



RePro Case

RePro Case: FAIRKAUF



Important notice:

- This case study consists of **four sections** that can be solved independent of each other.
- The starting point of each section is the initial case, i.e. the initial situation as in "**FAIRKAUF: An overview**"

FAIRKAUF

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Part I: The Initial Situation of FAIRKAUF

1 Business model

In 1997, the Mannheim Caritas Association, a non-profit organization, founded FAIRKAUF, a second-hand department store. The business model of this department store boils down to acquiring second-hand goods for free, usually from household dissolutions, in order to sell these items in several stores across the inner city area.

The main objective is occupational re-integration by creating proper jobs with social insurance coverage for socially underprivileged people. This target group primarily includes physically or mentally challenged people, long-term unemployed people, single parents, and unemployed adolescents. FAIRKAUF (with its director, Ms. Kalker) is a subdivision of the Department for Employment-encouragement Measures of the Mannheim Caritas Association (see Figure 1).

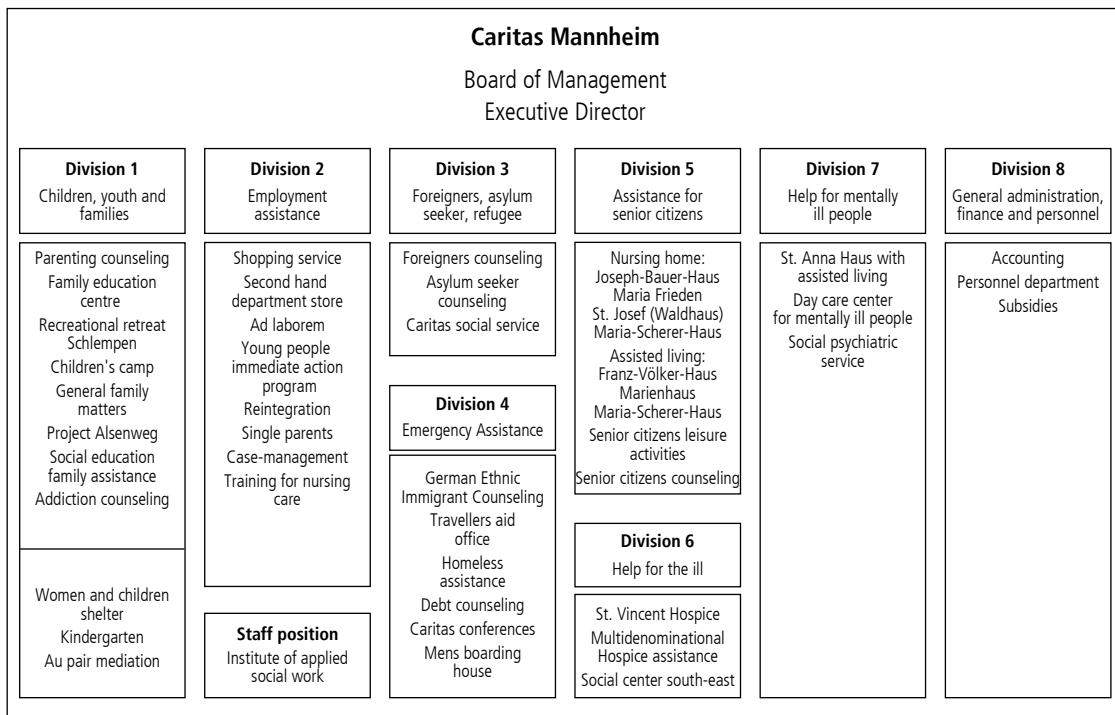
FAIRKAUF generally adheres to the following business philosophy:

- FAIR trade,
- FAIR procurement,
- FAIR negotiation.

Apart from the majority of items acquired through donations from dissolved households, the company offers a range of additional services, including repair service of broken donated goods in an in-house repair shop; moving assistance, apartment clearance; assembly, furniture assembly; disposal and transport (see Figure 2).

FAIRKAUF intends not only to create job opportunities but also to offer affordable products to people in need. Since the company exclusively sells donated goods, it can offer these goods for far less than traditional retail stores.

Figure 1: Organizational Diagram



Source: Mannheim Caritas Association

These goods are sold in:

- the Second-hand Department Store in Waldhof and in stores in:
- Almenhof,
- Luisenring,
- Innenstadt (F2) (store will be closed).

