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JOURNAL OF THE INTERNATIONAL ACADEMY FOR CASE STUDIES

SPECIAL INSTRUCTORS' EDITION

CONTENTS

LETTER FROM THE EDITOR

Welcome to the *Journal of the International Academy for Case Studies, Special Instructors' Edition.* The International Academy for Case Studies is an affiliate of the Allied Academies, Inc., a non profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The purpose of the IACS is to encourage the development and use of cases and the case method of teaching throughout higher education. The *JIACS* is a principal vehicle for achieving the objectives of both organizations. The editorial mission of this journal is to publish cases in a wide variety of disciplines which are of educational, pedagogic, and practical value to educators.

The Instructors' Notes contained in this volume have been double blind refereed with their corresponding cases. Each case for which there is an Instructors' Note contained herein has been previously published in an issue of the *Journal of the International Academy for Case Studies*. Each case was required to have a complete teaching note before consideration. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies. This publication also conforms to the AACSB requirements to publish case notes which are considered by that body to be of more academic value than the case itself.

Iif any reader is interested in obtaining a case, an instructor's note, permission to publish, or any other information about a case, the reader must correspond directly with the author(s) of the case.

The Academy intends to foster a supportive, mentoring effort on the part of the referees which will result in encouraging and supporting writers. We welcome different viewpoints because in differences we find learning; in differences we develop understanding; in differences we gain knowledge and in differences we develop the discipline into a more comprehensive, less esoteric, and dynamic metier.

The Editorial Policy, background and history of the organization, and calls for conferences are published on our web site. In addition, we keep the web site updated with the latest activities of the organization. Please visit our site and know that we welcome hearing from you at any time.

JoAnn Carland
Western Carolina University

CASE NOTES

CASE NOTES

MERRIMACK VALLEY CHAMBER OF COMMERCE: "THE BIGGEST AND THE BEST"

Gina Vega, Merrimack College

CASE DESCRIPTION

The primary subject matter of this case concerns regional economic development. Secondary issues examined include the role of the Chamber of Commerce and the integration of business and social concerns. The case has a difficulty level of two, appropriate for sophomore level courses. The case is designed to be taught in 2 - 4 class hours and is expected to require 2-4 hours of outside preparation by students, depending on the related projects selected.

CASE SYNOPSIS

The Merrimack Valley Chamber of Commerce was the fifth largest Chamber of Commerce in New England in 2001. The Merrimack Valley region was being confronted with a series of challenges to the continued economic growth of the region, including sky-rocketing housing prices, a shortage of skilled labor, and the continued influx of high tech companies with complicated infrastructure demands. The cyclical nature of the regional economic development, highlighted from the Industrial Revolution to the high tech evolution, presents a context for understanding the "big picture" problems and macro issues that exist within the business community, as well as the immediate and pressing problems that the Chamber of Commerce had to face. The reader is introduced to the problems through the eyes of the President of the Chamber.

INSTRUCTORS' NOTES

Case Overview and Learning Objectives:

1. Understand the background of business development on a macro-level,
2. Recognize the cyclical nature of the economy and its impact on the growth of business communities,
3. Understand the integration of business and social community,
4. Understand the role of the Chamber of Commerce in commercial development,
5. Identify and prioritize a series of economic and demographic challenges.

Courses and Levels of Students:

This case is designed for undergraduate students who have had little or no previous exposure to business courses. One of the greatest challenges inherent in teaching undergraduate business students is the need to start at "ground zero" in the subject matter. Some of this challenge can be addressed through the use of business cases, as business problems can be focused on efficiently and accurately through them by providing ready examples of issues that students have not yet experienced. Yet, most business cases posit at least a minimal understanding of the way businesses function and their relationship to the larger community. With beginning undergraduate business students, especially those of "traditional" age, this understanding is often missing.

Courses such as "Introduction to Business" or "Introduction to Management" are geared to guiding students through the background issues of business. This case serves as a vehicle for contextualizing business knowledge, especially in integrated course formats. Introductory courses are often team taught by instructors from a variety of disciplinary approaches. The issues presented in this case can be tackled from several perspectives and are not limited to "management" issues. The case would also work with an introductory course on not-for-profit management.

A number of introductory texts have sections that correspond directly to the case: Business: An Integrative Approach (Fred L. Fry, Charles R. Stoner, Richard E. Hattwick. 2000. Irwin/McGraw-Hill), Business: A Changing World (O.C. Ferrell, Jeffrey Hirt. 2000. Irwin/McGraw-Hill), i+Business in Action (Courtland L. Bovee, John V. Thill. 2001. Prentice Hall) to name just three of the many introduction to business texts that are available. If used with an introduction to management text, Modern Management (Samuel C. Certo. 2000. Prentice Hall) works particularly well.

If you are using the Ferrell/Hirt volume, Chapter 1 is devoted to the context of business, and covers topics such as the nature of business, the economic foundations of business and their cycles, the role of entrepreneurship, a brief history of the growth of industrialization and current movements in technology. The introduction of this case in the very beginning of the term will provide a means of operationalizing the chapter contents for an existing community and concretizing the theories that are presented. Cycles of economic expansion and contraction and the way the American economy works are easily illustrated via the case.

The same suggestion would apply for the introduction of the case early in the term with the Fry/Stoner/Hattwick text. In that text, the first five chapters are devoted to a discussion of the integrative nature of business, including big picture indicators, scope of business, stakeholder theory, and decision-making. These topics are particularly appropriate for the use of this case, and questions can easily be developed that relate specifically to the sub-topic under consideration. In particular, the treatment of the environment of business, including visioning and developing a mission, along with the interactions that individual businesses have, provides opportunities to reflect on the way this concept works in the "real world."

If using the Certo text or other introduction to management text, the case can be integrated throughout the term, or used in one class if students are properly prepared. I have introduced it early in term, in conjunction with the history of management theory (Chapter 2), and provided the questions at strategic intervals. Certo's discussion of the Davis Model of Social Responsibility and social audits in Chapter 3 can be readily applied to local companies, as can elementary versions of stakeholder theory.

DISCUSSION QUESTIONS:

The following questions have been designed from the perspective of "introduction to management" and with an eye to providing opportunities to apply some basic theories that are covered in introductory courses. Similar questions can easily be designed from other disciplinary perspectives. It is often helpful for first and second year students to answer these questions as homework assignments before discussing them in class. In addition, the questions are useful as discussion starters and fishbowl reporting back processes for groups of four to six students working together.

1. Identify the main needs of the Merrimack Valley community and select the one you think is most important. Why have you selected this issue?

An appropriate time to introduce the case and assign the first question for discussion is when you are handling stakeholder theory, social responsibility, and/or the interactions among the participants in a business community. This means early in the term if you are using Ferrell and Hirt (Chapters 1-3) or Certo (Chapter 3), and a bit later if you are using Fry, et al (Chapters 5 and 7). The discussion of stakeholder theory in Fry is comprehensive and clear, providing students with a method for identifying primary and secondary stakeholders, and the later treatment of the impact of economic forces on local economies fits well with this case. Certo does a particularly good job with issues of social responsibility, and provides a socially responsible decision-making flowchart that will help to guide student responses.

The sudden influx of high tech companies created many jobs, but the local job force was not trained to fill them. Jobs for programmers, database administrators, and other high tech positions grew more quickly than did the training programs to fill these jobs. The fluctuating economic cycle kept the local employment population uncertain as to which type of job training to focus on. Many lower level positions were opening as well, in the health care service areas, but again, workers were insufficiently trained to fill them and, in a strong economy, were not interested in working for the lower wages traditionally connected with service employment. The heavy demand for housing created temporary shortages, coupled with a desire on the part of communities to maintain green space and avoid over-development. High income and low income communities existed side by side, with little to no interaction with one another, and the gap was widening.

Stakeholder theory takes into account the needs and interests of all institutional stakeholders, typically including stockholders, employees, customers, suppliers, the local business community, and political interests. The primary stakeholders may vary according to the focus one wishes to place on each major player and on whose interests are paramount at the time (Mitchell, Agle, and Wood, 1997). Mitchell, Agle, and Wood suggest that competing stakeholder interests can be prioritized through the careful analysis of "(1) the stakeholder's power to influence the firm, (2) the legitimacy of the stakeholder's relationship with the firm, and (3) the urgency of the stakeholder's claim on the firm." (p. 854). Power is defined as the ability to carry out one's wishes regardless of opposition. Legitimacy can be measured by the social acceptability of goals and desires. Urgency refers to time-sensitive needs. When combined, these three factors provide a compelling look at the priorities of various stakeholders in decision making processes. This unified perspective can be helpful when trying to provide a quantified stakeholder analysis.

Students may find it helpful to consider the following table (blank, of course) when answering Question #2 and prioritizing their own perspectives. The following table weights power, legitimacy, and urgency per stakeholder. Weights included below are arbitrary, that is, they represent my personal perspective, and are based on a maximum input of ten, for a potential total potency of 30.

Stakeholder	Power	Legitimacy	Urgency	Total
High income workers	10	8	8	26
Low income workers	8	10	10	28
Business community	6	8	10	24
Educational community	8	10	10	28

There are multiple "correct" answers. The selection of a particular problem that a student makes will lead to rewarding class discussion about social and demographic issues, the rise and fall of communities, the social responsibility of business, and the interconnectedness of the needs of the elderly, immigrant populations, the need for education, poverty and business, and other broad topics of economic development. Refer to Exhibits A - C (maps), Exhibit J (demographic trends), Exhibit K (wages in the Valley), and Exhibit G (housing prices)

2. Why has the Merrimack Valley proven attractive to business? What factors create a climate that is conducive to commercial development?

Access to convenient transportation (whether it is the Merrimack River during the Industrial Revolution or the network of highways and airports) , a growing and appropriately educated population that can replace itself on a regular basis, sufficient high quality housing to serve the needs of the high wage community and affordable housing for the lower wage community, the aggregation of similar businesses that creates a visible presence and a reason to join the community, safe neighborhoods, and good access to education all make a community attractive for further development, both commercial and industrial.

Refer to Exhibits A-C, maps of the northeast United States and the local area. These maps identify clearly that the Merrimack Valley lies in the center of a network of highways and airports, making access to greater New England as well as the rest of the nation easy and direct. Twenty-five miles to the south is Logan International Airport, and the same distance to the north is Manchester Airport. Within the Valley itself, the Lawrence Airport provides access to corporate planes and other small aircraft. Interstates 495, 95, and 93 run through the Valley, providing ease of automobile transportation. In addition, housing is less costly than in the immediate Boston area, despite rapidly increasing housing prices. Boston is close enough to provide cultural activities, and there are several colleges and universities within the Merrimack Valley, including Merrimack College, Northern Essex Community College, and UMass Lowell.

This question connects well with the previous question and provides some basis for discussion of attracting commercial development to a region or an economic area. Encourage students to seek out this specific information from local websites, rather than feeding it to them in handouts, and encourage them to make the connections themselves.

3. What recommendation should Joe make to the Education and Workforce Development Committee at their next meeting?

The case provides seven different suggestions that were under consideration by the Education and Workforce Development Committee, each of which are briefly weighed below:

	Pro	Con
Accept Pete Peters' offer to develop a charter school in the area (have students access the article from the Internet before this discussion)	Outside experts and an infusion of money can resolve some of the problems created by local political interests.	The local community loses control of its own schools
Have companies partner with local school districts to provide computers and other needed materiel	Companies can "feel good" about their social responsibility without its having cost them anything	Often, donated equipment is out-dated and creates user compatibility problems
Raise teacher salaries (data provided in case)	Teachers are notoriously low paid for the amount of work they do - rewards should be in line with value provided	According to the data presented, salaries don't differ greatly among communities that score high and those that score low on MCAS
Promote the area to young teachers as a good place to live and work. (data provided in case)	Fresh ideas, fresh thoughts, and more energetic people can create a new climate in an organization	Housing costs and availability are restrictive and can have a negative impact on recruiting
Encourage local workers to mentor students.	Role models in the business provide excellent examples for youngsters and they cost nothing	There is little control over the quality and reliability of the volunteers, making programs difficult to administer
Engage college students in tutoring and mentoring programs.	College students are close in age to school children and can provide role modeling that is both current and dependable	The college population is a mobile one, and may make short term commitments (for one semester) that cannot be kept going in the long term
Co-sponsor collaborative support programs by business and the local colleges.	When business and colleges work together, they are likely to develop highly creative responses to problems	"someone" has to pay; the businesses need to be prepared for financial outlay and allocation of other resources

Instructors should note that the final decision made by the Committee was to support several suggestions. They collaborated on donating supplies to the schools, worked on mentoring and tutoring relationships, and were successful in obtaining assistance from the Commonwealth to help the community colleges tap into resources through municipal and quasi-public agencies. The community colleges were then able to develop training programs fitted to the needs of local industry.

TEACHING SUGGESTIONS:

The Merrimack Valley Planning Commission (978-374-0519) makes available to the public a CD-ROM about the Merrimack Valley. For a minimal fee ($5.00), you can request this CD-ROM, which contains a brief video, information about industrial and commercial sites, a 10 year economic forecast, maps and a regional profile, labor market information, and more. The CD offers connections to Internet sites and most data are as of April 2000. You can also reach the Planning Commission by email at info@mvpc.org.

