

Case Analysis: Vermont Teddy Bear's Business Model and IT Challenges

Mason Tatafu

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Introduction

Vermont Teddy Bear (VTB) is a specialty gift company that sells customized teddy bears, pyjamas, and flowers through a combination of online and catalogue sales. It operates in a highly seasonal market, with peak demand during Christmas, Valentine's Day, and Mother's Day. The company's success depends on its ability to efficiently handle these surges, but its outdated IT systems are struggling to keep up. The core business issue is the misalignment between VTB's operational needs and its IT infrastructure. The company relies on fragmented middleware and legacy systems that cause inefficiencies, slow order processing, and increase the risk of system failures during high-volume periods. At the same time, cash reserves are limited, making a full-scale IT overhaul impractical. VTB's challenge is balancing short-term operational fixes with long-term strategic IT improvements. CIO Bob Stetzel must determine the best way to modernize the company's IT architecture while ensuring continued business success. His decision will impact customer satisfaction, employee efficiency, and overall profitability.

Current Situation Analysis

VTB operates in the gift delivery industry, offering personalized products that customers can order online or by phone. Its main value proposition is customization—customers can select outfits for their teddy bears, pair them with pyjamas or flowers, and have them shipped in a signature hatbox. Unlike traditional gifts like chocolates or jewellery, VTB positions itself as a provider of unique, sentimental experiences. The target market is primarily gift-givers, with a strong emphasis on men purchasing for partners, spouses, or mothers. While seasonal demand drives sales, VTB has struggled to maintain year-round revenue, making peak season performance critical.

Key Issues and Challenges

Vermont Teddy Bear (VTB) faces a lot of competition in the gift industry, and several factors affect how well it can keep up. New companies can enter the market easily, especially with how simple it is to set up an online store. However, VTB has a strong brand and offers custom products, which helps keep it ahead of smaller newcomers. Suppliers have a decent amount of power too. VTB gets its materials—like fabric, stuffing, and packaging—from different sources around the world. If there are supply chain problems, costs could go up, and VTB might struggle to get enough materials, especially during busy seasons. Customers have a lot of choices, which gives them the upper hand. They can buy flowers, chocolates, or even experience-based gifts instead of a teddy bear. Plus, many competitors offer discounts and rewards programs, which makes it harder for VTB to keep customers coming back.

There are also plenty of substitute products out there. Digital gifts, personalized items from other online stores, and even brands like Build-A-Bear offer alternatives to what VTB sells. If people start preferring more interactive or digital gifts, VTB could lose some of its appeal.

Competition is tough, especially against big companies like 1-800-Flowers. These businesses have better technology and logistics, meaning they can process orders faster and more efficiently. Since VTB still relies on older systems, keeping up with these larger companies is a challenge.

VTB's strongest asset is its brand recognition and ability to deliver customized gifts quickly. However, its operational capabilities are strained due to aging technology. During peak demand periods, order processing slows down, systems crash, and inventory tracking becomes unreliable.

Instead of a fully integrated IT system, VTB uses middleware to connect various applications, creating inefficiencies. Temporary employees are hired to help with peak demand, but the lack of IT integration means errors, missed shipments, and lost sales opportunities.

Stakeholder Analysis

Different groups of people are affected by Vermont Teddy Bear's business and IT problems. The executives, including the CEO, CIO, and board of directors, care the most about making money and running things smoothly. They need an IT solution that works well but doesn't cost too much. The employees, especially those in IT and operations, deal with a lot of frustration. The systems they use are old and slow, which makes their jobs harder. During busy seasons, the extra demand creates even more stress since they must fix problems constantly. Customers just want their orders to arrive on time and without issues. If deliveries are slow or order tracking doesn't work properly, they might stop buying from VTB and go somewhere else. Suppliers rely on VTB's orders to plan their production schedules. If the company's systems aren't working well, last-minute changes can mess up the supply chain and cause delays. Investors and shareholders mainly care about profits. They want the company to be more efficient, but they don't want to see risky spending on expensive IT upgrades. If VTB doesn't improve, they might worry about the company's future.