The target groups have so far included:

- socially underprivileged people relying on buying inexpensive goods,
- American soldiers and their families stationed in the Mannheim area. This group tends to stay in Germany only for a short time, and thanks to FAIRKAUF, can save money when furnishing their homes.

Figure 2: List of functions and services by store

Waldhof	Almenhof	Luisenring
<ul style="list-style-type: none"> • Selling • Repair shop • Storage • Head office • Administration • Coordination • Goods delivery reception 	<ul style="list-style-type: none"> • Selling • Repair shop • Storage 	<ul style="list-style-type: none"> • Selling

Since the used goods remain part of the economic cycle, the company does, in fact, conserve natural resources, thereby significantly contributing to environmental protection. Thus, FAIRKAUF's business operations are not only economical, but also ecological.

In conclusion, the summary of FAIRKAUF's business philosophy incorporates:

- creating job opportunities,
- supplying people in need with inexpensive goods,
- environmental awareness.

2 Internal organization

FAIRKAUF currently employs between 35 and 45 workers. These employees can generally be divided into two groups:

- physically and mentally challenged workers living in an otherwise regular social setting,
- long-term unemployed people mostly from a precarious social setting who are physically resilient but whose intellectual capabilities are somewhat limited. Occasionally, these people seem to be lacking the intrinsic motivation and ambition to carry out work assignments on their own or as part of a team.

The necessity for both groups to interact with each other is likely to cause internal problems. These problems in turn might interfere with implementing the recommended changes for optimization.

The employees of FAIRKAUF perform a variety of tasks (see Table 1). However, depending on the amount of donations and sales, the limited number of job positions may occasionally cause a bottle-neck for finishing work assignments. The company is especially taking a chance with those job positions whose tasks are only assigned to one employee; there remains the risk that due to sickness or vacation, certain tasks that are indispensable for business operations cannot be performed.

Apart from the difficulty of maintaining a constant, frictionless work flow, FAIRKAUF is also struggling with the situation that employees vacate their position at a time when, thanks to their work experience and with the help of miscellaneous training and social education assistance, they have acquired sufficient qualifications to find employment in the first labour market. This problem is, admittedly, intrinsic to the system, and in fact, produces the desired consequences, for FAIRKAUF as a non-profit organization intends to provide a "stepping stone" to the first labour market by endowing its employees with adequate qualifications.

Table 1: Number of FAIRKAUF employees (as of May 2005)

Area of work	Number of employees
Order bookings	2
Order processing	1
On-site inspection	2
Goods collection	13
Goods delivery reception	1
Supervision	2
Selling	12
Head office	2
Total number	35

Source: Internal figure.

3 The entrepreneurial objective of transforming FAIRKAUF into a non-profit limited private company

FAIRKAUF strives to adopt the legal form of a non-profit limited private company (Ltd.), i.e. a self-supporting business in a common legal and economical sense. Since September 2004, FAIRKAUF has been registered in the Commercial Registry as a non-profit limited private company in the course of formation. By transforming into a non-profit limited company, FAIRKAUF is now eligible to be recognized as an integration company by the Integration Office of the Federal Welfare Association Baden.

In general, the ninth social security statute book distinguishes three types of integration projects, i.e. legally and economically independent institutions that provide seriously disabled people with the opportunity to participate in the general labour market:

- Integrating companies,
- Integrating facilities,
- Integrating departments.

The chances for official recognition are currently deemed promising, which may facilitate long-term support for employees according to the ninth social security statute book, and thus, provide them with a long-term perspective. With state funding being tightened at the moment, FAIRKAUF, if recognized as an integration company, may have a better chance of qualifying for state subsidies. With reference to Paragraph 134 of the ninth social security statute book, for example, the limited private

company could apply for state subsidies in order to provide adequately equipped work places (e.g. by installing a wheelchair accessible elevator).

Moreover, as a limited private company, FAIRKAUF could trade for its own account, thereby possibly compensating for inventory fluctuations by purchasing new or used merchandise. This will again be conducive to the company's ability to compete in light of other trading companies in the market. When it comes to selling electric appliances, the present over-reliance on donations will be a problem; systematic purchases would be an alternative for accommodating the continuously excessive demand for electric appliances.

