

CASE STUDY: RSM PROVIDES HOLISTIC, REAL-WORLD EXPANSION STRATEGY TO E-COMMERCE BUSINESS

Background

StewMac, a U.S.-based e-commerce business founded in 1968, sells professional guitar tools and parts. The company was trying to grow its share of the European market. StewMac sells approximately 6,000 products, of which 70% to 75% are designed and manufactured in-house under six consumer brands.

While the company had identified an enormous growth opportunity in continental Europe—thanks to a great following and a strong reputation, along with the educational content it provides—it had also identified several issues that were hindering its global expansion.

In recent years, the company saw a softening of its international sales, as well as difficulties in determining how best to expand and streamline its supply chain, lower retail prices, and provide a faster delivery to international customers. The loyalty program StewMac implemented in the United States—the StewMAX membership, which provides free shipping and discounts—was also more costly to replicate abroad without a physical presence.

Goals

StewMac had seen growth in the double digits in the United States in recent years, but a strong U.S. dollar coupled with long and costly delivery times for customers, impeded and slowed a similar growth in continental Europe. Streamlining the supply chain by receiving and assembling products closer to the consumer was the company's primary goal. In addition, StewMac aimed to eliminate follow-on charges for local taxes and duties, as well as reduce shipping fees paid by customers. Additional goals included decreasing delivery time and expanding the company's loyalty program to more territories.

Would establishing a distribution center in Europe help StewMac achieve these goals? And if so, which type of distribution center would be the right one? How much would the company need to sell to support it? What capabilities would the company need in order to deliver to customers and justify new costs?

Enter RSM US LLP's global expansion advisory team.

Our role

Our global expansion advisory team, led by RSM US director Matt Dollard, helped StewMac weigh its options regarding a successful European expansion. The team analyzed information to determine if the costs and benefits of putting a distribution center in Europe would meet StewMac's goals. "We began by understanding StewMac's strategy, then we co-developed a work plan, executed it and finished with key findings which included a step-by-step plan that StewMac can implement when they are ready," Dollard said.

From StewMac's perspective, the company was looking for a team that would work alongside them to create that solution, and for a team that was able to articulate and demonstrate knowledge not only in a process, but in the requirements it would take to succeed.

StewMac CEO Rick Camino said that the key differentiators as to why they chose RSM were that RSM enabled them to plan from a financial perspective, from a time perspective and from an engagement perspective. "We were able to plan and co-create a solution with them. And the weekly touch bases continued to build confidence along the way," Camino said.

In addition to analyzing various distribution center business modeling, to meet the client's demands, RSM was able to integrate several service offerings including a supply chain assessment. "RSM professionals from across the organization contributed valuable perspective and critical guidance that shaped our analysis and sharpened the finished product for StewMac. It was critical for us to bring an understanding of the European tax implications of an EU distribution center into our financial models for StewMac," says Dollard.

With this approach, RSM was able to create a holistic solution to solve the multifaceted complex business issues a company faces when it considers global expansion, and it helped demonstrate what it takes to solve that equation.

Outcome and benefits

The insights and analysis that RSM provided in conjunction with a detailed, real-world implementation road map enabled the client to quickly prioritize business objectives and focus its resources in a strategic and sequenced way. Working with RSM translated into several benefits and successes to date:

- The company decided to remain a U.S.-based business for the moment versus establishing a European distribution center right away. StewMac's Rick Camino explained that thanks to RSM, the company realized there wasn't a "binary fork in the road where you stay at home or open a facility. You don't need to be in the continent to initially be successful. From a cost perspective we realized the lift in sales will offset our shipping margin so much that it would be easier to first focus our efforts on building more foreign sales from the U.S."
- RSM helped StewMac determine the increase in European sales required to sustain different distribution center options that were analyzed. This included a five-year projection model of sales volume and costs in continental Europe.
- RSM helped them determine that some of the key metrics and data points in the U.S. could be used to benchmark and contrast the success in Europe.
- Through analysis of the client's e-commerce data, RSM helped the company identify key insights with regard to customer acquisition in the United States vs. Europe.
- RSM's collaborative approach allowed StewMac to shift focus and increase its international advertising and launch its loyalty program in 15 countries. This strategy resulted in 14% growth in Europe and 30% growth in Canada over nine months.

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