The CD-ROM is convenient for the instructor for classroom use, but students can be advised to look up the Merrimack Valley Planning Commission on the Internet at www.mvpc.org. Many links are available for students (and instructors) to investigate that will enrich learning and provide additional technological enhancements to the course. Maps of the local areas are included. The site is updated on a regular basis, so all data will be fresh and current.

For example, you may decide to compare several communities within the Merrimack Valley in terms of population, income, population density, unemployment or other factors. When you do so, I recommend comparing Andover (one of the wealthiest communities in Massachusetts) with its neighbor, Lawrence (the poorest community in Massachusetts). Students will be surprised by the differences, and this is likely to generate classroom conversation and exploration of the "why" of such disparities and other social issues. These data are available directly from the CD-ROM, or students can be instructed to find the data from www.census.gov, through the Planning Commission website. This site is easy to search and the research process is likely to generate interest in the students for similar issues in their own communities.

I have also had success with the following projects, all related to the Merrimack Valley. These four projects help to keep their attention focused on the interaction of various groups and businesses within one economic region.

Project 1: Social Responsibility

Review news stories about companies in the Merrimack Valley. Identify a company that gained positive publicity for the way it carried out its social responsibilities and identify a company that damaged its image among consumers and the general public as a result of its failure to carry out its social responsibilities. Show how the company's involvement could pay off in some practical way for its owners as a result of its commitment to socially responsible action.

Students often present the example of Malden Mills as a socially responsible organization. Aaron Feuerstein gained his national reputation for loyalty to community and workers in 1995, when his factory in Lawrence, MA burned down shortly before Christmas. He paid *his workforce for 90 days, even though the factory could not operate, while he rebuilt and remained in this community. Mr. Feuerstein has been recognized in all media over the intervening years, and it is a simple matter to obtain video, newspaper and journal articles discussing his behavior.*

Project 2: Organizing and Reorganizing

Examine how AT&T has changed itself since the 1980s when it was a local and long distance telephone monopoly. What are Lucent's, Verizon's, and Bell Atlantic's plans for the future? What are they doing to implement those plans?

As a major employer in the Merrimack Valley, Lucent Technologies and all things relating to Lucent and its sister companies are interesting to the students in this geographical area. Of course, the break up of the telephone company in the early 1980s was a major event nationally, and its impacts have continued to reverberate throughout the telecommunications industry, affecting business and individuals throughout the U.S.

Project 3: Diversity

Research two local business leaders, one man and one woman, and the companies they lead. What leadership styles do they use? How do their styles differ? Are these differences the result of gender influence or purely of human individuality? What is the impact of their style on their respective companies? How has their leadership style added to or limited the success of their companies? Why would you like to work for these people (or why would you not like to work for them)?

It is fairly easy to find local leaders of both genders and to interview them regarding their managerial styles. This particular topic often generates excited discussion in the class, as students try to determine the managerial style that most appeals to them. In terms of career planning and some "reality testing," this topic is helpful and stimulating.

Project 4: Quality and Continuous Improvement

Investigate and report on a Merrimack Valley company that is a Baldrige Quality Award winner. What does this mean? How did the company attain this achievement? What were some of the problems they encountered and how did they deal with them? Is this award a feasible goal for all companies that are concerned with quality? How can you apply the principles of Total Quality Management to your academic life?

Lucent Technologies is a Baldrige Quality Award winner, as are divisions of several other large firms. Students are surprised to discover the extent of work and expense of application in relation the award, and it provides them with a fuller understanding of the goals of the quality movement.

REFERENCES

Mitchell, R. K., Breadley R. A. & D.J. Wood. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review, 22* (4), 853-886.

MANOS DEL URUGUAY

Steven R. Ash, University of Akron
Paula S. Weber, St. Cloud State University
Jay A. Vora, St. Cloud State University
Alvaro Faggiani, Universidad ORT, Uruguay

CASE DESCRIPTION

The primary objective of this case concerns the need to resolve a worsening financial situation by establishing new strategic initiatives. Secondary issues include the role of mission in establishing strategic plans and the importance of company and country culture in strategic decisions. The case is appropriate for level 3 (Junior) or 4 (Senior) courses in international management, small business or strategic management. The case is designed to be taught in a 75-minute class period and is expected to require three hours of outside preparation by students.

CASE SYNOPSIS

Manos Del Uruguay is a non-profit cooperative based in Montevideo, Uruguay. Manos produces high quality hand-made woolen goods. Its customers include major design houses in South America, Europe, the U.S. and Japan. However, despite a 30-year history of operations, Manos is currently struggling for survival. It is experiencing rapidly falling export sales and dramatic changes in the local and global economy. The cooperative was originally formed to provide job opportunities for women artisans' producing hand crafted goods. Can Manos hold to its original mission or must it change fundamentally in order to survive? The General Manager has developed four strategic alternatives for the Board of Directors to consider in addressing this difficult situation.

INSTRUCTORS' NOTES

Teaching Objectives

The objectives of this case are as follows:

1.	Explore how cultural dimensions influence choice of strategy.
2.	Provide students with basic information about Uruguay and the Uruguayan culture.
3.	Identify the mission of an organization and how that mission impacts internal organizational considerations as well as responses to external opportunities.
4.	Illustrate the operations and organization structure of a non-profit cooperative organization structure.
5.	Explore the risk, opportunities and long-term ramifications of four different strategic alternatives and evaluate each alternative in relation to the mission and competitive strengths of Manos Del Uruguay.

Recommendations for Teaching Approaches

This case would fit nicely with a module on the role of the management team as chief strategists or a discussion of the role of mission statement in the early part of a course. The Board of Directors are pondering and rethinking the strategic course for Manos and, as a result, the future direction of the organization is in question. The key questions facing Manos are "What should be done to bolster sales?" and, "Where do we go from here?"

Although Manos is not required to meet profitability goals for shareholders, it must meet its expenses and provide a stream of income for its artisans. They also must create sufficient profit to reinvest in the company to support growth. Due to a changing economic and political environment, Manos has appeared to stray from its original mission and is experiencing reduced sales and profits. Students should be asked to read and complete the discussion questions prior to the in-class discussion. Additional background information on Uruguay and Manos Del Uruguay can also be gathered from the following web sites:

www.manos.com.uy ; www.odci.gov/cia/publications/factbook/geos/uy.html.

Students should be challenged to identify the importance of organizational mission as a foundation for making internal organization decisions as well as guiding the response of an organization to changes in its environment. Students should identify the strengths and weaknesses of each strategic alternative presented along with their projected impact on the organizations mission and organization structure. They should also be asked to generate other viable alternatives not under consideration by the Board of Directors.

We typically begin class discussions by focusing briefly (5-10 minutes) on the setting for the case: South America and especially Uruguay. We ask students to identify information from the case on the culture, language, religion, socio-economic issues, etc. of the area. We may discuss current events related to Uruguay and the other major countries in the region, Brazil and Argentina. We may show the location of Uruguay on a map.

Next, we discuss Manos del Uruguay. In particular, we discuss its products (examples available on the website) and the co-operative organization structure (Q2) (10 minutes). Then we review in very general terms the issues facing Manos (financial situation and strategic alternatives) (10 minutes). From this discussion, we break the students into four small groups to discuss and report back on different discussion questions (Q1, Q3, Q4, and Q5) (15 minutes). Next we assign each small group one of the four alternatives to analyze. Groups are given approximately 10 minutes to prepare a report for the class on the strengths and weaknesses of one assigned alternative. Finally, we ask student groups to select a recommended alternative which could be one identified in the case or one of their own ideas. Often students combine recommendations from their case write-ups and present some very creative and potentially successful ideas for Manos. We conclude by presenting the Epilogue to the case.

DISCUSSION QUESTIONS

1. What is the mission for Manos Del Uruguay? How does it reflect their culture? Is it appropriate? Why or why not? Has their mission served Manos well? Should the mission statement be reformulated? If so, why? What changes or improvements would you suggest?

According to the case, Manos Del Uruguay was originally formed to generate work for rural artisans. According to their web site, Manos' current mission is customer- focused. They want to achieve for their customers "excellent quality hand-knit or woven garments." Their web site also states that their key objective is "to provide job opportunities and training to women in distant rural areas of the country." The case notes that the current general manager, Rodolfo Gioscia, wanted to "give the artisan and her family a new place in the economic and social order."

If Manos' mission is viewed as creating job opportunities for artisans, they had been successful. However, the significant drop in number of involved artisans reflects a departure from their mission of providing job opportunities to many and instead provides better opportunities for some. Artisans now enjoy paid vacations, bonuses, medical insurance, and retirement pensions.

If the mission is viewed as providing hand-knit garments using natural yarns and a hand-dying process, it is unclear how closely that mission is being followed. Designs are not created by the rural artisan but are developed by the head office in Montevideo. Some of the handwork has been taken over by machines so that in many cases only the finishing work and trimming is done by hand. Manos sells their products under brand labels such as Polo, Ralph Lauren and Donna Karan.

Manos appears to have strayed from their mission. This is due in part to the need to respond to increased international competition in local markets when Uruguay opened its doors to foreign imports in 1994. Deregulation and reduced tariffs let to a more competitive economy. They responded with a three-fold increase in productivity per artisan. While the Uruguayan economy is fairly stable, the country is feeling the effects of the poor economies in its large regional trading partners, Brazil and Argentina. Reduced exports to these countries have hurt Manos' financial position. In addition, Manos felt great pressure to modernize and create more efficient production processes.

The mission statement needs to continue to reflect the purpose for Manos' existence. If that purpose has evolved from an emphasis on retaining local weaving methods and providing job opportunities for a large number of rural women, to one of profitable exports and improved levels of efficiency, then the mission must be reformulated with the participation of all. Suggestions for improvements include incorporating statements identifying the organization's customers, geographic markets, and concern for survival or growth.

The current mission already incorporates the philosophy of the organization and a concern for employees by stating its focus on providing employment and training for rural women; it identifies competitive advantages in the areas of excellent quality, hand-woven products.

Clearly, the organization had some original economic goals that are still important. However, the mission statement has evolved. The need for a clear mission is reflected in the situation facing Manos today. Does the emphasis on economic security outweigh the importance of maintaining hand-made products? Do artisans wish to increase productivity by becoming more mechanized and, thus, increasing output, sales and, hopefully, profitability? Does Manos want to employ higher numbers of artisans at the risk of ongoing losses or streamline operations, reduce employment and remain a viable entity for the remaining employees?

The development of a mission statement by the board, management and rural artisans would provide the foundation for strategic decisions and work to ensure that everyone involved in Manos supports the future direction of the company.

2. What is Manos' organization structure? What cultural values might underlie the mission and organization structure of Manos?

Manos has a cooperative organization structure. The Uruguayan culture emphasizes familial relationships and the importance of personal relationships. The cooperative organization structure is very consistent with the country culture. The relatively low masculinity dimension of the country culture is also reflected in the organization's mission that emphasizes the importance of people and quality of life over purely financial success.

3. Complete a SWOT analysis for Manos. Then identify their core competencies and key vulnerabilities.

Strengths:	High quality hand-made products, product development teams that are responsive to customer requests, Uruguay designs, yarns and colors, artisan involvement, good public image for preserving local traditions and for providing training and employment opportunities for rural women, flexible co-operative structure, positive name recognition abroad, winner of awards, experienced general manager, centralized quality and design control of both materials and final products, customers include major brand name designers, and use of a variety of marketing channels.
Weaknesses:	Relatively high-priced product, highly competitive retail industry, limited marketing, not-for-profit focus, limited access to capital, falling demand, falling exports, increased competition locally and abroad, risk avoidant culture, society values family over work, unable to meet high production demands, and do not utilize available technology.
Opportunities:	Popularity of unique, cultural products, highly literate workforce, many trained artisans, land use is predominantly for pastureland so expansion opportunity exists, and a population that is 25% under the age of 14 suggests that the younger population may be looking for job opportunities as they enter the workforce.
Threats:	Increasing global competition especially for low price products, market liberalization in Uruguay, declining economic situations in Brazil and Argentina, declining GDP growth in Uruguay, water pollution, people are culturally adverse to risk, very competitive export market, high inflation, and cultural values emphasis family over work.

Manos core competencies are their hand-dyed wool and hand made products. Their key vulnerabilities are falling profits due to an increase in administrative expenses and a decrease in exports resulting from increased competition.

4. What is your diagnosis of Manos' financial situation? How bad is it?

From Year 1 to Year 5, revenues increased 27% with the biggest increase (12%) occurring between Year 1 and Year 2. However, net profits were only 1.8% of revenues in Year 1 and declined to a -.07% by Year 5. Net profits experienced a precipitous decline in Year 5. An analysis of this decline shows that administrative expenses rose 36% from Year 1 to Year 5 and financial expenses increased 53%. Clearly the long-term debt and administrative expense burdens taken on by Manos were far too heavy for the company. Gross profit margins dipped from to .31 in 1998 from .43 in 1994. Long-term debt rose from only 15,000 to 104,000 in the short five years of the case. These liabilities must be examined and ROI evaluated for each investment.

