CELBLOX - Marketing Strategy

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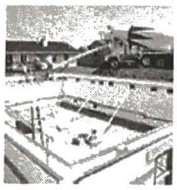
The CELBLOX Marketing Strategy case study reflects the internal operations and processes of Cellox, LLC, a real company in Reedsburg, Wisconsin. Its entrepreneurial owner, David Pace, has a tremendous long-term vision for the company, and its high-quality construction industry product. Students engaging this case can cultivate specific marketing strategies based on tactical decisions, marketing theory, and their practical application.

Ethics and Christian values are an undercurrent in this case. David and other Cellox executives have adhered basic core values. Critical corporate decision points press leaders to integrate values with the needs of all the stakeholders. David's marketing decisions will impact the company's competitiveness, cash flow, employees and profitability in the very near future.

BUILDING WITH CELBLOX



CRITICAL DECISION DILEMMA

It's a nice feeling to be in the driver's seat of a company that produces the highest quality product with top-of-the-line components in an industry with 80-plus competitors. Only 12 months into the ownership of Cellox, David Pace saw that, if he could turn the company around, it could dominate the market for insulated concrete forms (ICFs). With only two primary target markets, David had already determined that reaching these customers was critical.

When David purchased Cellox, it was near bankruptcy. In spite of a critical cash flow issue, he believed he could quickly increase sales by expanding the production and warehouse capacity. To increase sales, he would rapidly need to cultivate customer demand in his two target customer populations—construction contractors and people wanting to build a house.

The construction industry, however, is very fragmented; there are few associations through which David could effectively reach most of them. And identifying and finding individuals "thinking" about building a house is like trying to find a needle in a haystack! Where should he begin?

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INTRODUCTION

Cellox, Inc.—located in Reedsburg, Wisconsin, about 65 miles northwest of Madison—manufactures polystyrene[1] products:

1. Protective packing material used to ship products\
2. Point of purchase (POP) products
3. Insulated concrete forms (ICFs)

1 **Styrene**, a petroleum byproduct, is the primary raw material from which polystyrene is made. A naturally occurring substance, styrene is present in many foods and beverages, including wheat, beef, strawberries, peanuts, and coffee beans. Polystyrene foam products are 95% air and only 5% polystyrene. The most recognizable forms of polystyrene packaging are expanded and extruded foams (sometimes incorrectly called Styrofoam®, a Dow Chemical Co. trademarked form of polystyrene foam insulation). Foamed polystyrene is used to make cups, bowls, plates, trays, clamshell containers, meat trays, and egg cartons, as well as protective packaging for shipping electronics and other fragile items.

The company has been in business since 1961. In 2003, the company found itself near bankruptcy. Cellox's problems had several roots—it lacked assertive leadership, it had neglected customer service, and it had become lax with production controls, oftentimes manufacturing more units than they could sell in a given amount of time and creating the need for warehousing.

David Pace, a 62-year-old successful entrepreneur, took pride in identifying companies that were candidates for a turnaround—companies that could be purchased at a favorable price and made profitable. He had built Pace Industries, the largest manufacturer of extruded plastic sheeting, into a multimillion-dollar company known worldwide for its high-quality products, customer service, and innovative human resource programs. Leaving Pace Industries was compensated by the opportunity to apply his God-given skills in new venues. He was especially satisfied when he could find a floundering company with potential, improve production, improve operations, improve employee compensation and benefits, increase corporate morale, reestablish the customer base, and regain the stakeholders' confidence.

When Cellox went on the market, it caught David's eye. David's professional management expertise was developed in plastic injection molding[2] and plastic sheet extrusion.[3] He had worked in various plastic mediums ranging from polystyrene to resins. While Cellox appeared to be in operational disarray, David saw past this to the significant possibilities it had for the marketplace.

Cellox possessed a committed and hard-working staff dedicated to seeing the company succeed. It also had products that, with the right production and marketing strategy, could increase profit margins, dominate market share, and drive industry standards. David believed his experience would be just what the company needed and envisioned a successful turnaround within two years. In December 2003, David purchased Cellox.

PROTECTIVE PACKING MATERIAL

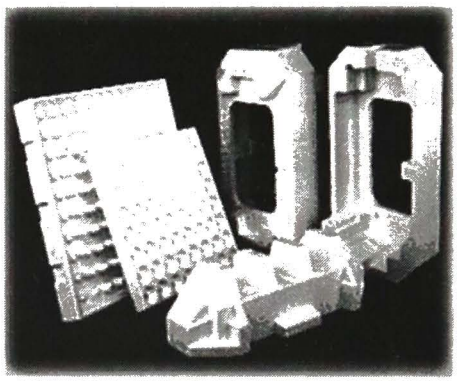
Packing material used in shipping fragile electronic components is comprised of

2 **Injection molding** involves taking plastic in the form of pellets or granules and heating it until a melt is obtained. The melt is then forced into a split-die chamber/mold where it is allowed to cool into the desired shape. The mold is opened and the part is ejected, at which time the cycle is repeated.

