

# Fixer Upper: Expanding the Magnolia Brand\*

## Overview

In the spring of 2018, Home and Garden Television (HGTV) aired the *Fixer Upper* season finale closing five years on the network during which the series had become increasingly more popular. Not only had the program drawn attention to the other properties of Chip and Joanna Gaines, the stars of the show, but a spotlight had also been focused on the site of the show — the college town of Waco, Texas. Rarely had a business have the kind of impact on a city that *Fixer Upper*, renamed Magnolia, Inc., and its brand extensions — the Magnolia Table café, the Silos and Marketplace, Magnolia House inn, the *Magnolia Journal*, and Hillcrest Estate vacation home rental, among other lines of business, had on Waco, Texas, at least for the duration of the television series. With the end of *Fixer Upper*, people wondered what would happen to the various Magnolia businesses, as well as to the host city whose prominence had grown along with the popularity of not only the *Fixer Upper* show, but also with that of the Gaines family.

## Suggestions for Using the Case

This should be a high-interest case, particularly for aficionados of Home and Garden Television, and one that will certainly trigger lively classroom discussion due to the critical incident that might severely impact Magnolia, Inc.'s sustainability and growth trajectory.

This case provides a unique opportunity for students to discuss the Gaines's attempts to gain traction in the hospitality industry due to the notoriety provided by a television program. Students should develop an appreciation of the need for companies to tailor a strategy and develop capabilities that fit the specific industry to build a sustainable competitive advantage. The case can be paired with the Wil's Grill case to provide students with a "compare and contrast" discussion question or writing assignment regarding how entrepreneurs can create and sustain competitive advantage in lifestyle businesses such as tourism and hospitality services.

This case is well suited for use as a lead-off case to be used in your introduction to strategy module and provides sufficient material for students to illustrate the following concepts in Chapter 1:

- To determine a winning strategy a company needs to ensure the strategy is well matched to industry and competitive conditions, a company's best market opportunities, and other pertinent aspects of the business environment in which the company operates
- A winning strategy should enable a company to achieve a competitive advantage over key rivals that is long-lasting

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\*This teaching note primarily reflects the thinking and analysis of Professor Armand Gilinsky, Sonoma State University. We are most grateful for his insight, analysis and contributions to how the case can be taught successfully.

- The mark of a winning strategy is strong company performance. Two kinds of performance indicators tell the most about the caliber of a company's strategy:
  1. Competitive strength and market standing
  2. Profitability and financial strength
- The two elements of a company's business model are:
  1. Its customer value proposition that lays out the company's approach to satisfying buyer wants and needs at a price that customers will consider a good value.
  2. Its profit formula that describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.

The case can also be used to introduce concepts in Chapter 2:

- The process of crafting and executing a company's strategy is an ongoing, continuous process consisting of five interrelated stages:
  1. Developing a strategic vision that charts the company's long-term direction
  2. Strategic management for measuring the company's performance and tracking its progress in moving in the intended long-term direction
  3. Crafting a strategy for advancing the company along the path management has charted and achieving its performance objectives
  4. Executing the chosen strategy efficiently and effectively
  5. Monitoring developments, evaluating performance, and initiating corrective adjustments in the company's vision and mission statement, objectives, strategy, or approach to strategy execution in light of actual experience, changing conditions, new ideas, and new opportunities
- As shown in Figure 2.1 and illustrated in detail in Table 2.1, management's decisions that are made in the strategic management process are shaped by
  1. the prevailing economic conditions
  2. the competitive environment and
  3. the company's own internal resources and competitive capabilities

The Fixer Upper case also provides students with the opportunity to consider specific action steps to improve the Gaines family's position in the highly competitive tourism and hospitality industry. Some instructors may believe strongly that Chip and Joanna Gaines may have overextended their resources and capabilities into too many disparate lines of business — i.e. magazine, garden store, lodging, marketplace, restaurants and cafés, rental homes, home remodeling and improvement, etc. Instructors in this category may elect to use the Fixer Upper case to preview business portfolio assessment, retrenchment, and restructuring strategies covered in Chapter 8, and/or to preview the important role of a capable management team in executing strategy, covered in Chapter 10.

**Video for Use with the Fixer Upper: Expanding the Magnolia Brand Case.** There is a 3:09 YouTube video you can show (or let students view on their own) when having class discussion of the Fixer Upper case. The 2017 video is entitled “Chip and Joanna Gaines Reveal the Story Behind the Start of Their Own Business” and can be accessed at <https://www.youtube.com/watch?v=ek0mw2tgRQY>.