Data Analysis

Porter's Five Forces Analysis

- Threat of New Entrants – Moderate
 - The industry has low barriers to entry, as new online retailers can set up e-commerce storefronts quickly. However, VTB's brand recognition and customization options provide some protection.
- Bargaining Power of Suppliers – Moderate
 - VTB sources fabric, stuffing, and packaging materials globally. Supply chain disruptions could increase costs and affect product availability, particularly during peak seasons.
- Bargaining Power of Buyers – High
 - Customers have many alternative gift options, including flowers, chocolates, and experiences like spa treatments. Price sensitivity is high, and competitors offer discounts and loyalty programs.
- Threat of Substitutes – High
 - Digital gifts, personalized online stores, and competitors like Build-A-Bear provide strong alternatives to VTB's offerings.
- Industry Rivalry – Intense
 - Companies like 1-800-Flowers and other e-commerce gift platforms offer strong competition. Larger firms have more efficient logistics and better-integrated IT systems, giving them an advantage in speed and reliability.

Possible IT Solutions

VTB has a few different options for improving its IT systems, each with its own pros and cons. One option is to replace everything with a full ERP system. This would get rid of all the old, disconnected systems and bring everything—order processing, inventory, and finances—into one platform. While this would make things run smoother in the long run, it would cost a lot, take a long time to set up, and could disrupt business during the transition. Employees would also have to learn an entirely new system, which could slow things down even more at first. Executives would need to justify the big investment, and customers might face some delays while things get sorted out.

Another approach is to make IT improvements gradually instead of doing a full system overhaul. This means fixing the current systems in stages—stabilizing middleware, improving data tracking, and upgrading the order management process. It wouldn't be as fast or as powerful as an ERP system, but it would cost less and wouldn't be as risky. Employees would have time to adjust to changes, executives wouldn't have to spend as much all at once, and customers wouldn't notice major disruptions.

A third option is to outsource IT to a cloud-based SaaS provider. This would mean moving everything to an external platform, letting a third-party company handle IT maintenance. It's a flexible option that could scale with demand and take pressure off VTB's internal team. However, it would also mean giving up some control, relying on outside vendors, and potentially reducing the need for in-house IT staff. Executives would have to be careful with contracts, and while customers might get a better online experience, the company would depend on an external provider for all major IT functions.

Recommended IT Solution

After weighing the options, gradual IT improvements seem like the best choice. A full ERP system is too expensive and disruptive; while outsourcing IT would take away too much control. Making steady updates to core systems while improving how data is managed offers the most practical balance between cost, risk, and effectiveness.

Actionable IT Plan

To improve its IT systems without spending too much or causing major disruptions, VTB should take a step-by-step approach over the next few years.

Short-Term Fixes (Next 6-12 Months)

The priority should be stabilizing the current system, so orders don't get delayed. Fixing middleware issues will help orders process more smoothly, reducing errors and slowdowns. At the same time, customer data tracking should be improved so marketing efforts can be more targeted and effective.

Mid-Term Improvements (1-2 Years)

Once the basic fixes are in place, VTB should upgrade its order management system to handle more demand without breaking down. Automating inventory tracking will also help speed up shipping, reducing the chances of stock issues or missed deliveries. These changes will make operations more efficient and improve customer satisfaction.

Long-Term Strategy (2-3 Years)

For long-term success, VTB should connect its e-commerce systems across all its brands, including PajamaGrams and Calyx Flowers. This will create a smoother shopping experience and help VTB compete better with larger companies.

By following this plan, VTB can gradually improve its IT systems while keeping costs under control and avoiding major business disruptions.

Conclusion

VTB's success depends on aligning IT with business needs. A full ERP system is too risky right now, but gradual IT upgrades will enhance efficiency without high costs. By stabilizing middleware, improving analytics, and modernizing order tracking, VTB can stay competitive and improve customer experience.

This approach provides measurable improvements while keeping spending under control, ensuring VTB can manage peak seasons effectively while preparing for future growth.