3 **Plastic sheet extrusion** is the process of converting plastic pellets or powder into cut sheets or rolls of plastic. This sheet can be further processed into parts via thermoforming. The sheet extrusion process can yield sheet products with thicknesses ranging from less than 0.010 in. (film) up to and exceeding 2.0 inch, with widths as great as 30 ft.

standard polystyrene forms such as the three-sided corner pieces that surround a product in its carton, along with other rectangular forms of various thicknesses used in packing for protected shipping. This highly competitive product competes with hundreds of companies with the same manufacturing capability. Margins are extremely low and any pricing advantage is usually found through ancillary charges related to shipping and handling. Customer service, especially rapid-order turnaround and on-time or early delivery, was critically important in securing consistent customer orders.

ILLUSTRATION 1
Cellox Protective Packaging Products



Cellox protective packaging is used to ship fragile items such as electronic components.

Due to these factors and the nature of the product, the primary customer base was located within a 300-mile radius of Reedsburg, which included metropolitan areas from Green Bay to Duluth, to Minneapolis, St. Paul, Chicago, and Milwaukee.

The packing material production division was the least critical component of Cellox. However, it used the idle capacity of equipment and employees and consistently helped defray overhead costs. With this philosophy, pricing could cover only marginal costs with a suitable profit margin versus trying to cover full costs plus generate a normally adequate profit margin. Cellox's ability to quote a potentially lower price also helped generate additional sales volume. At the same time, management carefully monitored this division and the price of petroleum so that they would not underquote, thereby losing money—a big challenge with fluctuating petroleum costs, which significantly impact manufacturing costs in this industry.

POINT OF PURCHASE

The point of purchase (POP) division consists of special-order and standard in-stock three-dimensional polystyrene forms, in which Cellox has distinguished its products through custom-finishing. These items are typically used in promotion and advertising. Examples include a three-foot Jolly Green Giant figure; various-sized Pillsbury Dough Boys; basketballs, baseballs, and golf balls with various logos and designs; custom-decorated surfboards; coolers and bait buckets; and simulated fireplaces and trees used as backdrops in photo shoots (See illustration 2).

Usually, Cellox makes the product, and the customer retains the rights to the mold. Sometimes Cellox is asked to design and develop a mold for production or use a

standard mold they already own. Depending on its size and complexity, a mold costs between $25,000 to over $40,000 to create. Cellox makes minor modifications to existing tools, if required, or contracts with a tool-and-die company to manufacture molds.

The total cost of the mold, or a portion of it if Cellox retains partial ownership, is incorporated into the customer's order. Consequently, customers are encouraged to request a significant volume of product to justify the upfront mold development cost.

ILLUSTRATION 2
Point of Purchase (POP) Products

POP products provide a consistent revenue stream for Cellox.

For its 20 years of existence, the POP division has been the primary revenue-producer for Cellox. The company is especially proud of the custom-finishing work they do, as many pieces are hand-painted and must meet a high standard of quality. The company has been innovative in its creative development of coatings, providing a finished product look that appears to be "real" until its light weight gives its actual composition away. These three-dimensional figures are popular and attract customers when used effectively in marketing displays at retail outlets. They are light and easy to handle and ship. Their one drawback—they are not especially durable. Polystyrene cracks, chips, and breaks easily if mishandled, driving a segment of the customer market to the more traditional and less costly form of two-dimensional advertising.

In 2001, the POP division began suffering a decrease in units sold. A decline in customer service, along with rising material prices, caused several large customers to seek other suppliers or stop using polystyrene forms in their promotion and advertising. Cellox staff became discouraged and idle production capacity increased; it became harder for the company to cover its fixed costs. When David Pace purchased the company in late 2003, the company was on the brink of collapse. By late 2004, David Pace added sales staff to the POP division to regain previous customers and look for new customers. By mid 2005, POP had slowly started growing sales again with far brighter prospects for the future.