**Utilizing the Guide to Case Analysis.** If this is your first assigned case, you may find it beneficial to have class members read the Guide to Case Analysis located in the instructor resources section of the Connect Library. The content of this Guide is particularly helpful to students if your course is their first experience with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

**The Connect-based Exercise for the Fixer Upper: Expanding the Magnolia Brand Case.** We developed an exercise for Netflix for inclusion in the publisher's *Connect™ Management* web-based assignment and assessment platform because:

- Many of the topics in this case bear directly on the material in Chapters 1-5.
- One of the purposes of the case exercises is to drill students in applying the core concepts and analytical tools discussed in the chapters to the circumstances posed in the cases.

It should take class members roughly 30 minutes to complete the exercise, assuming they have done a conscientious job of reading the case and absorbing the information it contains. All of the questions are automatically graded, and the grades are automatically recorded in your Connect grade book, which makes it easy for you to evaluate each class member's ability to apply many of the concepts and tools in Chapters 1-5.

**What to Tell Students in Preparing the Fixer Upper: Expanding the Magnolia Brand Case for Class.** To give students guidance in what to do and think about in preparing the Fixer Upper case for class discussion, we strongly recommend two things:

1. *Have class members complete the Connect-based exercise for the Fixer Upper case in the event you have adopted the Connect software for your course.*
2. *Provide class members with assignment questions and insist that they prepare good notes/answers to these questions before coming to class.* Our recommended assignment questions for the Fixer Upper case are presented in the next section of this TN. You may wish to have the class concentrate their attention on a subset of these questions, depending on what you want to concentrate on during the class discussion.

*To facilitate your use of assignment questions and making them available to students, we have posted a file of the Assignment Questions contained in this teaching note in the Instructor's Resource Section of the Connect Library. In all instances, these assignment questions correspond to the assignment questions in the teaching note for the case.*

In our experience, it is quite difficult to have an insightful and constructive class discussion of an assigned case unless students have conscientiously made use of pertinent core concepts and analytical tools in preparing substantive answers to a set of well-conceived study questions before they come to class. In our classes, we expect students to bring their notes to the study questions to use/refer to in responding to the questions that we pose. Moreover, students often find that a set of study questions is useful in helping them prepare oral team presentations and written case assignments—in addition to whatever directive question(s) you supply for these assignments. Hence, we urge that you provide students with assignment questions—either those we have provided or a set of your own questions—for all those aspects of a case that you believe are worthy of student analysis or that you plan to cover during your class discussion.

This case is suitable for both written and oral presentations. Our recommended assignment questions are as follows:

1. As part of your internship requirements with the Magnolia, Inc. group of businesses, you have been asked to prepare an analysis of its competitive position in the e-commerce marketplace. Your report should contain 2-3 pages of recommendations for continuing the company's success in e-commerce, improving its financial position, and a recommendation about potential new areas for diversification. Write an executive summary of recommendations of no more than 2–3 pages, accompanied by supporting exhibits. These exhibits may include an overview of Magnolia Inc.'s strategy, a competitive strength assessment, and a financial analysis.
2. Chip and Joanna Gaines, Magnolia Inc.'s owners, have learned of your considerable skills in strategic analysis and has hired you to develop a strategic plan for Magnolia Inc., continue to build a stronger financial position, and make a decision about future diversification or retrenchment from its existing lineup of businesses. In developing your recommendations, you should assess the hospitality and tourism industry. You should also assess Magnolia Inc.'s competitive strength in its key product categories and analyze its recent financial performance. Finally, the plan should offer specific, actionable recommendations that will allow Magnolia Inc. to further improve its position. Your recommendations should be well supported with arguments and justifications for each recommendation. Your report should include 4-6 pages of recommendations and whatever supporting charts, tables or exhibits you deem useful.

## Assignment Questions

1. What are the major elements of Magnolia Inc.'s competitive strategy? How well do the pieces fit together? Is the strategy evolving?
2. Explain the pressures facing Magnolia Inc. in its internal and external environments. How would you prioritize those pressures?
3. What strategic issues confront Magnolia Inc. in 2018? What market or internal circumstances should most concern owners Chip and Joanna Gaines and the company's senior management team?
4. What recommendations would you make to Magnolia Inc. to address the strategic issues confronting it in 2016 in order to sustain its impressive growth in revenues and achieve profitability?