However, the implementation of a closed merchandise management system would be a prerequisite for the company's commercial expansion, since it improves the monitoring of costs. Such a system will not only allow valid assumptions regarding performance, but will also readily identify internal weak points (e.g. loss of merchandise). The Mannheim Caritas Association has a vital interest in the economic independence of the second-hand department store, since other Caritas departments would otherwise have to compensate for possible losses.

Admittedly, the transformation into a limited private company will likely include many obstacles and difficulties, particularly as human resources are concerned (e.g. personnel planning). The high personnel turnover must be significantly reduced. Moreover, the company can no longer afford to transfer employees who either are dissatisfied with their position or show a poor performance to another position within the company on short notice.

4 Basic services available at FAIRKAUF

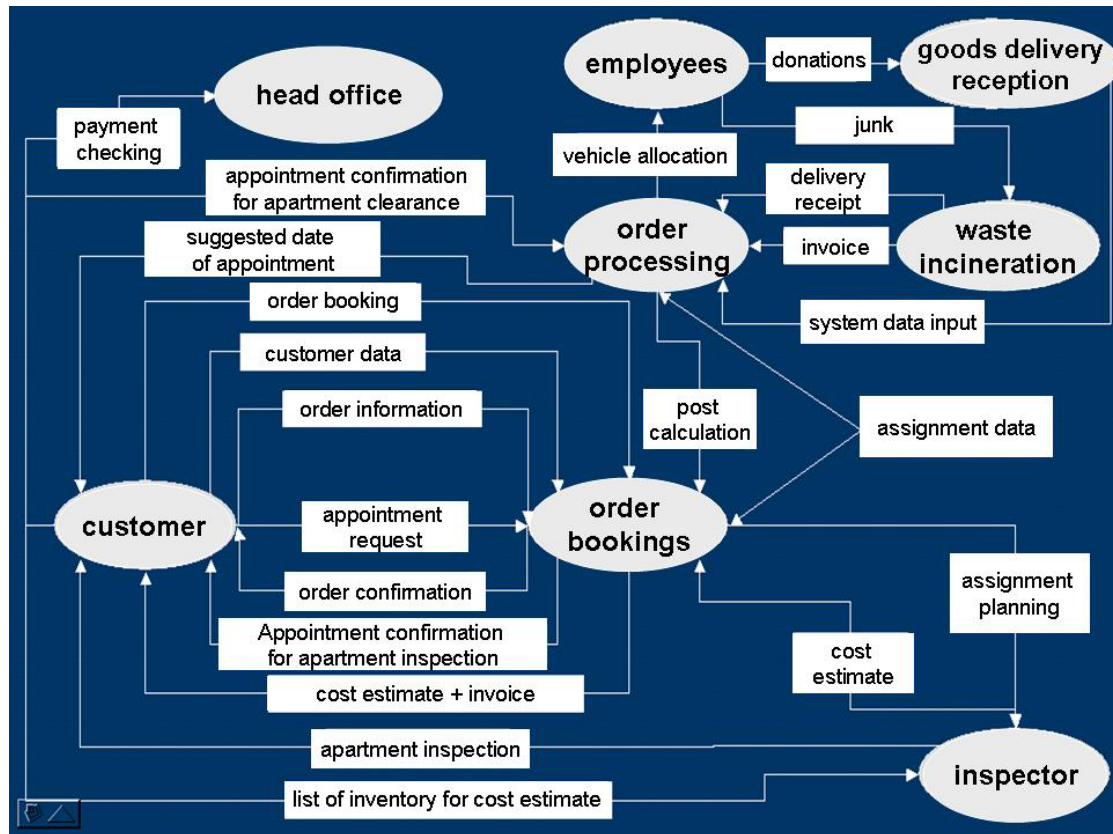
4.1 Apartment clearance (Household dissolution)

The merchandise is acquired through furniture donations or the clearing out of apartments (= household dissolutions). The process for processing these donations is rather complex, as indicated in the Information Flow diagram (see Figure 3).