INSULATED CONCRETE FORMS

The third division represents a relatively new product to the construction industry. Over the past decade, housing starts in the United States have shown rapid growth. During this period of time, the cost of wood, steel, and other traditional construction materials have all increased. This, in turn, began refocusing consumer attention toward the insulated concrete form (ICF), and its popularity has been gaining. David Pace was particularly intrigued by the ICF product line and believed it had incredible potential for long-term market success. He patented the Cellox ICF product and named it CELBLOX.

CELBLOX, the "Cadillac" of the ICF industry, is an energy-efficient building material used in constructing exterior walls for residential and commercial buildings. A CELBLOX ICF is a form composed of two identical panels of foam insulation called Expanded Polystyrene (EPS). Embedded in each foam panel are plastic studs[4] called webs that measure 1½ inches wide by 15¾ inches long. The foam panels are linked with plastic ties[5] that connect to the panels' webs. ICFs are either preformed interlocking blocks or separate panels connected with plastic ties.

To install ICFs, a builder sets the forms in place like building blocks, installs support braces, and inserts reinforcement bars (rebar) horizontally and/or vertically, depending on the construction need (See illustration 3).

After installation, the contractor pours a slurry[6] of concrete into the ICF blocks. Every 5 feet of forms holds 1 cubic yard of wet concrete and weighs about 2 tons. There is a real danger of the forms bursting, toppling over, or slipping out of plumb. A trained crew that closely follows standard operating procedures will prevent these problems. ICF walls can be built by anyone with carpentry and concrete experience and specific training, which is provided through a Cellox factory seminar.

4 These are equivalent to furring strips, which are used to form a level surface to which a surface product (drywall, brick, stucco, etc.) can be attached.

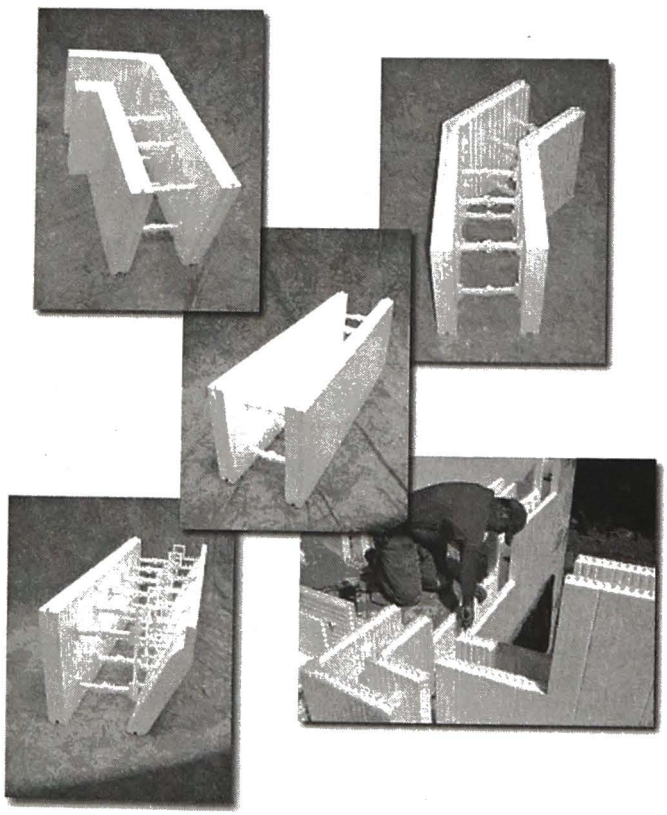
5 Two plastic hinged pieces that "lock" in place when opened to form a specific width between the panels.

6 A **slurry** is a suspension formed when a quantity of powder is mixed into a liquid in which the solid is only slightly soluble (or not soluble). Slurries usually contain large amounts of solid and are more viscous and generally of higher density than the liquid from which they are formed. Concrete (specifically, Portland cement concrete) is created using a concrete mix of Portland cement, gravel, and sand. The material is applied or poured as a freshly mixed slurry and worked mechanically to compact the interior and force some of the thinner cement slurry to the surface to produce a smoother, denser surface free from honeycombing.

Consumers tend to fret at the thought of truckloads of concrete being poured into forms that resemble a hybrid of take-out coffee cups and Lego bricks or toys. As

the concrete sets, the ICFs actually stay in place, and the result is a durable long-lasting wall with amazing structural integrity and extraordinary benefits.

ILLUSTRATION 3
ICF Configurations



A CELBLOX is an insulated concrete form (ICF). The blocks (available in different sizes and configurations) are easily interlocked to form the shape of the desired wall and are temporarily reinforced with scaffolding until the concrete slurry poured between the panels has time to set and harden.