## Teaching Outline and Analysis

1. **What are the major elements of Magnolia Inc.'s competitive strategy? How well do the pieces fit together? Is the strategy evolving?**

There elements of the Gaines's strategy include:

- Low/no cost property conversions
- Fees from TV production company + an undisclosed fee from renovators.
- Related diversification into tourism and leisure and home furnishing businesses
- Target customers: families, high net worth individuals, median age 50+

- Charge premium prices for lodging and meals, at least relative to Waco market
- Partner w/ stakeholders, i.e. City of Waco government and Chamber of Commerce

Here is an ideal opportunity to ask students, which of the *generic strategies* illustrated in Chapter 1 might characterize the Gaines's Magnolia Inc. operation? Basic strategic approaches for setting a company apart from rivals and winning a sustainable competitive advantage include a low-cost provider strategy, a broad differentiation strategy, a best cost provider strategy, and a focused differentiation strategy.

We think a good case could be made that Magnolia Inc. has implemented a *best cost provider* strategy. A best-cost provider strategy is giving customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations. This approach is a hybrid strategy that blends elements of low-cost provider and differentiation strategies; the aim is to have lower costs than rivals while simultaneously offering better differentiating attributes.

In addition to their pursuit of related diversification into segments they could at least indirectly promote on their television series, Gaines's strategy is evolving, inasmuch as the cancellation of their *Fixer Upper* TV series on HGTV has turned out to be a mixed blessing:

- Chip and Joanna clashed with HGTV executives over not being able to showcase their furniture line on the show and were unhappy with their contract because it was so restrictive, i.e. present contract prevented them from taking advantage of some lucrative deals
- On April 10, 2018, Joanna launched a *Fixer Upper* spinoff series entitled "Behind the Design" to share details on her design strategies, decorating, staging a home, and cover all the elements that go into home makeovers

## 2. Explain the pressures facing Magnolia Inc. in its internal and external environments. How would you prioritize those pressures?

Here is an ideal place to preview one or more of the situation analysis concepts and frameworks that will be covered in greater depth in Chapters 4 and 5, and strategy implementation concepts that will be covered in later chapters, such as 8 and 10.

It's also an ideal place to ask students to read the case exhibits carefully, not just gloss over them particularly case Exhibits 2 and 5.

SWOT analysis is a simple but powerful tool for sizing up a company's strengths and weaknesses, its market opportunities, and the external threats to its future well-being.

See Table 1, and remind students that a SWOT analysis is much more than "placing bulleted lists in boxes," that is, it involves making conclusions that could lead to generation of strategic alternatives for the company.

TABLE 1

## SWOT Analysis for Magnolia, Inc.

Strengths / Competitive Assets	Conclusions about Magnolia's situation:
<ul style="list-style-type: none"> <li>• &gt; \$2 million in TV revenues over 5 seasons &amp; Gaines' combined net worth of ext. \$18 million (case Ex. 2)</li> <li>• Organic growth of diverse businesses under same brand umbrella</li> <li>• Supportive of Waco's mission, "Do good work that matters"</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a company vision &amp; mission (previews Ch. 2)</li> <li>• Pursue differentiation focus generic strategy (previews Chs. 1 &amp; 5)</li> <li>• Curtail further diversification or retrench from business unrelated to real estate, as owners have limited experience outside that arena (previews Ch. 8)</li> <li>• Recruit &amp; hire professional management team capable of good strategy execution (previews Ch. 10)</li> </ul>
<th data-bbox="190 569 850 604">Weaknesses / Competitive Deficiencies</th>	
<ul style="list-style-type: none"> <li>• No apparent long-term company vision or mission</li> <li>• Reliance on \$400–\$500K annual revenue stream in jeopardy due to show cancellation (Ex. 2)</li> <li>• Reliance on one geographical location</li> <li>• Reliance on owners/founders who have no succession plan</li> <li>• Relatively low level of Millennials among <i>Magnolia Journal</i> readership and patronage of this demographic segment at Waco properties is unknown (Ex. 5)</li> <li>• Management team expertise — an unknown</li> </ul>	
Opportunities / Favorable External Factors	Implications for improving Magnolia's strategy:
<ul style="list-style-type: none"> <li>• Residuals from rentals &amp; streams of HGTV series</li> <li>• Magnolia Market &gt; 30,000 visitors a week to WACO</li> <li>• High net worth of <i>Magnolia Journal</i> readership</li> <li>• Silos attraction could potentially draw 1.6 million visitors annually (50 % non-Texas)</li> <li>• Economic multiplier effects increased patronage at local hotels and restaurants</li> <li>• Rising Waco property values, @ 4x national average in March 2015</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on TV, real estate &amp; lodging arenas</li> <li>• Pursue selective retrenchment out of businesses where the Gaines have little or no expertise (or time) to manage</li> <li>• Seek strategic partnerships in parking, hotel shuttle transport, food services and retail operations to share costs &amp; minimize risks of adversity in external environment</li> <li>• Meet or exceed industry standards for product quality and data security</li> </ul>
Threats / Unfavorable External Factors	
<ul style="list-style-type: none"> <li>• Parking a major, costly challenge near the Silos</li> <li>• Locals' complaints about the increased traffic</li> <li>• Demise of the popular television program <i>Fixer Upper</i></li> <li>• Another reputation-damaging incident in Waco</li> <li>• Economic recession &amp; downturns in travel &amp; housing markets</li> </ul>	