Current ratio declined from 2.7 in 1996 to 2.5 in 1998. Quick ratio also dropped from 2.12 to 1.94. Total asset turnover (sales divided by total assets) dropped from 3.21 in 1996 to 2.55 in 1998.

5. What are the strengths and weaknesses of each of the strategic alternatives noted in the case? What are the long-term ramifications of each alternative? How does each alternative relate to Manos' mission? What should the Board of Directors explore before deciding on an appropriate strategic direction?

Alternative 1: Incorporate High-Speed Technology

This alternative's key strength lays in the ability to increase productivity. Use of high-speed sewing machines would improve efficiencies, reduce labor costs, and provide the ability for much higher levels of production. This would provide increased profitability to Manos. Of course, this comes at a great cost, the loss of the "hand-made" quality of Manos' products. It would also require a large capital investment estimated at $300,000.

The short and long-term ramifications of selecting this option would be a dramatic change in the nature of Manos. In fact, even the company name would need to be changed as it would no longer accurately reflect the company's business. In addition, the country and corresponding organization culture, high uncertainty avoidance, would be resistant to an expensive investment with questionable return. The country culture also ranks low on Hofstede's dimension of Masculinity suggesting an emphasis on material achievement is not as highly valued as nurturing. This finding would also be unsupportive of a move to mechanize the company which could result in loss of jobs and/or relocation for artisans.

Pursuing this alternative is in direct conflict with their current mission of producing unique, excellent quality hand-knit or hand-woven garments using natural yarns and a hand-dyeing process. Manos Del Uruguay would need to revisit their basic business purpose - to provide job opportunities and training to women in distant rural areas through a non-profit cooperative organization. Students may argue that providing jobs is a key goal and therefore, handwork should be maintained, as it would employ more artisans than under an automated scenario. Others may counter argue that in the long-run, if Manos can efficiently provide a high quality product, they may be able to sell their goods to large retail organizations such as Kmart or Wal-mart and thus, employ many more workers.

The Board of Directors should explore with all co-op members the desire to survive and grow through automation and mass-production versus growth through producing higher-priced specialty items. Manos Del Uruguay is at a critical crossroad. The Board should carefully discuss and explore all alternatives with as many organization stakeholders as possible.

Alternative 2: International Expansion

This alternative suggests growth through market development by increasing exports. The strengths of this approach are that it maintains the existing product line while looking for new sales outlets. This alternative can be approached incrementally ranging from attendance at international fairs to development of a website to extensive research to identify lucrative markets and vendors. This alternative can also be pursued simultaneously with automation since capital expenditures can range from minimal to establish a web site to extensive R& D studies. This alternative would potentially provide additional positions for artisans as sales grew.

The weaknesses of this alternative include that Manos may expend monies that may yield no return due to significant international competition. Attending a specific fair may result in many new connections or absolutely no new business at all. Pursuit of this alternative would need to follow a careful balance between expenditures and likely outcomes. In addition, rapid increases in sales would result in production quotas that might be difficult to meet causing both employee and customer dissatisfaction.

The long-term ramifications of this alternative could be significant if Manos can establish international recognition. Significant growth in exports would require additional infrastructure to handle shipping and international payment issues as well as advertising and product information in different languages.

The present mission of Manos is consistent with this alternative. Manos would continue to emphasize high-quality, hand-woven products made by local Uruguayan artisans.

The Board of Directors would need to conduct preliminary research to identify the key international fairs to attend, to price web-site development, to get estimates on research costs to identify foreign markets with the most potential interest in Manos' products including costs of surveys or fees for market data reports. Staff time to identify existing market information as well as to outline potential infrastructure changes due to foreign sales could be significant.

Alternative 3: Franchise

Developing international and/or domestic franchise opportunities in markets where the demand for Manos' products is high would provide the company with some upfront capital in the form of franchise payments. It would also provide ongoing flow of funds from goods sold by the franchisee. However, Manos would only receive a percentage of profits from those sales. This would reduce Manos' current profits in those markets but it would also reduce their liabilities. The franchisee would take more of the market risk. Manos' could benefit from the local expertise and experience an overall increase in sales in those market segments.

Depending on how the franchise agreement is structured both in terms of quality control and payments, franchise operations could help improve Manos' financial situation. A key challenge would be finding and training the appropriate franchise owners. The long-term impact of this decision would be a loss of control for the local artisans who are now one more step further from the customer in the distribution chain. Franchising might also tend to cannibalize existing sales levels since franchise opportunities would, at least initially, be established in existing markets. In addition, large sales increases due to franchising might result in production demands that exceed Manos' capacity resulting in customer and employee dissatisfaction.

This alternative would support Manos' current mission by working to increase sales of local artisan products. It would allow Manos to expand without sacrificing their focus on hand-made items.

The Board of Directors should explore franchise agreements to determine the fees and operational structures most appropriate and advantageous for their organization. In addition, efforts would need to be made to identify profitable locations, qualified franchisees, and appropriate policies for product ordering, returned merchandise, pricing of products, etc. would need to be established.

Alternative 4: Managed Growth

The strengths of this alternative are that it involves a continuation of the existing mission and operational structure. It allows Manos to continue in a format and manner to which the organization members are accustomed. There would be limited change resulting in minimal conflict and hopefully, wide support for this alternative. A distinct weakness is that managed growth may not result in sufficient change in a timely manner to address Manos' negative financial situation. More drastic measures might be necessary to ensure the long-term financial viability of Manos.

The long-term impact of a successful managed growth effort would be an organization that gradually improves operational efficiencies. The process could be improved carefully and smoothly minimizing potential failures inherent with more aggressive changes.

This alternative would result in no change to the current mission statement.

The Board of Directors would need to prepare some projected pro forma financial statements for the next five years to determine if this alternative is a financially viable option for them.

6. What recommendations can you make to the Board? Should they implement any of the suggested strategic alternatives? What other alternatives should they consider?

Students should be able to identify the positives and negatives of each alternative as well as associated changes to the mission statement. Many will argue that Alt. 4 - Managed Growth, is the preferred alternative as long it is projected to be financially viable. If you tell the class to assume that this alternative is not financially viable, many may select Alternative 2, International Expansion. This alternative results in only minimal changes to Manos' overall mission and is consistent with their existing export approach. It however simply expands the number of potential export locations from the current primary markets of Brazil, Argentina, and the U.S.

Students should see the financial advantages to pursuing markets in different regions with different economies so as to spread the market risk of operating primarily with one country. While market research efforts would greatly increase the likelihood of success, this alternative can also be pursued relatively inexpensively with some initial steps like developing a web-site for on-line ordering or attending some international textile trade-shows to establish foreign interest in Manos products.

Students see the benefit of franchising as a cash inflow with no outlay. However, franchising can represent huge managerial demands in establishing quality standards, pricing, training, location selection, etc.

Other alternatives proposed by students include expanding Manos' website to include product sales and information on the cultural aspects of Manos' products; develop Manos brand name rather than continuing to sell products under other labels; expanding product line to include products for men and children; and display and sale of Manos' products at museums. One of the better alternatives not considered by Manos' in the case is to develop a new product line that would be made by machines thus salvaging the current handmade quality of Manos while promoting new products at a lower cost under another brand name perhaps through large international retail chains such as Wal-Mart.

RESEARCH BASIS

Alvaro Faggiani based data for the case upon personal interviews and participative observation of Manos executives and employees. Dr. Steve Ash extended this effort by email interviews with Mr. Gioscia. This was followed by personal interviews with Mr. Gioscia conducted

by Dr. Jay Vora in Uruguay. Both Dr. Jay Vora and Dr. Paula Weber made personal visits to Manos del Uruguay in Montevideo. Steve Ash and Angela Cabrera translated original case material and supporting documentation from Spanish to English. Additional supporting data was gathered from research on cooperative ventures and on the Uruguayan country. Dr. Ash lived in Uruguay for more than one year. The authors are extremely grateful for the openness and participation of Manos del Uruguay staff and, in particular, Mr. Gioscia.

EPILOGUE

In a January, 2002 email, Mr. Gioscia told us that the traditional and historic culture of Manos del Uruguay placed "an enormous emphasis on the social aspects of the organization and the feeling of ownership of the organization. Today these values are maintained but are subordinate to satisfying the clients, for in this way, we are able to obtain satisfactory economic results that permit the fulfillment of the social mission. One of the greatest challenges was (and is) to achieve a cultural change that permits us to be focused on the customer, the market. The commitment of the Directorio (artisan representatives from the different cooperatives) was essential to achieving this change. Also, the cooperatives work well together. If one cooperative is behind on an order, another cooperative helps them."

Specific changes carried out at Manos included:

♦	centralization and strict control over product design and development and final product quality
♦	reorienting the corporate culture to emphasize the importance of the client as the only method for achieving the socio-political objectives of Manos
♦	aggressively pursuing exporting opportunities including commercial ventures with department stores
♦	dramatic changes in production management and logistics including staffing changes, and an emphasis on quality control and training to minimize product defects.

The result was a substantial increase in export sales and a marked improvement in Manos' gross margin. In particular, domestic margin was high because of top quality or "export quality" of goods. The export margin was not as high due to intense competitive pressures and the power of the buyers.

Key contributors to the improved financial situation included a new product development process that focused on high quality items designed to meet customer specifications and priced to provide adequate operating margins.

Future endeavors include hiring a Manos sales representative to focus on the Argentinean market. This process has been delayed due to the dramatic decline in the Argentinean market in 2002.

Therefore, Manos has expanded marketing efforts to Italy, Belgium, France, etc. But, the markets are so fragmented. There is no major supplier like "The Gap" in the U.S. So, Manos must contact many companies and develop many contacts in order to get a significant volume of sales. They have to sell smaller qualities to specialized stores or boutiques.

Indicators of Success

Year	1998	1999	2000	2001
Sales				
Local	1,946,000	1,658,000	1,842,000	1,670,000
Exports	164,000	291,000	666,000	813,000
Gross Margin	45%	48.5%	55.3%	55.4%
Net Profit (Loss)	(453,000)	(229,000)	43,000	61,000

In a tape-recorded personal interview conducted in June 2002, Mr. Gioscia said, "I believe the future of our company is in growth outside Uruguay. Our primary market, Argentina, is not doing well at all. The garment industry is also very competitive and very weak, so we are in a difficult business."

As for the original founders, Mr. Gioscia told us, "two of the women founders still participate as consultants. Another one is deceased and one is very ill."

In 1997, Manos received a development grant from the American Development Bank. It was their second grant. They received their first grant twenty years earlier, in 1977. Mr. Gioscia noted "we were the only company still in existence that had received the first grant. Manos has a very important social role in Uruguay. It has a cultural identity which is very important for a young country like Uruguay."

"In Central Services we now have 45 people. Of those, 20 are managers. We have two designers who are assisted by an expert weaver and dyer so that we can produce a prototype for each product. The cooperatives are still primarily women. In fact, we only have one male at Manos - he dyes wool for the company."

THE RETIREMENT DECISION

Michael D. Evans, Winthrop University

CASE DESCRIPTION

Time value of money is the primary subject matter of this case. Students are asked to apply time value of money techniques in a retirement planning scenario. Thus, they will be able to see a practical application of present and future value concepts. The case is appropriate for the first undergraduate course in financial management. It can also be used in a graduate survey course. The case is designed to be covered in one 50-minute class period and will likely require 2-3 hours of outside student preparation. Familiarity with a financial function calculator could significantly reduce students' preparation time.

CASE SYNOPSIS

Jim Abbott, an Executive Vice President of Bank USA, has just learned that his employer has entered into merger discussions with a large bank conglomerate. If the deal is consummated, Jim will be required to relocate and will likely have a change in his job responsibility and reporting relationship. Jim and his wife Mary have recently completed the construction of a multi-million dollar home on the lake. They are extremely active in the community so the prospects of relocating are unappealing. Accordingly, they've scheduled a meeting with Rick Johnson and Mike Davis of Wealth Management, Inc. to assess their finances and to determine if Jim is in position to retire one year from now if the merger is affected.

INSTRUCTORS' NOTES

Discussion Questions

1. **How much in annual income will the Abbotts require if Jim retires one year from today?**

   The Abbotts have established an annual income goal of $300,000 in today's dollars. If a 3% inflation rate is expected, students must compute the future value of $300,000 for 1 year at 3%. The future value is $309,000.

PV = $300,000
n = 1
i = 3
FV = $309,000

2. Draw a timeline to show the Abbotts' annual income need during their retirement years. Assume a 20-year life expectancy and no inflation during retirement. How would you describe this series of payments? Compute the present value assuming an 8% discount rate.

Students should draw a timeline with the first payment of $309,000 occurring at timeperiod 0. Since there's no inflation, 19 payments of $309,000 will follow. The last payment will occur at timeperiod 19. This is an annuity due. The income need occurs at the beginning of the period in order to fund expenses for the year. The present value of the annuity due is computed as follows.

