

MIPUF.ES: MANAGING FOR GROWTH ¹

One morning in January 2016, Francisco (Paco) Mirasol was heading the weekly meeting to analyze sales progress at Mipuf.es. Mipuf was one of the leading companies in design, manufacture, and marketing of poufs², beanbags, and ottomans in Spain. Its sales were 70% online.

Although sales had grown significantly, Paco estimated that in recent months, the growth rate had slowed, and he was quite concerned. A few days earlier he had told a business associate:

“We just have to grow faster. We must double our sales between now and 2018. If we don’t, we will be in an awkward middle position and we will hang by a thin thread.”

While he saw multiple growth opportunities, he was not clear on which ones to pursue. He could identify medium and long-term advantages for each one. In the short-run, however, his main limitation was the scarcity of financial resources.

BACKGROUND

In 2005, Paco had met a pouf manufacturer from South America. In Spain, this product was known, although sales were not developed. At that time, the country was immersed in a construction boom leading to massive growth in furniture and home accessories. Paco had a background in sales and key account management both working for independent companies and self-employed in his own business initiatives.

The idea of starting a new business developed gradually when he started marketing poufs to furniture and decoration stores. Initially he bought poufs from foreign manufacturers. Paco chose models from the suppliers’ catalog, printed his own brochures, and personally visited the stores to offer the product.

¹ This case study has been published by the Research Division of the San Telmo International Institute, Spain. Written by Professor Antonio Villafuerte Martin. This case is intended as a basis for classroom discussion only and not to illustrate the adequate or inadequate management of a specific situation. Copyright © June 2017, San Telmo International Institute. Spain.

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² A pouf is a soft seat, usually without a backrest. It is typically made of a soft filling material, upholstered with a stiff fabric that can be made of different materials, such as leather, cloth, plastic, etc. It is usually stuffed with polystyrene beads.

“Despite the poor design and quality of the product, the business was a great success and in a very short time exceeded my forecasts” Paco said.

His direct clients were furniture retailers located mainly in Eastern and Southern Spain as well as Madrid.

Paco and his team soon decided to make their own poufs to improve the design and quality of the product. They began to develop their own designs (shape and internal structure, colors, fabrics, quality, etc.) while commissioning the manufacture to sewing workshops in the neighboring area. In 2006 they decided to start pouf manufacturing to ensure quality and service, and they opened their own workshop³.

The first complications soon emerged in the marketplace:

“Although our sales grew, clients (furniture and decoration retailers) told us the product was not selling well. We noticed that they expected very high margins, which meant disproportionate retail prices, thus discouraging consumers. At the same time, it became a common practice among retailers to give away poufs to customers who bought bedroom or living room furniture. It was in their interest to keep prices up, so as to make the gift more attractive. I realized I had no control over our product, and I didn’t like that at all.”

Paco began to wonder if it was possible to reach consumers directly. He was familiar with Internet since his first business experience in 2000⁴, and decided he would try this channel. He registered a new brand to sell online – mipuf.es – and developed his first web site, which included a sales platform. They began to operate in June 2007, using Google’s Adwords⁵ as the key digital marketing tool with the search words puf(s) and puff(s) (both in Spanish language) and with a spending cap of 3 euros per day. Competition at the time was nonexistent.

“Between July and December 2007, online sales were 45,000 EUR. During this period we kept both channels (online and brick & mortar), but by the end of 2007, we decided to focus exclusively on the online channel”

³ The facilities were located in a town near Granada (Southern Spain).

⁴ Paco’s first business was an *e-learning* company dedicated to teaching Spanish as a second language.

⁵ Google AdWords is the program through which Google offers sponsored advertising. Adwords Sponsored ads appear on the Google search page simultaneously with the results of natural searches (also called *organic*), at the top or right side area. Their background color is usually different, as well as an indicator on the top right-hand side. They also appear in areas of web pages as *banners and/or displays* (which can be images, videos or text).

In 2015 Adwords was Google’s main source of income (around 70%). Advertisers pay Google for each click a user makes on their ad. This business model is known as Pay per Click (PPC) or cost per click (CPC). The price of each click is not fixed but is set by auction and quality level. It depends on supply and demand as well as on other factors that determine the quality and relevance of the ad.

The fact that an advertiser may appear in one position or another, as well as the price, is based on the payment it makes per click and the relevance of the ad.

The cost of a click may vary, ranging from only 0.03 euros to several tens of euros.

Months later, towards mid-2008, we decided that, if we wanted to be better positioned in the online environment, we needed to redesign our web site. We sensed the previous one was not very attractive, with few, low-quality pictures. Since then, we have paid much more attention to the website, like department stores do with their shop windows.”

In 2008-2009, seeking to boost sales, Paco placed his bets on buying the official license and trademark rights of Real Madrid Football Club for poufs, for 42,000 EUR. Results were not good and the line was abandoned. Paco recognised that he had not realized he lacked the capacity to reach the target audience and pay off for the investment he had made.

Mipuf in January 2016

In 2015, Mipuf had sold over 1.2 million EUR. Paco wanted to reach 2,5 million EUR by 2018. Table 1 shows the evolution of the main items in the income statement and Table 2, sales breakdown by channel.

Table 1

	2008	2009	2010	2011	2012	2013	2014	2015
Sales	284	369	671	821	1,130	1,083	1,076	1,228
Cost of goods sold	-229	-52	-171	-257	-400	-384	-356	-479
Labour costs	-22	-129	-225	-242	-339	-288	-327	-350
Operating cost	-10	-170	-242	-279	-341	-357	-342	-352
EBITDA	23	18	33	43	50	54	51	47

Note: Figures shown in thousands of euros

Table 2

<i>Breakdown of sales</i>	2008	2009	2010	2011	2012	2013	2014	2015
Total	284	369	671	821	1,130	1,083	1,076	1,228
Web	242	243	301	418	656	736	801	882
Rest*	42	126	370	403	474	347	275	346

Note: Figures shown in thousands of euros.

*Equipment, key accounts, and communication agencies.

Paco and his team felt that Mipuf was leading the category in Spain, not only by SEO⁶ positioning (it always appeared in top positions when searching the Spanish words “puf”

⁶ Search Engine Optimization (SEO) is the process of designing and managing the information contained in a web page with the aim to improve its visibility (position) among the organic results of different search engines.

More specifically, SEO refers to the management of organic positioning in search engines without direct cost. It is usually divided into *on page*, actions on the web page itself, and *off page*, actions to channel traffic to the page, such as *link building* (management of links in other sites: blogs, social networks, etc.)