(Adapted from Figures 4.1 and 4.2 in the text)

**3. What strategic issues confront Magnolia Inc. in 2018? What market or internal circumstances should most concern owners Chip and Joanna Gaines and the company's senior management team?**

Students may point to the Gaines's tactical challenges,

"Some [Waco] locals complained about the increased traffic."

"Some history buffs in the city complained that the name "Elite" should have been retained since the café's history had been so intertwined with that of the town."

But their biggest strategic challenges are likely to be in the aftermath of the HGTV cancellation, despite the announcement of a spinoff series with an unknown network and unknown audience. It is also somewhat likely that the novelty of their original Fixer Upper series has long worn off. The strategic challenges are:

- Sustain the pace of growth
- Maintain the pace of diversification to assure that growth
- Recruit and retain experienced, objective management to run their disparate portfolio of business
- Remain in the good graces of the City of Waco
- Stay healthy to avoid burn-out

The last point above may be missed by students, even though the case indicates that the Gaines's fifth child arrived during summer 2018 and the case indicates that filming a series over 11 months can be tiring and repetitive for the Gaines family.

**4. What recommendations would you make to Magnolia Inc. to address the strategic issues confronting it in 2018 in order to sustain its growth in revenues and profitability?**

Students should engage in an active discussion/debate to defend their recommendation(s) to continue the existing business model, propel growth forward via product line extensions or via a strategic alliance or partnership (foreshadowing the coverage of these diversification strategies in Chapter 8), or cash out and exit the business via a sale to another online marketplace.

**Wrapping-up the case:**

We believe strongly that although the new TV series may indeed turn out to be a success, at least temporarily, absent a clear company mission and vision for Magnolia Inc., it is difficult to tell what the longer-term future might hold for Chip and Joanna Gaines.

The Gaineses have surely provided Waco, Texas with a renaissance and more attractions than just being a "college town" (Baylor U.) or a curiosity for those who remember the Branch Dravidian cult.

Yet, there are good arguments to be made for the Gaines family to:

- Direct time and investments to only those businesses that complement the home improvement business model and profit formula and that provide the company with a potentially *sustainable competitive advantage* (covered in Chapter 1)
- Craft a formal mission and vision for Magnolia Inc. (covered in Chapter 2)
- Divest labor-intensive businesses like food services, gardening store, and magazines (covered in Chapter 8)

- Monitor relationships with key stakeholders in the City of Waco and strive to be a socially responsive and socially responsible business (covered in Chapter 9)
- Hire an experienced management team (covered in Chapter 10)
  - Safeguarding the Gaines's primary assets (resources and capabilities) is increasingly important now that the family's net worth is in in distance of an eight-figure range (\$5 million as of 2018)

There is a danger of becoming overextended and stretching their still modest resources and capabilities even further, into too many disparate lines of business — i.e. magazine, garden store, lodging, marketplace, restaurants and cafés, rental homes, home remodeling and improvement, etc. Why? Because, as highlighted in Chapter 1:

- To determine a winning strategy a company needs to ensure the strategy is well matched to industry and competitive conditions, a company's best market opportunities, and other pertinent aspects of the business environment in which the company operates
- A winning strategy should enable a company to achieve a competitive advantage over key rivals that is long-lasting

## Epilogue

On April 11, 2019, Chip and Joanna Gaines announced that they would be launching a television channel and related phone app with the possible creation of a subscription-based streaming service with Discovery, Inc. The couple said the new network would focus on “community, home, garden, food, wellness, entrepreneurship and design.” Discovery, Inc. is the owner of HGTV, Discovery Channel, Science Channel, Animal Planet, TLC, ID, Food Network, Travel Channel and DIY Network. The intention of the joint venture is to rework the DIY Network as the new Magnolia TV offering.

The launch date of the new network is proposed for summer of 2020. The DIY Network in 2019 was reaching more than 52 million homes across the country; whereas HGTV was reaching 99 million homes.

Additional case updates can be found at Magnolia Inc.'s website: <https://magnolia.com>, or via its social media site on LinkedIn, <https://www.linkedin.com/company/magnolia>.