PMT = $309,000
i = 8%
n = 20
PVA Due = $3,276,512

Note: The instructor may choose to skip this question and question 4 given the 0 inflation assumption that is not realistic. This question is included here in order to require the student to perform the annuity due calculation. An inflation assumption is included in question 3. This results in the calculation of the present value of an uneven series. If question 2 is asked, the instructor can reinforce the importance of considering inflation in financial planning when discussing question 4.

3. Draw a timeline or table and compute the present value of the income need assuming 3% inflation. Describe the timeline.

Students should draw a timeline with the first payment of $309,000 at timeperiod 0. Each successive payment should be 3% greater than the prior payment. The last payment should occur at timeperiod 19. This is an uneven series. The cash flow worksheet in the BAII Plus can be used to easily solve for present value (CF0 = $309,000; C01 = $318,270; F01=1; C02=$327,818, F02=1; etc). Alternatively, students may choose to discount each individual cash flow and compute the sum at timeperiod 0. The PV of the uneven series is $4,088,084.

The individual cash flows are as follows:

Timeperiod	Cash Flow	Timeperiod	Cash Flow	Timeperiod	Cash Flow
0	$309,000	4	$347,782	8	$391,432
1	318,270	5	358,216	9	403,175
2	327,818	6	368,962	10	415,270
3	337,653	7	380,031	11	427,728
Timeperiod	Cash Flow	Timeperiod	Cash Flow		
12	$440,560	16	$495,854		
13	453,777	17	510,730		
14	467,390	18	526,052		
15	481,412	19	541,833		

4. **For planning purposes, which income need should be used (i.e. the present value computed in question 2 or 3)?**

   Students should elect to use the present value computed in question 3 ($4,088,084). We want to use the more conservative (i.e. larger) income need. It is not likely we will experience zero inflation over the twenty year planning period.

5. **Compute the future value of the Regular Retirement and Company Savings Plans at Jim's planned retirement date (assume semi-annual compounding).**

Regular Retirement	PV = $692,300 i = 6%/2 = 3% n = 1 X 2 = 2 FV = $734,461
Company Savings Plan	PV = $850,000 i = 8%/2 = 4% n = 1 X 2 = 2 FV = $919,360

6. **Compute the future value of the SERP at Jim's planned retirement date (assume quarterly compounding).**

PV = $915,000
i = 4%/4 = 1%
n = 1 X 4 = 4
FV = $952,153

7. Currently, Jim has $265,000 in his deferred compensation plan. An additional $25,000 will be added in six months. Compute the future value one year from now if compounding occurs monthly.

PV = $265,000	PV = 25,000
i = 8%/12	i = 8%/12
n = 1 X 12	n = .5 X12
FV = $286,995	FV = $26,017

$286,995 + 26,017 = $313,012

8. Compute the future value of the company stock at Jim's planned retirement assuming annual compounding.

PV = $375,000
i = 6%
n = 1
FV = $397,500

9. Compute the future value of Jim's personal investments at his target retirement date. Assume annual compounding.

PV = $458,000 [$468,000 - 10,000(the financial planning fee)]
i = 8%
n = 1
FV = $494,640

10. Determine if the Abbotts will have sufficient capital for Jim to retire one year from now without considering social security benefits. This can be accomplished by comparing the Abbotts' capital need at retirement to the total projected value of retirement and personal investment accounts.

The projected capital need is $4,088,084. Students should subtract the future value of each account from this amount to determine whether there is a projected capital surplus or additional capital need.

Capital need	$4,088,084
Less: Regular Retirement	(734,461)
Company Savings Plan	(919,360)
SERP	(952,153)
Deferred Compensation	(313,012)
Company Stock	(397,500)
Personal Investments	(494,640)
Additional Capital Need	$ 276,958

11. Determine if the Abbotts will have sufficient capital to retire if social security benefits are included in the retirement projection.

The social security benefits can be classified as an uneven series of 240 payments beginning at retirement (i.e. the first payment will occur at timeperiod 0 and the last payment will occur at timeperiod 239). Note that there are 20 annuities within the overall series since payments will be constant for 12 timeperiods before they're increased for inflation.

The present value of this series can be solved readily using the cash flow worksheet of a financial function calculator. Using the BAII Plus, one would enter the following.

Cash Flow	Amount	Frequency
CF0	2600	
CO1	2600	11
CO2	2678	12
CO3	2758	12
CO4	2841	12
CO5	2926	12
CO6	3014	12

Cash Flow	Amount	Frequency
CO7	3105	12
CO8	3198	12
CO9	3294	12
C10	3392	12
C11	3494	12
C12	3599	12
C13	3707	12
C14	3818	12
C15	3933	12
C16	4051	12
C17	4172	12
C18	4297	12
C19	4426	12
C20	4559	12

The interest rate would be entered as .6667 (8%/12). The present value of this series is $389,421. After factoring in the social security benefit, there would be a capital surplus of $112,463 ($389,421-276,958)

12. Jim and Mary are considering borrowing against the equity in their home. What would the annual payment be if they borrow $100,000 at 7% for 15 years? How much interest would they pay in the second year?

PVA = $100,000
i = 7%
n = 15
Pmt = $10,979

Students can either prepare an amortization schedule or use the amortization worksheet in their financial function calculator.

Year	Beginning Balance	Payment	Interest	Principal	EndingBalance
1	$100,000	$10,979	$7,000	$3979	$96,021
2	96,021	10,979	6,721	4258	91,763

The amount of interest paid in year 2 would be $6,721.

CHANGE MANAGEMENT-WALKER AND WALKER

Bonita Barger, Tennessee Technological University

CASE DESCRIPTION

Change Management-Walker and Walker (W & W) is designed to be used in a Human Resource Management and/or Organizational Behavior class at the senior undergraduate level or entry MBA level, and has a difficulty level of 4/5. The purpose of the case is three-fold:

- *to increase student awareness of the issues involved in managing organizational change;*
- *to raise issues relating to organizational design, culture, and interpersonal alliances in managing human capital;*
- *to provide comprehensive teaching notes and citations for educators to enhance discussion.*

CASE SYNOPSIS

This case provides a realistic scenario encountered by senior management in managing organizational change from the old to the new economy. Walker and Walker is a Southern family owned manufacturing firm struggling to expand into a global marketplace. The tensions involved in organizational change are played out in multiple arenas. The student is challenged to analyze these arenas. The instructor is provided with extensive supporting literature to facilitate this analysis.

INSTRUCTORS' NOTES

SUGGESTED CASE STRUCTURE AND QUESTIONS

The case presents extensive background for both the student and educator to understand the organizational issues and facilitate discussion. References, charts, and graphs enhance the teaching notes. These provide "ready notes" and access for educators to stimulate organizational analysis along the lines of organizational structure, human capital, alliances, and culture.

SUGGESTED CASE QUESTIONS:

Configuration.	What is the organizational structure/configuration?
Human Capital.	Organizations compete through their people. How did W and W manage Human Capital in the past? How were they preparing to transform Human Capital Management for the future?
Alliances.	Identify relevant relationships/ coalitions/networks at work here? Identify who might resist what? Why?
Culture.	What is the organizational culture of W and W? Confronted with fear, change and ambiguity, individuals create symbols to provide security and the "known". What symbols, events, rituals emerged here? Discuss the advantages and risks associated with these?

The following "ready notes" provide the instructor with a detailed analysis of the case by subject areas. Citations and literature link the theory and critical areas based on Configuration, Human Capital, Alliance Building, and Culture. In addition, charts, graphs, and websites are provided as additional reference and learning guides.

CONFIGURATION

1. What is the organizational design/structure of W & W?

Organizational design is "how organizations structure subunits and use coordination and control mechanisms to achieve their strategic goals" (Cullen, 2002, p. 639). The evolution of the traditional structure at W & W was driven by its core technology of ball bearings. It was an assembly line process, rigidly structured and specialized. It exemplified Mintzberg's machine bureaucracy (Bolman & Deal, 1991). The machine bureaucracy had a large support staff, technostructure, and operating core. It was vertical in its reporting structure and functional in its lines of expertise. Functional silos were rigidly established with years of controlled standard operating procedures and information in the hands of a few. Middle managers served the traditional function of passing information up the chain of command for approval and down the chain to inform (Mintzberg in Shafritz & Ott, 1992). Unlike Merton's Model, which states that organizations "reduce the amount of personalized relationships" (March & Simon in Shafritz & Ott, 1992) in order to increase reliable behavior, W & W used personal family relationships to control. Functional personalized relationships were the key to controlling and ensuring consistent, reliable behavior. For example, engineering managers hired college graduated from only their alma mater. Family members and friends of current engineering staff were hired. No "outsiders" were hired. Control of like types, who were likely to follow the rules, was ensured up front.

Rules in the form of standard operating procedures were well published, and decision-making was held by a few (Marsh & Simon in Shafritz & Ott, 1992). Functional leaders were the brains, while functional followers were the arms and legs. Everyone knew their role and their responsibilities. If problems arose, a typical response to organizational diagnosis was "That's not my job" or "That's Engineering's [Marketing's, Production's, etc.] fault." The blaming of people or functional areas was the preferred choice and habit for sorting out what was happening structurally at W & W (Bolman & Deal, 1991). A picture that Taylor would have presented in 1916 was being enacted in 1991 (Taylor in Shafrtiz & Ott, 1992).

Upon Roger's appearance at W & W, rules, roles, and responsibilities were clear. If there was not a standard operating procedure, then one was written, or it was "understood by all that this is how it was done."

External environmental changes in competition, customer demands, and globalization created pressure on the internal structure. The structure could not accommodate the rapid change in technology and need for information. The machine structure was too cumbersome to provide information quickly. Standard operating procedures were dated and needed to be flexible (unstandardized-standarization). As soon as they were written, they needed to be changed or updated. The structure of the organization needed to be changed. A structural reorganization was put into place. The machine bureaucracy was being restructured into business units. The functional silos were being challenged and dismantled. Attempts were made through the implementation of business unit teams to create quasi-autonomous units (Bolman & Deal, 1991).The rules had changed.

Everyone's role was changing. There were no written manuals or operating procedures for the new roles. Roger's role as president was shifting from a traditional paternal benevolent father figure to one of strategic visionary who connects with external customers and the board of directors, and identifies new business ventures (Mintzberg in Shafrtiz & Ott, 1992). Functional leaders were expected to empower their people, be a catalyst for change by bringing in new technology, facilitating all channel communication *cross functionally* and supporting lateral coordination (Bolman & Deal, 1991). Middle managers were not being replaced when they retired or relocated. Several middle managers were asked to take training courses to increase their areas of specialized knowledge. The message was being delivered—through newsletters, career development meetings, and the cultural change training—that managers were expected to have two or more areas of specialization. The company was moving from functional silos supported by specialists to business units supported by business generalists. Information and technology complexities required business generalist skills, knowledge, and attitudes at the top and middles of the organization—quite the opposite dynamic proposed by Gulick in 1937, calling for more specialization based on "the range of knowledge and skill is so great that man cannot within his life-span know more than a small fraction of it" (Gulick in Shafrtiz & Ott, 1992, p. 87).

Core operators were significantly impacted by the structural changes. Authority was shifting. The traditional vertical triangle was being turned upside down. Authority once held by top and middle managers was expected to be demonstrated at the core operator level. Core operator responsibilities and decision-making were increased. Computers were being installed. Operators were required to implement quality improvement data tracking on their work processes. Entering data into computers, providing reports, and attending team meetings were now a part of their daily routine. Anxiety was heightened. Illiteracy was high at W & W. Several core operators were exposed and refused to attend training classes. Several core operators took early retirement.

Organizations exist to accomplish goals. Structures, coordination, and control ensure that the job gets done (Bolman & Deal, 1991). The goals were in transition at W & W. The traditional family business goals of "make money, but it's more important to have harmony" were shifting to global business goals of "make money, do whatever it takes, while maintaining ethical behavior." Structure, coordination, and control were shifting slowly to accomplish new goals.

SUGGESTED WEBSITE RESOURCES:

Information on Organizations http://www.hoovers.com/

Economist http://www.economist.com

Bureau of Labor Statistics http://stats.bls.gov

U.S.Department of Labor http://www.dol.gov

HUMAN CAPITAL

2. Organizations compete through their people. How did W and W manage Human Capital in the past? How were they preparing to transform Human Capital Management for the future?

W & W had a history of caring for employee needs. Basic human needs were met with an above-average hourly and salaried benefit package. Safety and security needs were met as a history of entitlement and was rooted in job security. W & W existed to serve the family of employee needs for affiliation, belonging, and knowledge (Maslow in Shafritz & Ott, 1992). Training and information courses were offered for employees and their family members. Employees attended training on company time. Community education programs that extended beyond work-related topics were offered at the work site. GED classes were offered during working hours in the back of the manufacturing plant. Employee needs were accommodated whenever possible. Employees and their family members were well cared for and cared about W & W.

One resounding individual need that did not fit the current changes at W & W was that of the need for familiarity. Familiarity and redundancy in work and relationships was a way of life. This need was expressed by statements of "We have done it this way all these years, and it has worked—Why change now?" "Just leave me alone!" "Live and let live." "Just wait it out—The new people will be gone." Situations that entailed change and involved ambiguity and uncertainty were to be avoided. The need for permanence, stability of task/job and relationships was a basic human need for many W & W employees.