As part of the wall, ICFs provide additional insulation and a sound barrier. On the outside, they create exterior concrete walls for a foundation, basement, first floor, and second floor to which any of the typical exterior building materials (e.g., brick, stone, stucco, vinyl, etc.) can be attached. Inside, drywall can be attached to the plastic studs in the ICF. The 2 ½ inch thickness of the ICF accommodates all plumbing or electrical work that needs to be done before the walls are finished without the traditional hole-drilling required through wood studs in exterior walls for these utilities.

All ICFs are identical—in principle. However, the various brands differ widely in shape, cavities, and components. The block systems come in a variety of sizes, although a typical ICF block is 13 inches in overall width and has a 8-inch cavity for the concrete. The units are molded at the factory with edges that interlock. Whatever the differences among brands, ICFs sold by leading manufacturers are designed by engineers, meet building codes, and have been tested in the field to ensure integrity.

In addition to the actual strength of the ICF wall, the thermal mass and the air-sealing effects of the concrete add considerably to the insulation value of the home, preventing the escape of cool air in summer and warm air in winter. Industry sources claim effective R-values that push 50.[7] The insulation values of the ICF walls far surpass equivalent walls of other construction materials, especially wood and steel.

ICF CONSTRUCTION COSTS

The cost of ICF walls is the same or slightly higher than that of typical frame construction. However, cost is less of an issue in areas where wind and seismic loads are considerable and it makes sense to build houses with steel-reinforced concrete and insulate them well. The steady increase in the price of lumber could offset the cost difference between ICF walls and wood.

ICF homes built by experienced contractors increase their cost 1% to 4% over traditional wood frame houses of the same design. A typical new U.S. home costs between $60 to $100 per square foot. Building the walls of ICFs adds $1 to $4 to this square-foot figure. However, since ICF houses are more energy-efficient, the heating and cooling equipment installed can be far smaller than in a traditional

7 Insulation is rated by its R-value, a measure of how well an insulation product resists the flow of heat or cold through it. R-value is determined by a laboratory test in which an insulation material is sandwiched between a cool and a warm surface. The ability of the material to resist temperature changes results in an R-value for that material. The higher the R-value, the more the material insulates.

wood-frame house. This can cut the cost of the final house by an estimated $0.75 per square foot. Consequently, the net extra cost is more realistically about $0.25 to $3.25 per square foot.

ICF BRANDS AND STYLES

There are over 40 ICF manufacturers nationwide and just as many or more methods of manufacturing ICFs. The various designs and features mainly relate to the manner in which the blocks are constructed, assembled, and attached to each other, not with how windows and doors are set or how the forms are braced and filled with concrete. There are three main types of ICF:

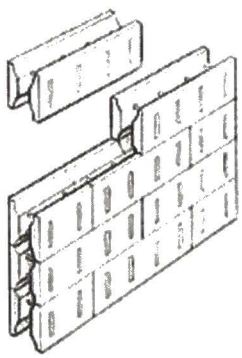
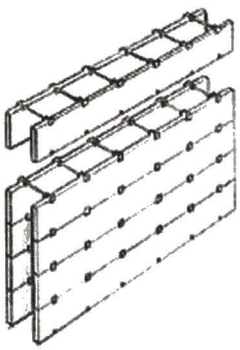
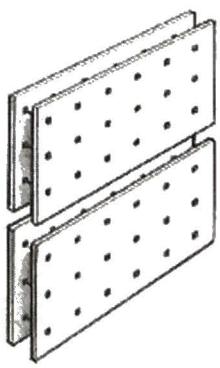
1. blocks
2. planks
3. panels

The most common type is hollow blocks, whose 2½ -inch-thick sides are held together with plastic or steel ties that extend to the face of the block, providing plastic studs for wall finishes. CELBLOX are of this type. Blocks are typically 16 inches high by 48 inches long. Their overall width depends on the concrete thickness, which can vary from 4 inches for an above-grade wall to 12 inches or more for basement walls. The length of the ties will determine the thickness of the concrete between the ICF sides.

Plank forms are similar to blocks except that the foam sides are longer and narrower, typically 1 foot by 8 feet. Panel forms, the third type of ICF, have sides as large as 4 feet by 8 feet.

ILLUSTRATION 4

ICF Forms

Block forms	Plank forms	Panel forms
		
Block forms commonly are 16 in. by 4 ft.	Plank forms are typically 1 ft. by 8 ft.	Panel forms come in sizes up to 4 ft. by 8 ft.

