



Teaching Case Study:

Seagull Enterprises Ltd



Seagull Enterprises – Hampshire

Electronic instruments for the Leisure and Marine markets.

Origins

Seagull Enterprises was formed in 1971-2 by the current Director's father. It had been his own brainchild and the initial idea to set up a business had come, in part, from revenge for a business takeover that he had experienced. There was no initial research conducted on the feasibility of the business as the original owner had been an electronic designer who had purely decided to design a product to compete with another product designed by a competitor at the time.

Seagull Enterprises was funded solely out of the owner's private income and was initially run from his garden shed. There were two people in the business in the early years until the current owner (now Director) joined the business in 1974-5. The principal business concept was around manufacturing electronic instruments for the Leisure and Marine markets.

Initial product pricing and marketing

When business started there was no real or active marketplace for Seagull Enterprises' products. Early revenues came from orders won against external competition. Prices were set at £25 per product against a competitor price of around £27.50. Margins at this time were not known or not considered. The business relied on three main suppliers. Early resources comprised a few outworkers who were trained. Marketing and sales activity revolved around regular attendance at the London boat show, early on, plus initial contacts and referrals made and developed in Europe.

How business evolved

Business activity continued steadily rather than at a pace during the years until the early 1990's. Up until that point Seagull Enterprises had developed solely a range of small, low cost high margin, products.

Early 1990's

During the early 1990's some competition started to emerge mainly due to a decrease in the number of cottage industries and the arrival of more large sized and scaled companies in the market. The marine industry was maturing with more competition. At this time the Directors realised that the business needed to take a different course of action, and innovative and unique offering for the market and this meant hiring someone to design a different product, (this was a new and much more complex and capable instrument. The product was to be low volume high margin and priced from £400 to £1,500).

Seagull Enterprises found a regular market for this and also the other main products. These included some industrial instrumentation products (a sub contract for a US company – marketed by them) and a European electronic component (large boats utilise these to aid performance but small boats need each of these items). Each of these items costs approx £200. The only issue with this was that by developing a specific product the company was becoming even more of a niche market business, however the Directors believed that this was not a major issue since the product was both leading edge and credible and therefore would command its place in the market.

Operational trading and marketing

Today 80% of business is secured from orders overseas, 50% of which is from Scandinavia, where sales are "high volume".

Marketing is now mainly web based. Some magazines (occasionally) were used before the arrival of the internet and following a market survey and pilot advertising programme. The Directors retain the view that marketing activity is geared to what the budget can afford.

2008 - current strategy and financials

The current business enjoys year on year organic growth only and this is at a fairly steady pace. In 2007 turnover reached £750,000. The business consistently achieves good margins. Seagull Enterprises recently won a SMART award for a 4 year project – a long range Sonar system. The future business plan is geared to the continual development of business around current products with the emphasis maintained on self funding. Seagull Enterprises are now looking to design and introduce an even more complex integrated product. This will not be low cost and is estimated to be valued at £3-500 per product.

Other plans

The Seagull Enterprises Directors have some interest in developing business from offshore wind farms. One customer is using a product to bury the cables to give a clear picture of what is happening underwater

Resources

Seagull Enterprises employs less people than in the past due to the use of more advanced technology. Designers are the chief resource and they charge by the hour. Total staff numbers are 5- 6, mainly part time, plus the two Directors who run the business day to day although their son is being groomed to take over at some future point. Duties and accountabilities are split between the two with one covering the factory and one sales activity. They use a local accountant for preparing the books annually. Seagull Enterprises also take on people for work experience and regularly provide employment for French students from Nantes Engineering College with whom the company have forged a strong relationship.

Product Patenting

This is carried out in the UK and USA. Initially there was a local patent in the UK. Annual payment for this is £3,000.

Long term

There appears to be no strong long term vision. The main business driver is to develop and sell a technical product which is unique. The Directors are aiming however to develop a large scale electronic instrumentation product for use in boats. The future they believe lies in this area. A company called GARMIN have a business around Satellite navigation with a marine division employing 4000 people. Seagull Enterprises sees its future business remaining along the same product line and the business expects to continue to retain a small market share in relation to competition. The main growth areas in the world are expected to lie in the International market in particular in Turkey and South America. There is also a substantial market to exploit via the annual METZ trade show in Amsterdam where all agents are in one place.

What might have been different?

The Directors commented: “Most people assume that all companies regardless of their size can and want to grow. We want to grow but not enough to take that big risk. Market competitors do have more of an effect on our fortunes than we do ourselves so we have been pushed into developing our own niche area. If the competition had in the past remained small with other players who have no distinct brand we would have probably stayed where we are and might well have had a better chance of success. 17 years ago we chose to take the safe option but if we had gone into different products earlier and

invested more into the business our level of activity and profitability might well have been different. However the upside to this is that we have retained total control of our own company and destiny, maintained our own identity and the business has remained personal. Our only regret is that it might have been nice to have been twice as big. Size and scale would have brought more security, more minds and more ideas”

Other information

Seagull Enterprises own their own boat which is used for testing. No official tests – CEE purposes only.

NOTES FOR TUTORS

Questions to consider:

1. Should Seagull Enterprises maintain its niche focus or now diversify? What would be the implications of the latter?
 - Owners need to review options based on long term vision, market position and forecast, whilst needing to maintain and protect their strong brand.
 - Diversification may result in owners losing interest with broader business due to loss of focus and pull out investment and expertise.
 - Loss of ownership and control to the owners and increased staff costs resulting in less funds available for new product design.
 - Reduced market share as a niche product designer.
2. How could Seagull Enterprises have better achieved an optimum balance between a “no risk” and “high risk” strategy?
 - Building more scale to the business through increasing resource levels by taking on an additional design capability without loss of product ownership.
 - Partnering with another niche marine business to capitalise on string synergy leading to faster growth without increased costs.
 - External non-executive input 15 years earlier to allow investment in different products which would have increased level of activity and profitability.
3. What additional lessons can the Director learn from the evolution of the business to date?
 - Faster growth through achieving scale by merger or acquisition.
 - Value of having a non-exec who can provide objective input on risk strategy.
4. What is the single most important message from this case study for anyone starting their own business?
 - Combining strategic long term vision with market knowledge and research and then defining the business model and competitor edge at an early stage rather than allowing market events to dictate business growth.