Family relationships in the workplace and common church affiliations not only served as a control mechanism but fulfilled employee needs for love, affiliation, and inclusion, or, as McGregor calls it, the Human Side of Enterprise (McGregor in Shafritz & Ott, 1992, p. 174).Human resource practices and policies were designed to support employee needs. The language of the policies is telling. For example, employees were not terminated. They were separated or divorced from W & W. Employee needs were strongly taken into account supported by structural and cultural elements.

This policy and language created an enmeshed system of need fulfillment and employee dependence on the company. W & W was an additive organization. A co-dependent enmeshed system had been established from years of parent-child behavioral patterns. Employees were rewarded for loyalty, following the functional heads, and doing what they were told. The reward was job security today and a peaceful retirement tomorrow. W & W was fulfilling current and future needs while suppressing autonomy, independent thinking, and self-reliance.

Initially, the people environment at W & W was warm and friendly. Everyone knew each other and, even though they may not have liked each other, they "got along."Under Roger and Richard's direction, newcomers were brought into the organization to build human capital. "Human capital is intangible and elusive and cannot be managed the way organizations manage jobs, products, and technologies" (Bohlander, et al, p.14). The newcomers were different. Their differences were obvious in language, voice, style, physical appearance, work habits, and management style. Although there was not a critical mass of newcomers, there was a sufficient number distributed throughout the company to send the message that things were changing. The mix was changing.

This was rubbing up against the need for familiarity and stability. W& W was experiencing ambiguity and becoming "unhealthy." "One of the signs of a healthy organization is the ability to effectively orient new members and readily slough off those who cannot be adapted to the established outlook" (Selznik in Shafritz & Ott, 1992, p. 118). W & W was orienting their newcomers but was unable to bring others on board.

For some individuals and groups, the changing structure created a "mis-fit" between individual and organizational needs. Individuals such as Jake and his followers were losing control (i.e., access to information), rewards and recognition (i.e., promotions) and familiar work. Their needs for affiliation, inclusion, control, and achievement were not being met. Unfulfilled needs can led to physical and psychological withdrawal, sabotage, moving up, or unions.

From Jake's perspective, he must have felt that he was being treated unfairly. He had given years of his life to W & W. W & W's success was his success. His contributions were not being recognized and valued. He was experiencing stress and did not have the familiar support system that W & W traditionally provided to deal with this stress.

SUGGESTED WEBSITE RESOURCES:

Society for Human Resource Management http://www.shrm.org/

HR Magazine http://www.shrm.org/hrmagazine/

Equal Employment Opportunity http://www.eeoc.gov

American Society for Training & Development http://www.astd.org/

ALLIANCES

3. Identify relevant relationships/ coalitions/networks at work here? Identify who might resist what? Why?

"If organizational power can 'ennoble,' then recent research shows organizational powerlessness can . . . 'corrupt.'" (Kanter in Shafrtiz & Ott, 1992, p. 449)

With the change of structure, rules, and vision at W & W, Jake was experiencing a sense of powerlessness over his future. Although conditions had changed, he and his following chose to "stay and fight, which gives power to their voice" (Voice is here defined as "any attempt at all to change, rather than escape from, an objectionable state of affairs . . ." Hirschman in Schafritz & Ott, p. 473). Jake's position on the management staff, which required little work, and his political skillfulness in dealing with unions provided the conditions for exercising power. Jake held positional, knowledge, and resource power. He had the time and will to expend energy and to exercise power.

Coalitions at W & W formed around people, not ideas. W & W employees were followers, not leaders. Even if people were not totally aligned with a position, they followed their leader. Loyalty was valued at W & W. Jake knew this and used it well. He exercised and structured his power base through the use of internal and external coalitions. Internal coalitions consisted of employees whom Jake had hired and family members. Members of this coalition had a vested interest in maintaining the status quo. They enjoyed job security and were not interested in moving outside of Macon. External coalitions were comprised of a network of churches in the community. Employees from W & W held key positions in these churches. They could easily influence community thinking, especially with negative information about New Age philosophy in the religious media. For years, both of these groups were perceived as "insiders" by newcomers to Macon. They held the reins of information, decision making, and resources for W & W and the community.

The stated agendas for both coalitions were the "elimination of New Age philosophy" in the community and workplace. The undiscussable agenda for Jake and his internal coalition was the preservation of their power base and positions. There was a resource scarcity (Bolman & Deal, 1991). Upper and middle management positions were limited in Macon. Movement into new work and locations were unacceptable.

Roger and Richard had set the new direction. They were not going to change. Jake had solidified the coalitions. They were not going to change. Jo Anna and senior management had created and believed in the training and succession planning process. They were not going to change. All parties had "placed their stakes in the ground." New data or differing points of view were not going to alter their positions. Organizational politics were at work (Pfeffer in Shafritz & Ott, 1992). An impasse existed.

The result was a long overt and covert protracted battle. Jake was granted time in his current position, which allowed him to fuel the battle. Core workers and employees lower down in the organization were cut off from company information, as Jake ceased to hold staff meetings. The main source of information was the rumor mill, which consisted of "the evils of New Age practices."

Like the black hole in space that captures everything that travels in its vicinity, various levels of management withhold or distort information so that it doesn't get to the rest of the organization. Without proper information dissemination, change will fail" (Connor, 1993, p. 117).

Withheld and distorted information not only delayed change, it impacted production. Quality issues began to occur in the product. Reject rates increased. Core workers wielded considerable power and influence (Mechanic in Shafrtiz & Ott, 1992). Their influence was being felt in the bottom line, as profits began to erode in Jake's facility.

Religious prayer sessions were being conducted on company time and property. Religious communities were holding prayer sessions in the community. Roger, Richard, and a segment of his staff continued with succession planning and vision implementation for W & W. Energies that could have and should have been directed into productive work were wasted. Profits were falling. Individuals and groups became targets of slander.

SUGGESTED WEBSITE RESOURCES:

Center for the Study of Teams http://www.workteams.unt.edu

Information on Organizations http://www.hoovers.com/

CNBC/Dow Jones www.cnbcdowjones.com

ORGANIZATIONAL CULTURE

4. **What is the organizational culture of W and W? Confronted with fear, change, and ambiguity, individuals create symbols to provide security and the "known". What symbols, events, rituals were emerging here? Discuss the advantages and risks associated with these?**

"The concept of "organizational culture" is widely discussed in management circles but is frequently not well defined. Organizational culture can be defined as the fabric of values, beliefs, assumptions, myths, norms, goals, and visions that are widely shared in the organization." (French, 2003, p. 94) "Organizational culture is especially relevant to gaining \an understanding of the mysterious and seemingly irrational things that go on in human systems. And culture must be understood if one is to get along at all, as tourists in foreign lands and new employees in organizations often discover to their dismay." (Schein in Shafrtiz & Ott, 1992, p. 491)

Change was foreign to W & W. The process of change created ambiguity, uncertainty, and confusion. "Faced with uncertainty and ambiguity, human beings create symbols to resolve confusion, increase predictability, and provide direction" (Bolman & Deal, 1991, p. 244).

Symbols are intended to resolve confusion. When diametrically opposed symbols are created simultaneously, the outcome is one of greater confusion and ambiguity. In order to resolve this ambiguity, individuals must make a choice between conflicting symbols. Individuals generally choose the symbol that most resembles their existing paradigm.

Symbols were used to mediate, influence, and sustain the coalitions that had been formed at W & W. The following chart can be used to highlight events and conflicting symbols that created meaning. The symbols could reinforce the members of each coalition in their beliefs and provide a choice and position for outsiders. Symbols are intended to create clarity. They succeeded here in doing so, while coalescing and fortifying opposing positions.

SUGGESTED WEBSITE RESOURCES:

Academy of Management Journal http://www.aom.pace.edu/

Fast Company http://www.fastcompany.com/homepage/

EPILOGUE

This case is a composite of multiple individuals experience over time. Names and other features have been changed. No reference to any specific company or individual is intended or should be inferred.

SUPPORTING MATERIALS

Charts #1 and #2 are provided to aid the instructor in comparing the multiple forces at work in the case. They can be reproduced into transparencies or given as handouts to facilitate discussion.

Chart I

Events and Rituals	Symbolic Representations	
Group meetings	Prayer sessions	Training sessions
Cultural change training	New Age, Evil. Prayer groups were a visual sign of separation.	Vision. Futuristic focus with charts posted on walls
Training in ethics	Training materials in ethics crumbled and placed in public view	Ethical statements posted on the walls
Valuing diversity training	New Age education was created through the showing of video tapes and literature	Showing differences between functional areas and individuals through preference indicators and group discussions.

Chart 2

Current Culture	**Definitions**	**Emerging Culture**
Technology - "Me,Too" copying of past ballbearing manufacturing processes (**Manu)facturing** means by hands.	Artifacts and creations are the visible level of W & W. They construct the physical and social environment in which employees work.	**Technology** was intended to differentiate W & W in the marketplace. W & W wanted to be the leader, not "Me, Too" follower in the manufacturing and mentofacturing. **(Mento)facturing means mind.**
Language - Generalized stereotyping of people, processes and events intermingled with sarcastic humor. Few words were spoken, as short sentences had meaning for those involved in the history of the company. **Humor** was "truth telling" without having to deal with or discuss the issue. It was a form of play. **Sarcasm** was pointed and value laden. The spoken language was rich in symbols and meaning.		**Language** was changing from southern regional dialects to global business language. Language classes in Spanish, French, and Korean were offered to employees to support the global expansion. Business writing and presentation classes became part of management training. Due to sexual harassment focus, and a more formalized business culture, jokes and overt **humor** were not tolerated. A formal business culture was being shaped by a formal business language. **Play** occurred in the evening over business dinners.
Physical environment consisted of gray and green floors and walls with a backdrop of machines		A new corporate office was established outside of the manufacturing environment. Modern art, plush appointments, and furnishings created a global corporate environment.

Chart 2		
Current Culture	**Definitions**	**Emerging Culture**
Values were spoken and understood. They were not written down. Several of the value statements that formed W & W's foundation were: ♦ We are family. ♦ We stick together and take care of our own. ♦ We draw strength from our families, community, and religion. Jake and his following held these values very dear, as they formed the roots of their lives	**Values** - "In a sense, all cultural learning reflects someone's original values, their sense of what 'ought' to be, as distinct from what is. . . "When a group faces a new task, issue, or problem, the first solution proposed to deal with it can only have the status of a value, because there is not yet a shared value for determining what is factual and real" (Schein in Shafritz & Ott, 1992, p. 497).	New stated emerging cultural **values** were written in value statements and posted on the walls in all locations. The following are excerpts: ♦ We live in a global community. ♦ We value all people. ♦ We value our employees, as they are sources of our creativity. ♦ We value our suppliers, as they are the source of our parts ♦ We value our customers, as they are the source of our livelihood. ♦ We value our competitors, as they are inspiration for our creativity. ♦ We value the global communities in which we live and work.
Heroes were founding fathers, James T. and John Walker. They held the values stated above.		**Heroes** were the founding fathers. Roger was the champion who hadnot yet reached hero status. He held the values stated above, which had not yet been institutionalized as part of the culture. No heroines were visible.
Basic a**ssumptions** were: "We are family. You are loyal to the family, and the family is loyal to you. Until death do us part." "As long as I do my job, do what I am told, I will be taken care of, move up the organization, and retire well. I am entitled to future job security."	**Basic assumptions** have "become so taken for granted that one finds little variation within a cultural unit . . . Members would find behavior based on any other premise inconceivable" Schein in Shafritz & Ott, 1992, p. 499).	**Emerging assumptions:** "Change is inevitable. We must be ready and skilled at changing. Thus, we must practice changing. Those who are unable or unwilling to change will be left behind." "We are a community in which people enter and leave. It is normal and natural."

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JET BLUE: A NEW CHALLENGER

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CASE DESCRIPTION

The primary subject matter of this business policy case concerns the competitive strategy and background of a new, very successful airline –JetBlue Airways (JetBlue). The time frame of the case is from the firm's inception to the end of fiscal year 2002. The case has a difficulty level of four – five, appropriate for senior level undergraduates or first year MBA students. The case is designed to be taught in one seventy minute class and will require approximately two to three hours of outside preparation by the students.

CASE SYNOPSIS

JetBlue is a new, very successful low cost airline. In their first full year of operations (2001) they achieved a $32 million net profit on revenues of approximately $320 million. This is particularly notable in that the entire industry lost approximately $10 billion during the same year. JetBlue flies point to point routes – much like Southwest Airlines and offers distinctive service features –reserved seating, leather seats, seat back TVs (24 channels) and very customer oriented personnel.

JetBlue, at least superficially, appears to be an example of a Low Cost Leader. In their initial foray into the New York to Florida market they offered ticket prices about half of the existing competitor's ticket prices and a serious focus on customer convenience – including such things as no mandatory Saturday night stay to get the lowest ticket price. All tickets are sold online or through a unique Salt Lake City reservation system. They were the first airline to introduce electronic ticketing and their use of Information Technology is extensive. Jet Blue's founder – David Neeleman – is a young (43 year old) career entrepreneur with dyslexia. He is a practicing Mormon with nine children and prior to founding JetBlue had experience with two other airline startups.