There are three wall types that shape the concrete:

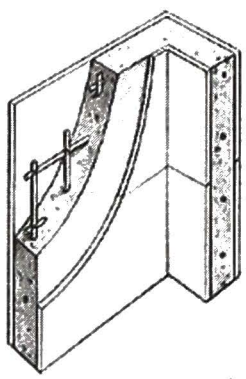
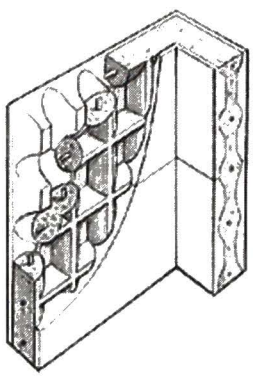
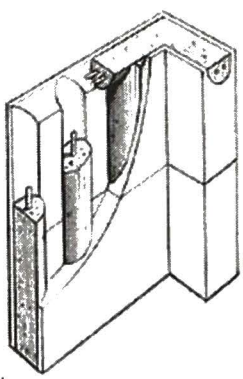
1. flat wall
2. grid wall
3. post and beam

The simplest form is flat concrete walls. Apart from the integral foam insulation, these walls are no different than traditionally formed concrete walls.

With grid ICFs, if the foam form were stripped away, the concrete would resemble giant waffles. In the thinnest spots, the concrete may be only 2 inches thick; in the thickest, it is usually 6 or 8 inches. Grids use less concrete than flat walls. However, because the concrete may not reach the thinner areas, this type of wall is more susceptible to voids.

The third configuration is post and beam. As the name suggests, the concrete is formed into one or more beams supported by posts. The form's foam fills the spaces within this concrete armature. These systems may not be suitable for below-grade use where they need to resist backfill pressure.

ILLUSTRATION 5
Types of Walls

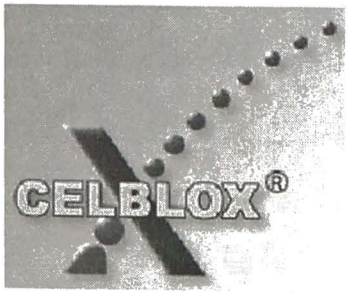
Flat wall	Beam wall	Post-and-beam wall
		
Flat walls are essentially similar to traditionally formed walls	Grid walls use less concrete than flat walls	Post-and-beam walls use the least concrete

THE BENEFITS OF USING ICF's

Each year the number of Americans choosing to have their houses built of concrete and ICFs nearly doubles. Customers identify several significant advantages that lead to their decision to use ICFs:

- Strength - Owners of ICF houses feel less flex in their walls and floors. They notice virtually no vibration when they slam a door. Engineering calculations confirm that ICF walls are stronger than frame walls in many ways. Field data show they survive many types of natural disasters far better than conventional construction methods. The insurance industry has begun to take notice of this.
- Comfort - ICF houses are less drafty than frame construction, have far fewer "cold spots," and maintain a noticeably more even temperature.
- Energy Efficient - ICF walls cut an estimated 30-50% off the energy used to heat and cool a house. This means lower energy costs of about $600 to $1,200 per year for the average home. Mortgage companies are aware that ICF homes cost less to live in and are considering providing special interest rates for individuals who purchase them.
- Fire Resistance - Concrete is one of the materials most resistant to heat and fire. Unlike wood, concrete does not burn. Unlike steel, it does not soften and bend. It does not break down until it is exposed to thousands of degrees Fahrenheit—far more than is present in the typical house fire.
- Wind Resistance - Debris driven by high winds presents the greatest hazard to homes during tornadoes and hurricanes. Concrete walls have demonstrated the strength and mass to resist the impact of wind-driven debris.
- Quiet - Only about one sixth as much noise travels through an ICF wall. Occupants are pleasantly surprised by the reduction of noise from the outside.

CELBLOX – SETTING THE INDUSTRY STANDARD



The CELBLOX ICF product is constructed to promote the flat wall concrete pour. While this method uses the most concrete, it provides the greatest structural support, is the easiest pour to manage, and gives much higher insulation values. Furthermore, its ability to withstand winds of 180 miles per hour makes this form of construction especially desirable in hurricane-prone regions of the United States such as in the south and southeast

(See illustration 6).

The CELBLOX-patented design offers many competitive advantages to contractors and individual home builders:

- CELBLOX uses only 100% virgin material in the webs and ties for structural advantage, whereas competitors use regrind[8] materials, which are more brittle and subject to splitting and cracking during installation. The embedded plastic studs are made of 100% virgin resin.[9] This material is especially conducive to attaching various products on both the inside and outside of the ICF. The plastic studs in competitors' blocks are made of lower quality, sometimes recycled materials, making them subject to splitting and do not receive nails and screws as well. Contractors have found that CELBLOX ICF products are easier to handle, more efficient in constructing walls and reduce the number of contractor mistakes.

