for a small geographic area. Guam has 20 hotels that have over 100 rooms (Guam Hotel and Restaurant Association 2009), thus providing the small number of hotels many options that could potentially undersell Diana's Floral Studio in services as they package these with their products.

Another issue that is actually common to almost any industry on Guam is shipping delays. With unpredictable weather (i.e. frequent tropical storms) and increased flow of products landing at the Guam Commercial Port due to Guam's military build-up, interruptions in business due to delays in receiving flowers from the port are even more of a possibility. There is very little that can be done to remedy this due to the limited lifespan of flowers. Increasing the volume of orders will not solve the supply issue, as the flowers kept longer in inventory are likely to wither away before they can be used.

CONCLUSION

Retail firms must identify and respond to significant trends that affect retailing. In particular, companies in the retail arena will have to provide consumers with substantial value that takes into account not just price, but also the quality of products and the shopping experience (Etzel et al., 2007: 429). In the case of Diana's Floral Studio, the business owners have proven to be successful not by underselling the competition, but by providing high quality service in the form of delivering customized floral designs for each client. They recognized the trend for this demand while experiencing the challenges of Guam's fragile, tourist-dependent economy.

There are still various ways for Diana's Floral Studio to re-establish itself as a more formidable front-runner in the floral services industry on Guam. There are business opportunities waiting to be taken advantage of, but these will require changes in strategy. These changes may appear to be more operational, but they would actually require a re-tooling of the business marketing strategy. Re-imaging would be required to again be seen as a customer-friendly storefront that can create potential special event services. This re-imaging will best be done through traditional advertising, teaming with other retail venues, participating in special venues like fashion shows and bridal shows, and receiving positive media exposure in news articles and magazines. It would introduce the business to the new customers entering the market like teens, young adults, and transplants to the island via military build-up or other activity. Reaching these

new customers before any other competitor does can ensure Diana's long term capacity to generate revenue in addition to their contracted tourism-related services.

DISCUSSION QUESTIONS

1. The Yang's of Diana's Floral Studio shifted gears from being a small flower shop and flower distributor to being a service provider, contracting with larger customers in the tourism industry while continuing special event services.
Explain what motivated this business decision. Expand on your answer by describing the risks associated with this or similar business decision(s).
2. How did the family contribute toward the success of Diana's Floral Studio?
3. What can be done by the business owners to maintain Diana's Floral Studio's competitive advantage over other flower shops?
4. Explain how the marketing strategy of Diana's Floral Studio changed over the years. What factors caused the change in marketing strategy? What are some recommended marketing strategies to capture new business with the impending military build-up?

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