INSTRUCTORS' NOTES

Learning Objectives

This case is designed to reinforce learning of the following strategic management (business policy) analysis and decision tools:

Porter's Five Force Analysis of Industry Competition
Financial ratio analysis
SWOT analysis
Generic strategies (Porter)

It is assumed that all of the above topics will have been covered with textbook readings or classroom discussion prior to asking the students to analyze the case. If these topics have not been covered in detail, they provide a real opportunity for the "black board panel" approach recommended by Harvard University.

TEACHING THE CASE

The starting point for this case is the classroom discussion of Porter's Five Force Model, SWOT analysis and Generic Strategies. Any good business policy text should cover all three of those concepts in some detail because they are so common to the strategy literature. Financial ratio analysis, is of course, a topic from the prerequisite management accounting or, perhaps, first course in finance. Surprisingly, non accounting or finance majors frequently need to go back and review, so it probably makes sense to talk about the common ratios and their interpretation as a classroom review item.

When assigning this case, we have found it helpful to require students – particularly undergraduates – to jot down their answers to the case questions and to bring those responses to class. All too often, it seems, some undergraduates "breeze" through the case and are woefully unprepared for a rigorous class room discussion.

When discussing the case in class, we feel that the "black board panel" approach to case organization works well. The panels for this case would likely be:

A SWOT ANALYSIS

The Five Force Model of Industry Competition

Strengths and Weaknesses of a Low Cost Leadership strategy and examples of differentiation on the part of JetBlue.

DISCUSSION QESTIONS

1. **Go to the JetBlue web site (http://www.jetblue.com/) and the American Airlines web site (http://aa.com/). Pick cities serviced by both JetBlue and American Airlines, select travel dates and number of passengers and determine the difference in fares. What is the percentage difference? What does this suggest?**

Answers to this question will differ appreciably depending upon the starting and ending airports selected by the students. Some of the published fares (as of February, 2003) show differences in favor of JetBlue) of as much as 50%. On the other hand, it is clear the American Airlines has met the JetBlue challenge by offering (on selected flights) very competitive pricing on the JFK to Orlando route.

One might infer that American and other major carriers are being forced into a price war by JetBlue. One of the points that should come out in this discussion is the relative ability of other airlines to match JetBlue's fare schedule. One of the most important metrics to assess operating performance of airlines is cost per seat mile and JetBlue has a real advantage in this area. Their cost per seat mile (in 2002) is about 2/3 of the industry average!

2. **Go to http://finance.yahoo.com and look up the information on JetBlue. Which of their financial ratios are significantly different than the industry? What are the implications?**

JetBlue has significantly outperformed the industry in most important financial ratios. In term of valuation ratios, PE is 31.12 for the most recent (as of 18 Feb 03) month compared to an industry average of 38.43. Growth rates in earnings per share and sales are far above their competitors. The implication is that JetBlue is growing rapidly while many of its competitors are declining. The most significant ratio differences are in profitability and management effectiveness. In every category, JetBlue is outperforming the competition significantly.

One ratio that needs careful assessment is the Debt Equity (D/E) ratio. By comparison, JetBlue carries a fairly high D/E ratio. This can have an effect on future borrowing for new aircraft - see Question 6, following.

3. Do a SWOT analysis on JetBlue. What are the most important SO strategies suggested by the SWOT analysis? Are there any WT strategies?

Strengths: management, costs, utilization, profitability and focus

Weaknesses: The only significant weakness would be size – it is possible that larger competitors could overwhelm JetBlue in some markets.

Opportunities: expansion to additional markets – particularly underserved markets and regional markets.

Threats: Competition (particularly other low cost airlines), the price of fuel, and unions.

SO strategies are fairly numerous and obvious. WT strategies might include expansion or acquisition of another carrier to grow rapidly and enter additional markets.

4. Which of Porter's generic strategies does JetBlue seem to be following? In what ways might their generic strategy be somewhat different than what Porter suggests?

JetBlue is following a Low Cost Leadership strategy, but, interestingly they are intentionally differentiating themselves from Southwest in several ways – assigned seating, leather seats and seat back TV, in particular. This notion that a firm can both be a differentiator and a low cost leader flies in the face of (Porter's) conventional wisdom.

5. Conduct a Five Force Analysis of the airline industry. How do you assess the threat of New Entrants?

The threat of substitutes is low. The bargaining power of suppliers (particularly aircraft manufacturers and employee groups) is fairly high. JetBlue is able to offset the bargaining power of fuel suppliers (a very important cost area) with a successful fuel hedging program. The bargaining power of buyers is high as there are numerous opportunities to purchase tickets from competing airlines and, essentially, no switching costs. Existing industry competition is fierce.

Despite the dreadful economic situation of the airline industry in general, several of the major carriers have announced (recently) new subsidiaries to compete against the low cost leaders. Thus the threat of new entrants in the low cost sector of the airline industry is substantial.

6. On June 10, 2003, JetBlue announced an order for 100 new EMBRAER 190 aircraft. Does this new equipment order suggest a new business model? What are the risks?

The EMBAER 190 is a 100 seat regional jet. Thus, it seems, JetBlue is announcing its intent to enter the regional airline business. This would be a new business model in that they have previously standardized on Airbus A 320s to serve major airports. The rationale for standardizing on A 320s was to minimize parts inventories and personnel training. Anytime a business introduces a new business model they incur incremental risks.

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HARDEE'S RESTAURANTS: STUCK IN THE MIDDLE OR CREATING COMPETITIVE ADVANTAGE?

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CASE DESCRIPTION

Business-level strategy is the primary focus of this case. Secondary issues examined include strategic groups and strategic reorientation. The case has a difficulty level of four, appropriate for senior level courses. The case is designed to be taught in one class hour and is expected to require one hour of outside preparation by students.

CASE SYNOPSIS

On January 21, 2003, Andrew Puzder, CEO and president of Hardee's Food Systems, Inc. stated, "We are distinguishing ourselves from the competition as the premium burger specialist among quick-service restaurants." But how much value can you really add to a hamburger? Clearly companies like Outback Steakhouse, Cracker Barrel, and Shoney's offer menu selections similar to Hardees' "Thickburger," but these restaurants set themselves apart by offering a casual dining atmosphere, a wide selection of entrées beyond hamburgers, and table service rather than order counters. On the other end of the spectrum are fast food restaurants such as McDonalds, Burger King, and Wendy's, Hardee's traditional competitors offering low cost convenience meals. Hardee's Thickburger initiative goes beyond efforts at differentiating itself from its competition. Instead, the company is taking actions it hopes will move it into a new strategic group where competition is less intense. This case examines the difficulties in strategic reorientation when such reorientation requires a business-level strategy that moves a firm from one strategic group to another. Students must decide if Hardee's new initiatives will be successful or whether the fast food franchise will be "stuck in the middle" with neither a feasible low cost nor a feasible differentiation strategy.

INSTRUCTORS' NOTES

This case presents Hardee's initiative to stem declining sales and profits through a reorientation of its strategy. After four years of decline against well known market leaders such as McDonald's, Burger King, and Wendy's, Hardee's introduced a new menu item in late 2001, the "Six Dollar Burger", that was an instant hit with consumers. This success gave the company the confidence to initiate a new strategy-remove 40 items from its menu, replaced with the Thickburger line, and remodel the restaurants. The case focuses around whether these changes are enough to differentiate Hardee's from other fast food competitors.

This case was developed using publicly available information from press releases, industry publications and financial reports. It was course tested in a senior level business policy class and modified based on student comments.

The case fits well just after teaching business level strategy in business policy and strategic management cases. There are three primary teaching points. First, the case illustrates strategic reorientation of business level strategy. Second, the case is an excellent example of being "stuck in the middle" with neither a cost leadership nor an adequate differentiation strategy. Third, the case clearly shows how competition within strategic groups is more intense than competition among strategic groups within an industry.

To teach the case, a good starting point is to ask students to identify Hardee's competitors. They will quickly note fast food chains such as Burger King, Crystal's, and others, but are unlikely to mention other full service restaurants in the industry such as Cracker Barrel and Outback Steakhouse. This allows the instructor the opportunity to point out that although all of these are in the same restaurants industry, individual companies do not always compete directly with all companies in that industry. The teaching point to be made here is that competition within strategic groups is more intense than competition between strategic groups within an industry.

Next, ask students to identify steps Hardee's has taken to differentiate itself from its strategic group-the fast food (qiuckservice) segment of the restaurant industry. They will likely bring up actions such as elimination of 40 products from the original menu, addition of the Thickburger line of hamburgers, and remodeling the restaurants to present a new image. The teaching point to be made here is the main point of the case-if a company does not have a clear-cut strategy, whether its low costs, differentiation, an integrated low cost differentiation strategy, or focus strategy, then it becomes, in the words of Harvard's Michael Porter, "stuck in the middle."

To help students come to the realization that this is what Hardee's has done, ask whether Hardee's has done enough to differentiate itself from other fast food competitors. After some discussion, students should come to the conclusion that Hardee's is still just another fast food restaurant competing in the same strategic group as it always has. The attempt to carve out a niche of customers with A follow up question to help wrap up the case and plainly make the point is to ask students, what does it take to differentiate a hamburger? This will further solidify that what Hardee's has embarked upon is neither a workable low cost nor differentiation strategy.

CASE OVERVIEW

At its most basic level, this case centers on a simple question that has no easy answers: How do you differentiate a hamburger? On January 21, 2003, Andrew Puzder, CEO and president of Hardee's Food Systems, Inc. stated, "We are distinguishing ourselves from the competition as the premium burger specialist among quick-service restaurants." The restaurant industry can be broken into two major sectors-fast food and full service. Clearly, Hardee's is in the fast food sector. With its new Thickburger initiative, a new menu intended to set Hardee's apart from its competition, the company is attempting to move itself away from the strategic group (the fast food sector) to reduce competitive pressures. This case considers the difficulties in strategic reorientation when such reorientation requires a business-level strategy that moves a firm from one strategic group to another. Students must decide if Hardee's new initiatives will be successful or whether the fast food franchise will be "stuck in the middle" with neither a feasible low cost nor a feasible differentiation strategy.

INTRODUCTION

After successfully introducing the Six Dollar Burger in November 2001, Hardee's decided think deeply about where it had been and where it hoped to be in the future. On the heels of four years of consecutive losses, Andrew Puzder, CEO and president of Hardee's Food Systems, Inc. initiated a strategic change in 2003 with the intent of differentiating the company as "the premium burger specialist among quick-service restaurants."

BACKGROUND

CKE Restaurants, Inc. is the parent company of the franchisor, Hardee's Food Systems, Inc. Both CKE and Hardee's have struggled financially in the past four years. Intense price competition, rapid imitation by competitors of novel products and services, and slow industry growth (4-5% annually) has made it difficult to sustain profitability for Hardee's. Its reaction is to reorient its strategy to set itself apart from this intense interfirm rivalry. As Brad Haley, Hardee's executive V.P. succinctly put it, "We can't compete when everybody is selling sandwiches for 99 cents. Nobody can. Even the big guys are losing at that game."

In October 2001, Hardee's contracted with Mendelsohn|Zien, a Los Angeles based advertising firm to help reposition Hardee's brand. Soon after contracting with Hardee's, Mendelsohn|Zien recommended that the restaurant chain introduce the Six Dollar Burger. In

November 2001, Hardee's introduced this 1/2 pound, 911 calorie, $3.95 hamburger, which quickly became the best selling burger among all fast food chains. In 2002, the Six Dollar Burger won the Restaurant Business Award for Best New Burger.

THE RESTAURANT INDUSTRY

With approximately 300,000 restaurant companies, the industry is highly competitive. As mentioned, the industry can be divided into two basic groups-full service and fast food. The full service sector tends to have more points of differentiation including family atmospheres, buffets, combination full service restaurants with bars and others. At the other end of the spectrum, the fast-food sector is geared toward quick, inexpensive meals Both the full service and fast food segments include locally owned restaurants typically managed by a single individual. These restaurants sometimes compete with the national chains by creating menus catering to local tastes.

Because the restaurant market is mature and annual industry sales growth is relatively small, it has become increasingly difficult to earn above average returns. Economic downturns tend to impact full service restaurants more than fast food. Full service restaurants have a slight advantage in terms of per restaurant gross sales over fast food restaurants with full service restaurants averaging $650,000 and fast food restaurants average a little less at $585,000. Combined with full service restaurants average pretax income of 6% versus 5% for the fast food segment, the full service segment has a slight advantage in terms of their industry position. Another factor bearing on the fast food segment is that consumer tastes are slowly evolving toward a desire for more healthy meals. There is increasing pressure on fast food chains to offer low fat, nutritious alternatives.