It is usually the customers who take the initiative for donating goods. They telephone the contact person for booking new orders (in the store in Waldhof) in order to leave their personal details, make specifications regarding their donation and arrange an appointment for clearing out the apartment and handing over the donated goods. After consultation with the relevant FAIRKAUF co-workers, the employee responsible for booking new orders then makes an appointment with the customers to arrange

the inspection of the apartment that is to be cleared out. During the inspection, FAIRKAUF employees list the inventory, thereby registering the items suitable for donation and those that have to be disposed. It may also be possible for FAIRKAUF to reject an order at its own discretion (e.g. if the merchandise is reckoned to be of low value or unsalable).

Figure 3: Organizational processing of donations



The FAIRKAUF employee in charge of the inspection hands the list of inventory over to the employee responsible for order processing who then makes a cost estimate for processing the donation on the basis of the registered items. The cost estimate takes into account

- the costs for disposal of items that are no longer capable of being used,
- the required hours of work of employees,
- the transportation costs.

Potential reselling prices for donated goods are not included in the cost estimate. As soon as the customers accept the cost estimate and place the order, the employee in charge of booking new orders forwards the specific order information (registered inventory, cost estimate) to the employee in charge of order processing. This division is responsible for the allocation of employees and vehicles and coordinates the apartment clearance. At first, it contacts the customers in order to arrange an appointment for collecting the goods and assigns employees and vehicles to

the order. Thus, a typical order, depending on the size thereof, requires one vehicle, if “solely” used for collecting the donation, or two vehicles, if used for both collecting the donation and disposal.

- Goods capable of being re-used are then processed to the goods delivery reception of the respective store before being entered into the merchandise management system. These goods are thus available for refurbishment or selling. The final selling price is based on the expenses for refurbishment and the estimated value of the goods.
- The goods to be disposed are brought in a separate vehicle to a waste incineration plant in Mannheim. The costs incurred result from the weight of the goods for disposal (= [weight of vehicle on arrival] – [weight of vehicle on departure]). The weight is noted on the delivery receipt and is the basis for the invoice FAIRKAUF receives every month.

When the order is complete, the division for order processing verifies the price calculation before sending it to the division for order bookings that invoices customers according to the cost estimate. Finally, the head office checks incoming payments and monitors the profitability of each order.

4.2 Reselling the acquired donations

The stores in Luisenring and F2 primarily cater for walk-in customers intending to take home their merchandise right away. The store in F2 has on offer a wide range of used books, whereas the store in Luisenring offers diverse accessories, smaller household appliances, tableware, clothing, and smaller pieces of furniture. Due to the central location of these stores, it is difficult for customers to find parking spaces. The store in Almenhof particularly caters for customers looking for specific pieces of furniture (living room, bedroom, kitchen, garden furniture) who are willing to drive the longer distance to the store. The same applies to the main store in Waldhof. That store also offers furniture, even antiques to some extent. In the Waldhof store, customers can also find diverse electric appliances, household articles, clothes, books, CD and records.

The parking situation in Almenhof and Waldhof is far better than in Luisenring and in F2. However, the remote location of Almenhof and Waldhof turns out to be disadvantageous. The store in Almenhof tends to have no walk-in customers. In contrast, the situation in Waldhof is more favourable. Even though FAIRKAUF’s main store is located in the far north of Mannheim (and not in Mannheim’s city centre), this location has nonetheless become more attractive in the recent past. The discount stores of ALDI and MiniMal and IKEA’s furniture store have contributed to this development.

None of the stores has any active customer support; in fact, the selling strategy intends customers to have a look-around in the shop “in an unhurried manner” and make up their minds. The salespeople, however, tend to have no in-depth knowledge about the merchandise on offer, which renders the determination and the negotiation of prices rather complicated at times. They sometimes grant excessive price reductions, since they find it difficult to properly estimate the value of the merchandise on offer. So far, FAIRKAUF has not developed a corporate identity either, e.g. uniform working clothes in order to put an emphasis on the salespeople.

Further sources of information (in German):

- <http://www.fairkauf-mannheim.de>
- <http://www.caritas-mannheim.de/4701.html>
- http://www2.gelbeseiten.de/yp/ergebnisliste_quickSearch.yp;jsessionid=E3E74269500CD5013E668FB379E987D0.Cat0901?at=yp&subject=secondhand&location=mannheim&execute=Suchen
(= Yellow pages)
- http://web.mannheim.de/webkosima/webkosima_vorlagen/187_2003.pdf
(= „Sozialhilfereport 2003“ / „Social Security Report 2003“ – Latest developments in Mannheim)

Case study assignments (Part I)

What relevant questions or problems can you think of (e.g. in the field of marketing, procurement etc.) that may arise for FAIRKAUF on the basis of this case study?