ILLUSTRATION 6
House Constructed with CELBLOX.

A home constructed with CELBLOX has the strength of concrete, plus the added insulation value of the polystyrene forms both inside and out.

- CELBLOX's plastic studs are 8 inches apart on center[10] versus 8 to 12 inches apart with their competitors. This makes it easier to attach siding products. Two 8-inch-spaced plastic studs are equivalent to the standard 16-inch-spaced studs on center in conventional wood-framed houses. The strips are 1½ inches wide and extend to within ¼ inch

8 **Regrind** materials include ground or chopped flash, runners, sprues, and uncontaminated rejected parts that are produced in-house by the molder in initial plastic molding processes or purchased from outside vendors of recycled material. Regrind is incapable of holding tolerances to manufacturers' specifications.

9 **Virgin plastic** is plastic made from **virgin resin**. This resin is sold directly from the resin producer to the plastics processor and has never been used before in the production of any plastic product. Regrind is crushed to a smaller size and recycled with/or without virgin materials to reduce cost. Severe deterioration of the mechanical performance of the resultant part is expected from increased regrind percentage blended with virgin materials.

10 **On center** is the measurement of spacing for studs, rafters, and joists in a building from the center of one member to the center of the next.

of the top and bottom of the ICF and are just 1/8 inch from the exterior surface—all features that make the CELBLOX ICF more "contractor friendly" and reduce the likelihood of mistakes.

- The pattern of the CELBLOX mold also makes it easy to install electrical and plumbing fixtures in the interior wall. The 2½-inch thickness of CELBLOX provides ample room for various pipe sizes, in addition to electrical wiring, outlet boxes, and wall switch boxes.
- The CELBLOX styrene material is easily cut with a sharp knife, eliminating the need to drill holes through wooden support beams.
- By using CELBLOX, contractors eliminate the labor and cost of inserting or installing additional insulation.
- One of the most striking features of CELBLOX is the tie system that connects the ICF panels. The length of the tie determines the width of the CELBLOX, which comes in widths of 4, 8, and 12 inches. The ties consist of two hinged plastic pieces that fold together to collapse the panels flat for shipping to the job site. Collapsed, approximately 1,200 blocks can be shipped on a tractor trailer truck (enough to construct a 2,700-square-foot home basement and first floor). Less than 600 blocks of competitors' pre-constructed or "opened" ICFs can be shipped, which increases shipping costs.
- CELBLOX snap open and lock into place at the construction site. A hard shake opens and locks the ties into position for immediate installation. With competitors' ICFs, construction workers must install the ties between each of the panels, a labor-intensive task. CELBLOX cuts this overall time and labor expense to less than half.

Currently, Cellox can produce 800 CELBLOX per day using two 8-hour shifts, 5 days a week. Given that it takes around 1,000 blocks to make a relatively small three-bedroom home, their potential capacity, if working 24 hours per day, 7 days per week, is about 350 homes per year. With the right marketing, demand for the product could increase significantly. Even if there are over 40 manufacturers of ICFs, the CELBLOX product has enough distinguishing features and benefits that it can capture an ever-increasing share of the emerging ICF market.

According to ICF industry reports, only about 4% of the construction market currently uses these materials. Consequently, within the residential construction industry, there is significant room for growth, especially in light of their energy efficiency, the ability to withstand extreme weather, and their resistance to wood-destroying insects. David Pace sees the future as long-term and large when he states, "A hundredfold increase in the next 10 years is possible, and we can do it!"

CELBLOX is about 1 to 4% costlier than an equal amount of wood-building materials. For example, an ICF basement wall compared to a bare concrete (unfinished) basement wall is 15% higher in cost. However, an ICF basement wall compared to a concrete wall that has been studded and sheet-rocked (finished) will generate a 10% cost savings.

While its many desirable features should make the ICF product preferable, contractors generally resist it for two reasons:

1. they prefer to work with materials they are familiar with, and
2. they avoid new materials they do not know about or for which they have no technical support.

Additionally, shipping costs can add significantly to the overall cost. Even the collapsible blocks take up a large volume; whether you are shipping steel or polystyrene, the cost to ship the item remains essentially the same. The shipping cost alone dictates that ICF producers have to consider a regional distribution system to remain competitive with wood and metal construction and gain a competitive advantage over other ICF manufacturers not locally based. Consequently, Cellox is forced to concentrate on its primary geographic market located within a 300-mile radius unless it manufacturers and distributes the product through other regional distribution networks.