TYPE of SERVICE	2000	2003
	Sales ($Billion)	Sales($Billion)
Fullservice	134.30	153.2
Quickservice	107.40	120.9
Total	241.70	274.1

Annual pre-tax Household Income	Per-capita avg. spending on food away from home in 2000	Percent of American Households in 2000	Approximate Population In 2000
$70,000+	$ 1,460.00	26.3	74,110,627
$50,000 - $69,999	$ 980.00	15.6	43,959,155
$40,000 - $49,999	$ 920.00	12.0	33,814,735
$30,000 - $39,999	$ 820.00	11.0	30,996,840
$20,000 - $29,999	$ 650.00	12.8	36,069,050
$15,000 - $19,999	$ 580.00	6.5	18,316,315
$0 - $14,999	Not Available	15.8	44,522,734
Totals	$855 Average	100.0	281,789,456

Year 2000 Age of Head of Household	Per-capita avg. spending on foodaway from home	Percent of American Households	Approximate Population
Under 25	$ 925.00	6.8	19,161,683
25 - 34	$ 775.00	23.4	65,938,733
35 - 44	$ 795.00	25.2	71,010,943
45 - 54	$ 1,030.00	22.6	63,684,417
55 - 64	$ 1,010.00	5.9	16,625,578
65+	$ 750.00	16.1	45,368,102
Totals	$855 Average	100.0	281,789,456

STRATEGIC REORIENTATION

If Hardee's could successfully draw a line between its products and those of traditional fast food competitors, perhaps the company could stem the losses of recent years by adding value to what was, for the most part, a previously undifferentiated product-the common Hardee's hamburger. By competing on product attributes-fast food hamburgers that tasted more like an Applebee's or a TGIFriday's hamburger-Hardee's hoped to exploit a market niche that had been previously ignored by the industry.

To complement its new product line, Hardee's has begun remodeling the interiors and exteriors of many of its restaurants, referring to this phase of its strategic rorientation as the "Star Hardee's Program." The new product line included Thickburgers while eliminating 40 items from the menu. The Thickburger line included 1/3 pound hamburgers, cheeseburgers, bacon burgers, and chili cheeseburger in addition to a 1/2 pound grilled sourdough burger. Hardee's top of the line Thickburger was a 2/3 pound, 1,088 calorie hamburger. A key feature of Thickburgers is that each is made from Angus beef, a premium source of ground beef. The added cost of Angus beef makes Thickburgers, ranging in price from $2.39 to $4.95, a little more expensive than competitors' hamburgers.

The new tag line in Hardee's advertising, "Hardee's: Making the last place you'd go for a burger, the first," made it clear that the company considered its new product line more than just a menu change, but instead an about face from its previous position in the industry. Executive V.P. Haley puts Hardee's new strategy succinctly: "It's not fast food and it's not sit-down restaurant food," Haley said. "It's something in between. That's what we're trying to target."

THE CURRENT CRISIS

Although it is too early to know how well Hardee's strategy will work over the long term, so far things are not looking too good. As of the 16 weeks leading up to May 19, 2003, gross revenues had decline 1% compared to the same period in 2002. Market share had not increased despite an aggressive advertising campaign and store remodeling. At this point, the company must consider its options the length of time they should wait for the strategic reorientation to increase sales and profits, whether the strategic reorientation is misguided and doomed from the beginning, whether they should differentiate farther from the fast food segment by offering true sit down service rather than an order counter, or whether they should return to their old strategy (and previous menu) despite intense competitive pressures in the fast food strategic group. The bottom line is, what should president and CEO Andrew Puzder do next?

DISCUSSION QUESTIONS

As mentioned in the case note introduction, this case is probably best present as a series of questions that guide students' thinking toward the conclusion that Hardee's is "stuck in the middle" and has neither a low cost nor a workable differentiation strategy (nor any permutations of these such as focused or broad differentiation, focused or broad low cost, or integrated low cost-differentiation strategy). For ease of use, the specific questions are repeated here in a question and answer format. Professors using this format will be able to guide students thinking while allowing them to develop the correct conclusion. At the same time, allowing students to ponder the questions and the ensuing discussions should illustrate a business level strategy that is intended to use differentiation in moving from one strategic group to another. However, students will conclude that the strategic reorientation in this case represents a "stuck in the middle" situation that is unlikely to turn Hardee's around and may actually worsen its financial condition.

Question 1: Which companies compete directly with Hardee's?

Answer: Students will name a variety of fast food restaurants, but are unlikely to conclude the full service restaurants are direct competitors. Make the point that competition within strategic groups is more intense than competition between strategic groups.

Question 2: What steps has Hardee's has taken to differentiate itself from its strategic group-the fast food segment of the restaurant industry?

Answer: Students will likely bring up actions such as elimination of 40 products from the original menu, addition of the Thickburger line of hamburgers, and remodeling the restaurants to present a new image. Make the point that if a company does not have a clear-cut strategy, whether its low costs, differentiation, an integrated low cost differentiation strategy, or some other clearly defined way of doing business, it becomes, in the words of Harvard's Michael Porter, "stuck in the middle."

Question 3: Who is Hardee's new target market? How does Hardee's reach and retain this market?

Answer: After some discussion, students should come to the conclusion that Hardee's has chosen members of the 35-54 age group (not the children in these households) with an annual household incomes of greater than $50,000 who have discriminating quickservice tastes, not interested in the "dining experience," and will pick-up at convenient locations.

Key in on the idea that promotion brings customers in once, but product, price, and place bring them back.

Annual pre-tax Household Income	Per-capita avg. spending on food away from home in 2000	Percent of American Households in 2000	Approximate Population In 2000	Potential Market (Billion $)	Target Market (Billion $)
$70,000+	$ 1,460.00	26.3	74,110,627	108.20	108.61
$50,000 - $69,999	$ 980.00	15.6	43,959,155	43.08	43.08
$40,000 - $49,999	$ 920.00	12.0	33,814,735	31.11	
$30,000 - $39,999	$ 820.00	11.0	30,996,840	25.42	
$20,000 - $29,999	$ 650.00	12.8	36,069,050	23.44	
$15,000 - $19,999	$ 580.00	6.5	18,316,315	10.62	
$0 - $14,999	Not Available	15.8	44,522,734	Not Available	
Totals	$855 Average	100.0	281,789,456	241.88	151.69
Percent of Total Mkt					62.71

Year 2000 Age of Head of Household	Per-capita avg. spending on food away from home	Percent of American Households	Approximate Population	Potential Market (Billion $)	Target Market (Billion $)
Under 25	$ 925.00	6.8	19,161,683	17.72	
25 - 34	$ 775.00	23.4	65,938,733	51.10	
35 - 44	$ 795.00	25.2	71,010,943	56.45	56.45
45 - 54	$ 1,030.00	22.6	63,684,417	65.59	65.59
55 - 64	$ 1,010.00	5.9	16,625,578	16.79	
65+	$ 750.00	16.1	45,368,102	34.03	
Totals	$855 Average	100.0	281,789,456	241.69	122.04
Percent of Total Mkt					50.49

Question 4: Has Hardee's done enough to differentiate itself from other fast food competitors?

Answer: After some discussion, students should come to the conclusion that Hardee's is still just another fast food restaurant competing in the same strategic group as it always has. Key in on the idea that actions such as those Hardee's has taken (those that students identify) are not a cohesive business strategy, but instead are a patchwork attempt to reduce competitive pressures from the main players (McDonald;s, Wendy's and Burger King) in Hardee's strategic group. A key element not addressed by Hardee's may be upgrading the quality of service (convenient, correct, & customer focused) at the stores.

Question 5: What does it take to differentiate a hamburger?

Students answers will vary and will probably trigger some creative ideas. The more creative the better-this will further solidify in students' minds that what Hardee's has embarked upon is neither a workable low cost nor differentiation strategy.

GROWTH FOR TIFFANY & CO.

Thomas Bertsch, James Madison University
Debra Wiseman, Rugged Wearhouse

CASE DESCRIPTION

This case focuses on the strategy needs of an upscale retailer. The subject matter is appropriate for courses in retailing, marketing strategy, marketing management, and merchandising. The case is suitable for junior and senior undergraduate students and has a difficulty level of 4/5. It can be used for a 75-minute class discussion session, a take-home exam, or as the basis for team oral presentations.

CASE SYNOPSIS

Tiffany & Co. has stores in more than 20 countries. Its retail activities focus on upscale customers, high quality-products, extensive services, premium prices, fashionable locations, sophisticated promotions, and prestige image. Management wants the company to become the preeminent jewelry retailer in the world. Consequently, adjustments are needed in strategy. Students are asked which changes should be made in Tiffany's publics, products, places, prices, promotions, performances, processes, and providers.

Students working with this case will gain increased knowledge, skills, and practical experience. Specific knowledge topics include: image positioning, market segmentation, product branding, service opportunities, pricing strategy, merchandising, store site selection, promotion media selection and message appeals, distribution channel integration, and performance measures. Skill building opportunities include: logical problem solving, oral communication, and written communication. Important experiential learning opportunities are: informative and persuasive speaking, business report writing, strategy integration, and teamwork.

INSTRUCTORS' NOTES

Problems

Answers to issues at the end of the case are given below:

♦ Appeal more to target market segments.

Students may think that Tiffany should put more emphasis on the near-luxury "aspirants" market segment, since it is large and appreciative of the Tiffany reputation. However, the company should not endanger its appeal to the wealthy. A youth-oriented store atmosphere should be avoided – such as top-twenty music, wall posters, and jeans clothing for employees.

Some students may want to standardize Tiffany stores, to provide a consistent appearance. However, that is not practical. Downtown shopping district stores tend to be tall, because land is very expensive. Mall stores in suburban locations were built when land was low in price. Consequently, they are flatter, with one or two stories. Smaller market areas get smaller stores, so the extent of products on display is less. Mall stores open onto a walkway that is protected from the outside weather, so store doors can be open during shopping hours. Downtown shopping district stores open onto streets, so doors must be closed to keep out traffic, noise, and air-blown dirt.

Shopper desires, characteristics, and behavior can be measured with surveys. The customer database can be analyzed to find groupings worth distinctive strategy efforts, such as trend leaders and seasonal buyers. Tests can be used to compare responses to different strategy activities. Tiffany needs occasional market research projects to measure new issues. An ongoing information system is needed to measure recurring issues.

The Internet can be used to search for those illegally imitating Tiffany merchandise. Tiffany does take legal action against those who infringe on its design patents, brand names, proprietary color, trademarks, and trade names. Such assertive protection efforts help maintain the company's image and customer satisfaction with merchandise.

♦ Pick additional products and services to offer.

Students will probably want to expand the variety of Tiffany brand jewelry, since that category is the largest revenue generator. However, product line additions require more retail space. That requires more display cases that, in turn, would require larger stores, smaller spaces between display cabinets, or more constricted displays. The "un-crowded" appearance of Tiffany stores and displays is important to its prestige image.

Many prestige product additions, such as Gucci handbags, could be a location problem for Tiffany. Gucci and Tiffany operate stores in many of the same shopping malls, so Gucci would not allow Tiffany to carry its products at those locations. Other luxury product retailers also want exclusive distribution rights in an area.

Students may recommend the addition of many luxury brand products from outside manufacturers. However, such brands are sold in other posh establishments. Tiffany could have better store loyalty if it carried items under its own, respected brand names.

Luxury and near-luxury retail chains should be monitored, to help identify service innovations that Tiffany may be able to adopt. Also, customer comments and surveys can be used to identify new service possibilities.

Young female customers want chic styles worn by celebrities. Therefore, fashion leaders, television, and style magazines are important sources for quickly identifying trends so that production and promotion can be adjusted.

♦ Select locations for new stores.

A few students may want to sell off non-retailing operations, to generate the capital needed for major expansion of the retail store network. However, Tiffany needs assurance of supply and extensive quality control. Balanced growth across its operations is less risky.

Tiffany’s store expansion in the United States is set at three to five additions a year. The company could quickly narrow the choices by considering only locating where other luxury stores are located, such as Saks and Gucci. The Directory of Shopping Centers in the United States identifies regional, community, and neighborhood shopping centers and downtown shopping districts. The directory also indicates the tenants and shopping theme of each center, such as fashion or manufacturer’s outlet. Of course, many students will want to evaluate shopping areas and site locations on their own merits. Such evaluations should include dozens of issues, such as: large population, high discretionary income, percent spending on luxury products, neighborhood quality, site availability, and lease terms.

Foreign expansion can also be simplified, by focusing on which luxury product retail chains are open to acquisition or to operation of Tiffany stores within their stores. If store locations were evaluated on an individual basis, then many more issues should be considered than was necessary for domestic choices. Some important foreign-market criteria are: openness to free enterprise business, political stability, acceptance of U.S. products, and religious acceptance of luxury buying.

♦ Choose which price levels to discontinue.

Product line additions should not take sales away from current products of equal or higher margin. Otherwise, a "hidden" financial opportunity loss would occur. Tiffany offers more than 2,000 products that range in price from under $75 to $1,000,000. Price lines that do not sell can be discontinued. Products that do not sell can be reported back to production and discontinued. Of course, some items sell few units but offer substantial sales revenue and profit, such as the $1,000,000 engagement ring. Therefore, Tiffany should track the cost, markup, and quantity sold of items.

- ♦ Evaluate which promotional media to use.

Expansion of promotional efforts in existing store areas may not be worthwhile. Too much promotion may even devalue the company's image. Of course, individually targeted promotion to "big spenders" is important for customer relationship marketing.