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Part II: Actual Problem Areas

1 Procurement

Currently, it is unclear whether FAIRKAUF has already reached all of the likely pool of possible donators and thereby tapped the full potential of available donations. Whether the segment of (potential) donators will make more use of the services from FAIRKAUF – such as apartment clearance services – after some strategic modifications will have been implemented remains to be seen. FAIRKAUF itself does not have sufficient information about the needs of the segment of donators. Without this kind of information, it is difficult to take measures that would appeal more effectively to the wishes of donators and help to position the company in the market more successfully.

2 Marketing

Identifying new customer segments

With its range of products, FAIRKAUF primarily caters to two customer groups. But with a further dwindling turnover potential, the company has to tap into new customer segments. The current development mainly stems from the following factors:

- Social welfare recipients – who used to be a very lucrative customer segment – will no longer be referred to FAIRKAUF due to amended laws and new regulation from the German Federal Employment Agency. A large pool of customers thus vanishes whose invoices used to be paid by the Federal Employment Agency in due time.
- The number of US citizens resident in Mannheim (Benjamin Franklin Village) who contributed significantly to the turnover of FAIRKAUF in the past is dwindling due to continuing troop pullout from the US army base in Mannheim.

Targeted approach of customer groups

Customer-related advertising for each FAIRKAUF store in Mannheim is another problem area. FAIRKAUF has only little concrete information about the preferences of the relevant customer segments, which renders problematic the conception and effective implementation of target-specific advertising (i.e. minimizing wastage in advertising). Neither are there answers to the questions about buying behaviour or customer satisfaction (e.g. with opening hours, sales campaigns or the store's interior design). Besides, the existing data is hardly sufficient for benchmarking either.

Identifying new sales channels

FAIRKAUF must decide, principally, whether it wants to open up new sales channels apart from traditional retail markets. A viable option would be internet trading, e.g. on Ebay. Further pertinent information, however, as a basis for any decisions on sales channels is missing. It is not only important to look at economical factors such as storage cost, transportation cost or profit estimation, but also issues regarding the organizational implementation of e-commerce. Further aspects for consideration include adjustments to the organizational structure, the integration of internet trading (i.e. integration into retail trade or an independent business domain) and the consequences of internet trading for personnel management as well as for the consumers' level of familiarity with FAIRKAUF.

Case study assignment (Part II)

What should FAIRKAUF do to collect relevant data regarding this problem: by resorting to primary or secondary statistical data? What are the advantages of each approach?

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Part III: Results of a Macro-analysis (= Analysis of Secondary Statistical Data)

1 Basic principles of macroeconomic analysis

In the first instance, the surrounding areas of FAIRKAUF stores have been subject to a macroeconomic analysis. In view of the scarce secondary statistical data, the analysis has focused on three criteria:

- Socioeconomic structure,
- Immigrant residents in Mannheim,
- Age.

Supplementary criteria (e.g. income) are not normally available on a local level (here: Mannheim), and thus, have to be obtained by inference from other indicators (e.g. socioeconomic structure).

This analysis focuses on those municipalities of Mannheim located in the vicinity of FAIRKAUF stores (see Figure 4).

(1) Main store in Waldhof

- Gartenstadt / Gartenstadt West
- Waldhof-West / Waldhof-Mitte
- Schönau-Süd / Schönau-West / Schönau-Nord
- Luzenberg

According to this demarcation, FAIRKAUF's main store in Waldhof has a customer potential totalling 31,882 inhabitants.

(2) Luisenring store

- Wohlgelegen-West
- Westliche Oberstadt
- Westliche Unterstadt
- Neckarstadt West / Neckarstadt Ost
- Jungbusch
- Mühlau

The total population – and thus, on principle, customer potential – of the municipalities located in the vicinity of the Luisenring store amounts to 63,913 inhabitants.

(3) Almenhof store

- Almenhof
- Niederfeld
- Lindenhof
- Neuhermsheim
- Neckarau
- Südliche Oststadt

There are 53,866 inhabitants resident in the catchment area of the Almenhof store.

