

19 LIEBER LIGHT

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Alice Howell, president of the Lieber Light Division of Fraser Co., leaned forward at her desk in her bright, sunlit office and said, "In brief, our two options are either to price at a level that just covers our costs or to risk losing market leadership to those upstart Canadians at Vancouver Light. Are there no other options?" Tamara Chu, Lieber's marketing manager, and Sam Carney, the production manager, had no immediate reply.

Lieber Light, based in Seattle, Washington, had been the area's leading manufacturer of plastic moulded skylights for use in houses and offices for almost 15 years. However, two years earlier Vancouver Light, whose main plant was located in Vancouver, British Columbia, Canada, 240 km to the north of Seattle, had opened a sales office in the city and sought to gain business by pricing aggressively. Vancouver Light began by offering skylights at 20% below Lieber's price for large orders. Now, Vancouver Light had just announced a further price cut of 10%.

COMPANY BACKGROUND

The primary business of Fraser Co., which had recently celebrated its fiftieth anniversary, was the supply of metal and plastic fabricated parts for its well-known Seattle neighbour, Boeing Aircraft. Until the 1960s Boeing had accounted for more than 80% of the company's volume, but Lieber then decided to diversify in order to protect itself against the boom-and-bust cycle which seemed to characterize the aircraft industry. Even now, Boeing still accounted for nearly half of Lieber's \$50 million¹ in annual sales.

Lieber Light had been established to apply Fraser's plastic moulding skills in the construction industry. Its first products, which still accounted for nearly 30% of sales, included plastic garage doors, plastic gutters, and plastic covers for outdoor lights, all of which had proved to be popular among Seattle home-builders. In 1968 Lieber began production of what was to be its most successful product, skylights for homes and offices. Skylights now accounted for 70% of Lieber's sales.

THE SKYLIGHT MARKET

Although skylights varied greatly in size, a typical one measured 1 m x 1 m and was installed in the ceiling of a kitchen, bathroom, or living-room. It was made primarily of moulded plastic with an aluminum frame. Skylights were usually installed by home-builders upon initial construction of a home or by professional contractors as part of a remodelling job. Because of the need to cut through the roof to install a skylight and to then seal the joint between the roof and skylight so that water would not leak through, only the most talented "do-it-yourselfer" would tackle this job on his or her own. At present 70% of the market was in home and office buildings, 25% in professional remodelling, and 5% in the do-it-yourself market.

¹ All prices and costs are in U.S. dollars.

Skylights had become very popular. Homeowners found the natural light it brought to a room attractive and perceived skylights to be energy conserving. Although opinion was divided on whether the heat loss from a skylight was more than the light gained, the general perception was quite favourable. Homebuilders found that featuring a skylight in a kitchen or other room would be an important plus in attracting buyers and often included at least one skylight as a standard feature. Condominium builders found that their customers liked the openness that a skylight seemed to provide. Skylights were also a popular feature of the second homes that many people owned on Washington's lakes or in ski areas throughout the area.

In Lieber Light's primary market area of Washington, Oregon, Idaho, and Montana, sales of skylights had levelled off in recent years at about 45,000 units per year. Although Lieber would occasionally sell a large order to California home-builders, such sales were made only to fill slack in the plant and, after including the cost of transportation, were break-even propositions at best. No sales were made to Canada.

Four home-builders accounted for half the sales of skylights in the Pacific Northwest region of the United States. Another five mid-sized builders bought an average of 1,000 units each, and the remaining sales were split among more than 100 independent builders and remodellers. Some repackaged the product under their own brand name, and many purchased only a few dozen or less.

Lieber would ship directly only to builders who ordered at least 500 units per year, although it would subdivide the order into sections of one gross (144) for shipping. Most builders and remodellers bought their skylights from building supply dealers, hardware stores, and lumberyards. Lieber sold and shipped directly to these dealers, who typically marked up the product by 50%. Lieber's average factory price was \$200 when Vancouver Light first entered the market two years ago.

Lieber maintained a sales force of three people who contacted builders, remodellers, and retail outlets. The sales force was responsible for Lieber's complete line of products which generally went through the same channels of distribution. The cost of maintaining the sales force, including necessary selling support and travel expense, was \$90,000 annually.

Until the advent of Vancouver Light, there had been no significant local competition for Lieber. Several California manufacturers had small shares of the market, but Lieber had held a 70% market share until two years ago.

VANCOUVER LIGHT'S ENTRY

Vancouver Light was founded in the early 1970s by Jennifer McLaren, an engineer, and Carl Garner, an architect, and several business associates in order to manufacture skylights. They believed there was a growing demand for skylights. Their assessment proved correct, and because there was no ready source of supply available in western Canada, their business was successful.

Two years ago the Canadian company had announced the opening of a sales office in Seattle. Jennifer McLaren came to this office two days a week and devoted her attention to selling skylights only to the large volume builders. Vancouver Light announced a price 20% below Lieber's with a minimum order size of 1,000 units to be shipped all at one time. It quickly gained all the business of one large builder, True Homes, a Canadian-owned company. In the previous year that builder had ordered 6,000 skylights from Lieber.

A year later, one of Lieber's sales representatives was told by the purchasing manager of Chieftain Homes, a Seattle-based builder who had installed 7,000 skylights the previous year, that Chieftain would

switch to Vancouver Light for most of its skylights unless Lieber was prepared to match Vancouver's price. Lieber then matched that price for orders above 2,500 units, guessing that smaller customers would value highly the local service that Lieber could provide. Chieftain then ordered 40% of its needs from Vancouver Light. During the same time, two mid-sized builders switched all their business to Vancouver Light as well, taking advantage of Vancouver Light's lower prices. Before Vancouver's latest price cut had been reported, Tamara Chu, Lieber's marketing manager, projected that Vancouver Light would sell about 11,000 units this year, compared to the 21,000 that Lieber was now selling.

Lieber had asked its lawyers to investigate whether Vancouver Light's sales could be halted on charges of export dumping, that is, selling below cost in a foreign market, but a quick investigation revealed that Vancouver Light's specialized production facility provided a 25% savings on variable cost, although a third of that was lost due to the additional costs involved in importing and transporting the skylights across the border from Canada to the United States.

THE IMMEDIATE CRISIS

Alice Howell and her two colleagues had reviewed the situation carefully. Sam Carney, the production manager, had presented the cost accounting data which showed a total unit cost of \$135 for Lieber's most popular skylight. Vancouver Light, he said, was selling a similar model at \$144. The cost of \$135 included \$15 in manufacturing overheads, directly attributable to skylights, but not the cost of the sales force nor the salaries, benefits, and overheads associated with the three executives in the room. General overheads, including the sales force and executives, amounted to \$390,000 per year at present for Lieber as a whole.

Tamara Chu was becoming quite heated about Vancouver Light by this time. "Let's cut the price a further 10% to \$130 and drive those Canadians right out of the market! That Jennifer McLaren started with those big builders and now she's after the whole market. We'll show her what competition really is!"

But Carney was shocked: "You mean we'll drive her *and us* out of business at the same time! We'll both lose money on every unit we sell. What has our sales force been doing all these years if not building customer loyalty for our product?"

"We may lose most of our sales to the big builders," cut in Alice Howell, "but surely most customers wouldn't be willing to rely on shipments from Canada? Maybe we should let Vancouver Light have the customers who want to buy on the basis of price. We can then make a tidy profit from customers who value service, need immediate supply, and have dealt with our company for years."