David Pace has assertively tackled all of these issues. That's why Cellox has the highest quality product in the ICF industry, is developing a decentralized product distribution system, is franchising construction crews across the United States to be ready to install ICFs, and is cultivating a growing interest in storm-ravaged areas looking for improved methods to rebuild. As David lobbies growing support from the insurance and mortgage industries, CELBLOX has all the ingredients for success by being in the right place at the right time with the right product.

FINDING CELBLOX CUSTOMERS

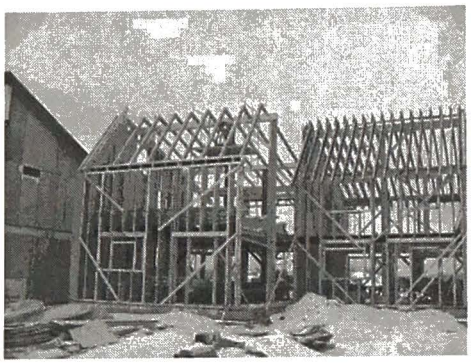
After purchasing Cellox, David initiated an aggressive campaign to encourage former customers to work with Cellox again. To date, the greatest challenges facing CELBLOX have been:

1. finding and educating construction industry contractors
2. finding and educating people building their own homes

Construction workers prefer to work with materials they are familiar with, even if they cost more, use more labor, and are less energy efficient. Homeowners not that familiar

with construction techniques generally assume that 2x4 framing ("stick-built"[11]) is the only way to build the exterior walls of a home (See illustration 7). Contractors are used to working primarily with these wood or steel 2x4s. Construction mistakes are relatively easy and inexpensive to correct. With concrete, however, once hardened, it is difficult to change.

ILLUSTRATION 7
Example of "Stick-Built."



A home that is "stick-built" is constructed on the building site, piece by piece, from wood or steel studs.

The construction industry is highly fragmented. There is no one construction association through which David Pace can contact or reach all contractors. Instead, there are multiple associations for trades, and many of the small- to medium-sized construction contractors do not have the time or resources to be part of a trade association or other industry group.

David sees the greatest need for CELBLOX in places like Florida and the Gulf Coast of the United States, which have suffered catastrophic damage from hurricanes in recent years. These areas also have significant problems with insects, mold, mildew, and high energy costs for air conditioning.
CELBLOX is ideal for these areas. However, as long as cost is a determining factor, it will be difficult to compete with inferior and cheaper brands of ICFs. CELBLOX must explore ways to reduce costs while maintaining high quality and gain market share in new markets across the United States.

Identifying individuals desiring to build their own homes also is not an easy process. There seems to be no way to communicate with or find people "thinking" about building a home. Those who happen to discover and desire ICF technology may be discouraged by contractors who are unfamiliar with and untrained in using the ICF construction technique and, therefore, direct the homeowner to another more traditional construction technique. The vast majority of the population is not even familiar with this construction process, so for David, it is almost like starting at "square one."

11 A home that is **"stick-built"** is constructed on the building site, piece by piece. Manufactured and modular homes are not classified as stick-built because they are made mostly in the factory and transported to the site. A custom home and a home made according to stock building plans may both be stick-built, provided that they are constructed on the land where they will remain.

INCREASING SALES

David Pace has prepared Cellox to meet the anticipated CELBLOX production demand. He has installed molding machines capable of producing different quantities of the CELBLOX product. For example, it takes about 150 to 180 seconds for one operator to insert the vinyl plastic studs and a total of around 240 seconds to complete the molding process for six ICF blocks, which equals 90 panels (or 45 blocks an hour).

New molding machines can produce 8 panels—a 33% increase in panels per cycle—every 120-135 seconds, and they take only 20-90 seconds to load. This new machinery almost doubles the parts-per-hour production. Consequently, capacity can stay ahead of demand as each new machine can produce 120 blocks per hour, or enough for one house approximately every 8 hours.

Marketing is critical to sell CELBLOX. To date, market research at Cellox tends to be any information the sales force happens to glean from the field. CELBLOX product literature consists of brochures and one-sheet user guides that have been developed over the last several years. Cellox has a website and attends an occasional convention or show for contractors and/or homeowners. CELBLOX sales to contractors are considered a key success factor and the future lifeblood of Cellox.