Total customer potential of all three stores amounts to 149,661 inhabitants after all.

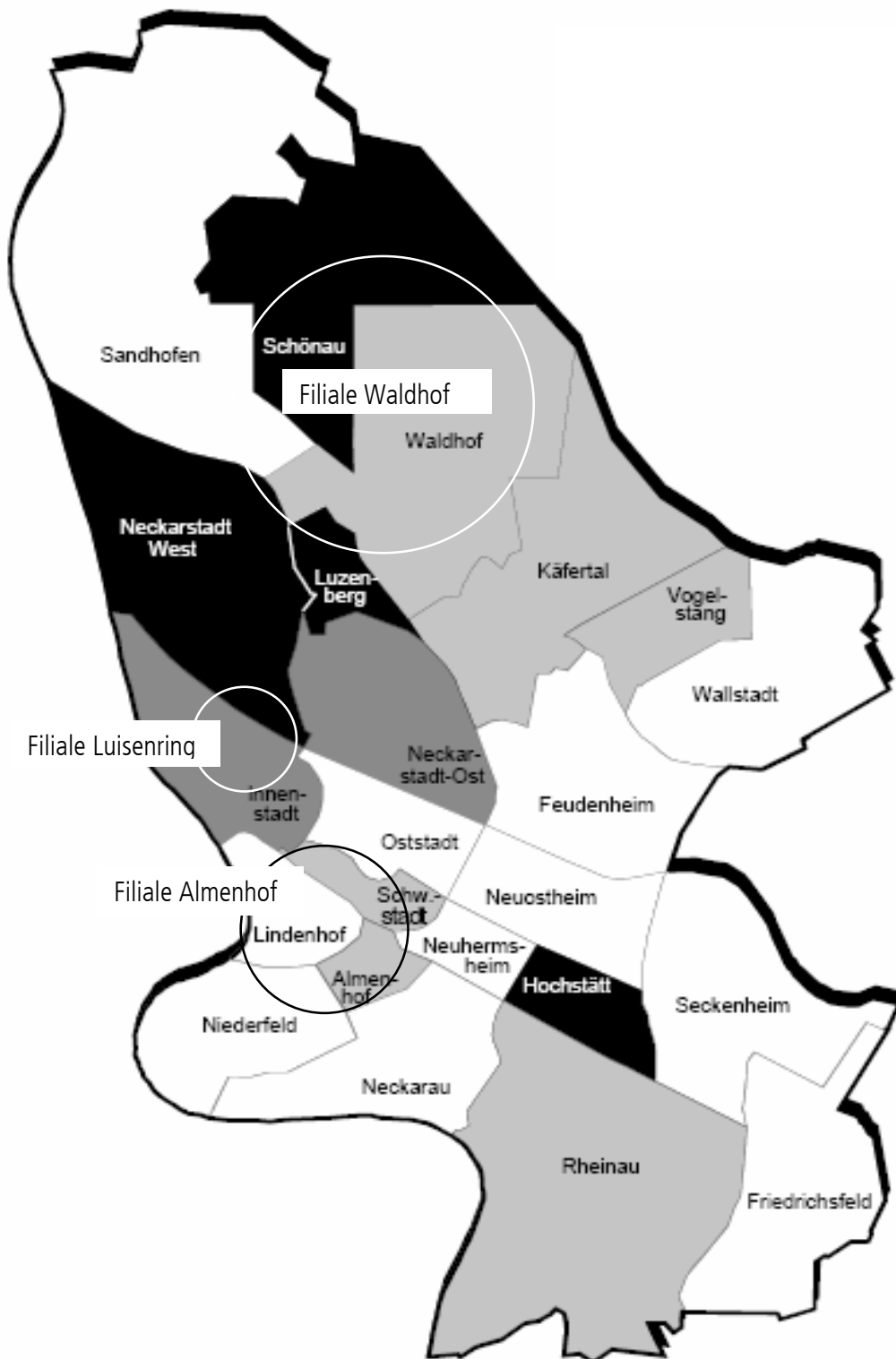
2 Sociodemographic structure of the surrounding areas of stores

Since many financially deprived people shop in a second-hand department store, the macroeconomic or location analysis also includes the proportion of social welfare recipients among the population. The dark-coloured municipalities in Figure 5 have a high percentage of social welfare recipients, and thus, indicate socially deprived areas in Mannheim.

Figure 5 points out the following:

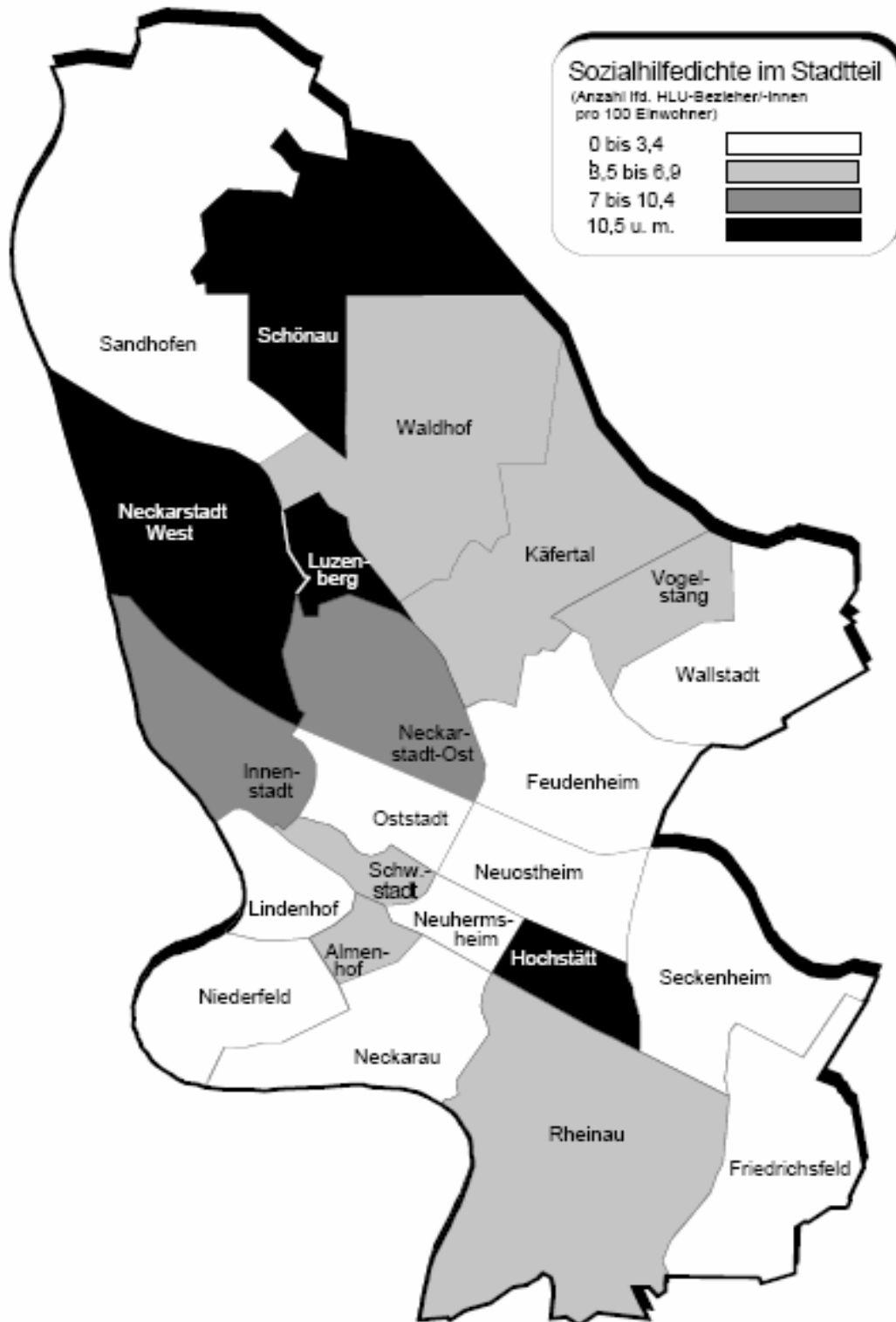
- (1) In the vicinity of the main store in Waldhof (= the store with the largest catchment area), the density of social welfare recipients ranges from 3.5 % (Waldhof, Käfertal) to over 10.5 % (Schönau, Luzenberg).
- (2) The Luisenring store is also located in an area with a high density of social welfare recipients (> 7 %).
- (3) The distribution in the vicinity of the Almenhof store differs significantly from the other two locations. The density of social welfare recipients in Lindenhof, Neckarau and Niederfeld is below 3.5 %, with the exception of Almenhof (> 3.5 %).