Customer service is also critical for sales. Employees consistently tout the new outstanding customer service, which is displayed in various ways: a quick return call on a telephone query; being nice to people visiting the home office; assisting a contractor through a difficult construction site dilemma; and so forth. ICF users sometimes need more communication and someone to "walk them through" a technicality. A botched job on the construction site can mean a tarnished image for both the contractor and CELBLOX, regardless of who was at fault. Providing technical expertise is critical.

Finally, as a committed Christian, David believes in sharing the blessings God has given him with others. Consequently, he looks for ways to help other enterprises in need and preserve the economic base of the communities they serve. For example, he passionately wants to make CELBLOX available to churches "at cost," enabling them to build stronger and higher-quality buildings. Not only will they be able to reap the benefits of lower energy costs, but they will be better stewards of God's resources in the process.

HUMAN RESOURCES

Along with his many company leadership responsibilities, David is actively involved

with marketing and sales. He is a firm believer in the numerous superior qualities and benefits of CELBLOX. While he has many ideas on how to get the product to the customers, he does not have the time to do the job alone.

When David bought the company, he kept the former president as the head of marketing to utilize his product expertise. Initially, David reduced the employee population from 40 to 14 (a large portion of the cuts were salaried employees) and reduced wages across the board for those who remained due to a critical cash flow shortage. Eighteen months later the former president left.

Pete has been with Cellox for about one year. His 21 years in plastics manufacturing, custom extrusion, and thermoforming provided a solid foundation for his position as general manager. Early on, Pete became especially concerned with the price spikes of raw materials which caused (1) a decline in customer orders, and (2) already-priced orders in production to be too low to achieve margins. The decline and stabilizing of raw material costs was a 2- to 3-year timeframe when the company had to find alternative customers. He saw that POP did not have high growth potential, but it did have a good profit margin. CELBLOX, on the other hand, had high growth potential, but competition kept the margin far lower than POP. Pete recently submitted his resignation effective in 90 days to pursue a long-held interest in financial planning.

Pam continues her role as the controller and also functions as the human resource director. Her accounting degree and experience as a CPA combined with 3 years work at Arthur Anderson and 15 years in manufacturing as a controller has positioned her well to oversee the corporate information technology and accounting functions. She would like to spend more time, however, on financial analysis and projections than producing the financial statements. While she does not especially enjoy the HR function, she knows she needs to do what is necessary to achieve corporate goals and objectives. She is frustrated with the five-month lag time for producing the financial statements and would prefer to see statements generated 15 days after the end of each month, and maybe 45 days for year end.

Nine months ago, David hired Peter as a special projects manager because of his experience in the home hardware construction market and his earlier work with a competing ICF manufacturer (EcoBlock). Peter previously worked at the contractor's desk for the local Home Depot—a home and garden store. Since coming to Cellox, Peter has been asked to help in marketing, along with production and maintenance activities, in addition to special projects such as creating a distribution network, developing training films for installing CELBLOX, providing technical support to

contractors, and analyzing competitor products. Ideally, Peter would like to oversee a regional distribution center for CELBLOX—maybe a franchise operation—in the Carolinas within the next year, which he envisioned could be a first step toward his retirement at that location.

Rita has worked for the company for over 10 years, moving from the ranks of a machine press operator and product decorator to the front office where she provides customer service for POP and packaging. With good product knowledge and outstanding customer telephone skills, she is assigned to take orders from existing customers, field customer inquiries, and develop specific price quotes on products. Rita can find new customers, but prefers to cultivate relationships with established customers, especially those who are "high touch" to assure them that everything is on track or to solve specialized problems. She describes herself as a "Jack of all trades, but the master of none." She enjoys initiating contact with customers at several points in the product development and delivery cycle to determine if there is anything they need. According to her, there are always "tons" of people to contact, but not enough time to contact them all. She enthusiastically embraces the opportunity to meet customers in person on those few occasions they visit the corporate headquarters in Reedsburg.

In late 2004, David hired an MBA graduate with a specialization in marketing to help develop the marketing and sales initiatives. Uncomfortable with cold calling potential customers, that individual submitted his resignation nine months later and returned to his east coast home town to work for a church.

David is looking for qualified candidates to fill these critical positions and others in several areas of the company.

CONCLUSION

As David approaches the end of his second year leading Cellox, he knows the company's future survival and financial success is dependent on CELBLOX. Cellox has the potential to become the market leader. However, despite David's positive attitude and entrepreneurial success, the company's challenges—limited resources, geographic boundaries, targeting customers, etc.—could sink it before it has a chance to succeed. David needs to develop a marketing and sales strategy that takes Cellox and CELBLOX to the next level of production, sales, and profitability.