Figure 4: Municipalities of Mannheim



Source: Stadt Mannheim Dezernat für Jugend, Soziales und Gesundheit, Fachbereich Soziale Sicherung, Arbeitshilfen und Senioren.

Figure 5: Density of social welfare recipients (for each municipality)



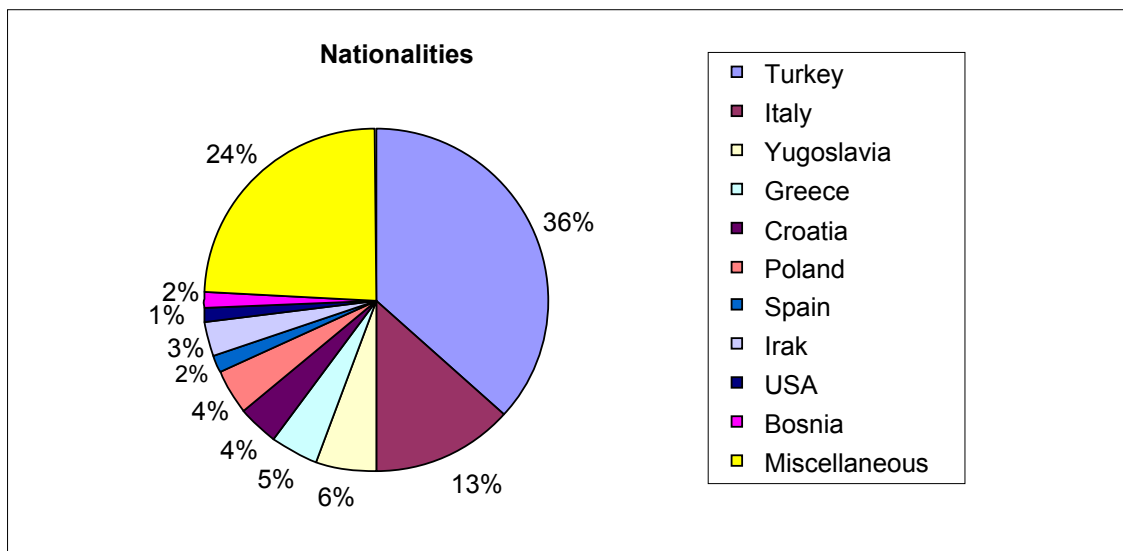
Source: Stadt Mannheim Dezernat für Jugend, Soziales und Gesundheit, Fachbereich Soziale Sicherung, Arbeitshilfen und Senioren (Stand: Dezember 2000).

3 Proportion of immigrant residents in the catchment areas

Another factor playing into the customer behaviour is the proportion of immigrant residents in each catchment area. The average proportion of immigrants in the surrounding areas of FAIRKAUF stores ranges between 10 and 21 %.

Compared to areas surrounding the main store in Waldhof (= 10 %) and the Almenhof store (= 12 %), the Luisenring store with 21 % is located in an area with a relatively high proportion of immigrants. With 31 % in this area, the proportion of immigrant jobholders even exceeds the proportion of immigrant residents in the overall population. Overall, the catchment area of the Luisenring store includes particularly the following nationalities as shown in Figure 6.

Figure 6: Proportions of nationalities in the catchment area of the Luisenring store



3 Age distribution of each catchment area

Table 2 provides an absolute and relative comparison of the age distribution of each catchment area.

Table 2: Comparison of age distribution of relevant catchment areas

Catchment area	Age brackets		
	Age < 26	Age 26 – 55	Age > 55
Waldhof	31 %	40 %	29 %
Luisenring	30 %	46 %	24 %
Almenhof	23 %	46 %	31 %

Case study assignment (Part III)

What are the ramifications for FAIRKAUF (particularly with respect to target groups and possible marketing measures) on the basis of this macroeconomic analysis?

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Part IV: Study Proposal for Primary Analysis

Case study assignment (Part IV)

Devise a proposal for a primary study aiming to answer the questions that have been raised in the outline of actual problem areas!



Education and Culture

Leonardo da Vinci

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