The promotional budget is always limited, so the purposes and payoffs of alternative investments should be estimated. Mass media reaches many people, but most are not going to buy at Tiffany. Therefore, targeted mass media should be used such as television programs, magazines, and newspapers aimed at luxury market buyers. Such information is available from several syndicated data services, such as Simmons's Choices III. Direct mail is much more expensive per thousand, but it is very valuable in appealing to existing customers. Personal selling is extremely expensive per thousand reach. However, the margin on sales easily justifies the cost, and customized communications with shoppers are essential. The company is committed to public service projects, which include several themes and contact points for public relations and publicity.

Management may reject major changes in promotional budgeting from one year to the next. Also, many media relationships are likely to be treated as long-term commitments. Therefore, promotional budget reallocations are likely to be gradual, unless a strong justification can be presented for large changes. The rapid growth in Internet sales would be one justification for major reallocation of the media budget from one year to the next. However, the company's web site is already developed and operational, so budget needs for that media are less than before.

- ♦ Decide which outside suppliers to use.

Tiffany has more than 100 outside suppliers and its own supply operations. The number of relationships is so large that a quick, easy, consistent process for evaluating individual suppliers is needed. A workable system is to have preset evaluation criteria, rating levels, acceptance ranges, rating assignments, and reactions. Some of the evaluation criteria should be: products – quality level and quality consistency; services – return, exchange, and credit options; delivery – arrival promptness and expedited shipping. The company should also consider: reputation – does what promised and value of supplier's brands; prices - competitive prices and discounts offered; and promotion – new ideas and cooperative spending provided.

A five-point rating scale, ranging from excellent to poor can be used on each evaluation issue. Acceptance levels of at least satisfactory could be set for each criterion. The signature of an approved evaluator can indicate authorized ratings. High performers should receive extra rewards, low performers should be advised on what and how to improve, and consistently low performers should be replaced. Of course, the suppliers should know the evaluation and rewards system in advance, so they can adjust to it.

♦ Protect on-line information.

Hackers try to steal information, time, money, products, and identities through on-line tricks. Tiffany should use virus protection software, data encryption, locked server system switching rooms, an on-line network just for suppliers, frequently changed user passwords, restricted access to company computers, and a web site monitoring service. The company should also train employees how to update protection on their computers and how to identify, avoid, and report suspicious web sites and e-mails. Tiffany's web site server system should be programmed to block out unidentified sources and newly identified viruses

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THE CASE OF THE "I AM NOT A CROOK" CROOK

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Rodger R. Trigg, Columbus State University
Tom C. Moore, Georgia College and State University

CASE DESCRIPTION

This case addresses the issue of double jeopardy in an interesting way. Mr. Wanna was tried in criminal court on drug conspiracy charges and was found not guilty. However, in a subsequent trial for evasion of taxes he was found guilty of not paying taxes on the drugs the criminal court had found him not guilty of selling. In the second trial the government used additional witnesses that testified about the sale of drugs that did not testify in the criminal case. Among other issues, Mr. Wanna's attorney claims that the second trial was more about the selling of drugs than about the avoidance of taxes and that the tax court, in essence, convicted him of selling drugs thus violating double jeopardy.

CASE SYNOPSIS

When humor is effectively used the lessons learned often last much longer than otherwise. This case uses the line made famous by President Nixon to examine the transfer of knowledge between courts. We can visualize the plaintiff screaming, "But I am not a crook. I was found innocent. How can they convict me of not paying taxes on drugs that I did not sell? I am not a crook." The tax court did, in fact, convict the plaintiff on tax evasion charges even though in an earlier criminal trial he had been found not guilty on drug conspiracy charges. The primary question posed regards the results of the appeal.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

This case is based on U.S. versus Stuart L. Smith. Much of the narrative of the judges is taken quite closely from that case, but is not cited there to prevent students from obtaining the correct solution.

There is a legal distinction between being found not guilty and innocent, which this case illustrates. The case also illustrates the difference between criminal proceedings for an offense and criminal proceedings for not paying taxes based on the offense.

This case can be used to simply make these two points (difficulty level of one with minimal outside preparation), or it can be used as a starting point for an extended discussion into the legal distinction between acquittal and innocence and/or the difference between criminal charges and tax evasion charges (difficulty level of three with extensive outside preparation). Most accounting professors would probably prefer to treat it as a simple case to be covered in less than thirty minutes whereas business law professors may want to delve into the nuances and spend at least an hour on the case. The ability to use the case for multiple purposes certainly enhances its value.

ASSIGNMENTS AND SOLUTIONS

The primary assignment should be for the students to review the material and determine whether or not they believe the Court of Appeals will uphold the tax evasion conviction. More specific questions could be developed, and are provided below, but they are more useful in guiding discussion than in using as specific assignments.

For those familiar with political satire, there once was the adage that Louisiana had the most honest governor in the United States. In fact, he was so honest that he had been proven so on three separate occasions. [Former Louisiana Governor Edwards was found not guilty in three court cases before finally being convicted.] The false pretense that failure to convict implies honesty was the essence of that satire, as it is in the claim here that acquittal in one court should have bearing in another court.

Tax evasion cases are quite popular with prosecutors because they are relatively easy to prove. Usually, the only elements of the crime that the prosecutor must show are that a taxpayer received income and failed to report it and pay taxes on it. The income could have been derived from either a legal or illegal activity. However, the prosecution does not have to prove that the defendant is in fact guilty of the illegal activity, but only that he failed to pay taxes on the income produced from the activity.

Many famous Americans have been imprisoned after their conviction for tax evasion. Students often have misconceptions that are uniquely present in tax evasion cases. For instance, ask how many students in your class believe that Pete Rose, the famous athlete, served 5 months in Federal Prison for betting on baseball. He actually pled guilty to tax evasion for not reporting $350,000 of his income that he earned through sports betting and appearance fees at autograph shows where he would ask to be paid in cash. Al Capone, perhaps the most famous mobster in American history, was suspected of ordering the executions of dozens of rival gang members. The authorities were never able to prove his role in the murders, or that he sold whisky during the prohibition period, but they did prosecute him successfully for tax evasion in that he failed to report income derived from his illegal activities.

OTHER SITUATIONS IN WHICH A DEFENDANT MAY FACE A SECOND TRIAL

In cases *unrelated* to tax evasion, defendants often have to face a civil trial even after they have been acquitted in a previous criminal trial. For instance, consider the case of O.J. Simpson who was found not guilty by a jury in his criminal trial involving the murders of his ex-wife and Ronald Goldman. Later, at a civil trial seeking monetary damages for wrongful death, another jury found him liable and ordered him to pay several million dollars to the victims' families. Mr. Simpson lost both his California home and his Heisman trophy due to this civil verdict.

Like in the *Smith case*, students may have a difficult time reconciling these results. The teacher may want to remind the students that in a criminal case, the government prosecutor must prove a defendant is guilty beyond a reasonable doubt. In a civil trial seeking money, the burden of proof is much lower---only by a preponderance of the evidence (or more likely than not). Thus, even if the same jury had decided both Simpson cases (which they did not), the outcome could logically have been the same. That is, they could have found Mr. Simpson not guilty of the crime but liable for the wrongful deaths.

Some defendants have been forced to face prosecution in multiple criminal trials even after they were acquitted by a jury. The Los Angeles policemen who arrested Rodney King were found guilty by a federal jury for violating Mr. King's civil rights by their use of excessive force against him during the arrest *after* they were found not guilty of the assault in a California criminal court. Students often argue erroneously that this practice violates the standard of double jeopardy. Students may also find the following helpful: consider Jim who is speeding in the state of Idaho. The Idaho police start a pursuit. Jim continues to flee and drives into Wyoming, where the Wyoming police join the pursuit. Jim, driving at 100mph is finally apprehended. If Jim has a great lawyer, he may be found not guilty in Idaho but would still face another criminal trial for violating the laws of Wyoming.

For a more advanced discussion, students may be asked what the impact is of a defendant being found guilty at a criminal trial (unlike Mr. Simpson). If the victim/victims' families sue for money in a civil trial, the doctrine of *res judicata* may allow them to use the conviction (or guilty plea) against him/her. Because a higher burden of proof has already been met in the criminal court than is necessary in the civil court, the amount of damages to pay the victim/victim's family will be the only issue to be decided by the jury in the civil trial.

SPECIFIC QUESTIONS

1. **Was Mr. Scence correct in asserting that Judge Coffin should have told the jury of the earlier not guilty verdict?**

   NO. There is no requirement to convey information between jurisdictions. In fact, when the cases are on equal par (both criminal, both civil) conveying such information would taint the results. As noted in the discussion above, a criminal conviction can be conveyed to a civil court under the principle of *res judicata.*

2. **Did the Government violate Mr. Wanna's rights by bringing in additional witnesses about the sale of drugs when trying him on tax evasion charges?**

   NO. The Court of Appeals ruled that the Government simply did a better job of proving that money was raised in this manner and was not reported. The fact that it was raised from the sale of drugs was not the driving issue, but the fact that money was earned but not reported. The second (tax) trial simply proved that money was earned from the sale of drugs.

3. **Is it possible to be convicted of not paying taxes on profits from illegal activities even though an individual is found not guilty of committing the illegal activities?**

   YES. As noted in the discussion above, this is often the case in tax courts.

CHANGING TEXTBOOK DISTRIBUTION PROCEDURES: A CASE

Unnikammu Moideenkutty, Sultan Qaboos University, Oman

CASE DESCRIPTION

The primary subject matter of the case concerns introducing change in academic/professional organizations. The case has a difficulty level of four. The case is designed to be taught in one class hour and is expected to require nil hours of outside preparation by students.

CASE SYNOPSIS

This case describes the problems encountered when an attempt was made to change the procedure for distributing textbooks in a university in the Middle East. In public universities in the Middle East, everything, including the textbooks, is free for the students. The new procedure required faculty members to collect and distribute the textbooks in class. Many faculty members were upset by the highhanded way in which this arrangement was made and refused to cooperate. The conflict culminated in stormy meeting between the dean and the faculty members. The case is unique because it takes place in a university environment in the Middle East.

INSTRUCTORS' NOTES

Recommendations for teaching approaches

This case can be used for teaching introducing change in organizations and resistance to change. Since it is a very simple case, it can be used in the beginning of the course to illustrate the perils of introducing change in academic/professional organizations. It can also be used in the beginning of a managerial communication course to illustrate poor communication. In this case the focus can be on the memo and how the tone of the memo may have angered the faculty members. Finally, the case could be used to illustrate the application of Vroom-Jago decision tree (Vroom & Jago, 1987). The Vroom-Jago decision tree is a very common model found in the decision-making chapter of all introductory management textbooks. The case can be used to explain the use of the Vroom-Jago decision tree to choose the appropriate decision style.

DISCUSSION QUESTIONS

1. Why did some faculty members refuse to cooperate with the new procedure?

Faculty members were upset because they were not consulted when the new procedure was introduced. They also did not like the fact that the memo was signed by Marina and addressed to the dean. The tone of the memo was also offensive to some faculty members. Though in the meeting the problem was presented as a temporary one, the memo in fact envisaged a permanent change in the procedure resulting in the faculty having the added responsibility of distributing the textbooks. The faculty may have been willing to help to tide over a temporary problem. They certainly didn't want the responsibility of distributing the textbooks on a permanent basis. It is generally a good principle to involve the people affected by the change in implementing the change. Participation is a standard approach for overcoming resistance to change when the recipients of change have the power to resist (Kotter & Schlesinger, 1979).

2. What you do you think about the way the dean handled the meeting? What would you have done?

The dean started well. He began by admitting his mistake and asking for help. However, he then asked Marina to explain the situation to the faculty. The faculty members were already upset by the impersonal and commanding tone of Marina's memo. She did not ask the faculty for help. In effect she said that the faculty could help if they wanted, if not they would manage anyway. The faculty members felt discounted and angry.

The dean should have taken full responsibility for the fiasco. He should have described the problem to the faculty and asked for their help in solving it. Both the dean and Marina were not well prepared for the meeting.

3. Use the Vroom-Jago decision tree to determine the appropriate decision making method to solve the textbook distribution problem.

The Vroom-Jago model helps managers to determine the appropriate amount of participation for subordinates in any decision-making situation. The first question in the decision tree is: 'how important is the quality of this decision?' In this case, since the issue is temporary and rather minor, we can say that the decision quality requirement is low. If the decision quality requirement is low, then the next question is: 'how important is subordinate commitment to the decision?' Since the solution to the problem may require the cooperation of the faculty, commitment requirement is high. If that is the case the next question is: 'If you were to make the decision yourself, is it reasonably certain that your subordinates will be committed to it?' Since faculty members are highly educated and professional employees, they are unlikely to be committed to a decision to which their input was not sought. Thus the commitment probability is low. In this case the recommended decision method is group decision. In this method, the leader shares the problem with the subordinates as a group. The leader's role is much like that of a chairman. The leader does not try to influence the group to adopt a particular solution, but is willing to accept and implement any solution that has the support of the entire group. Thus, using the Vroom-Jago decision tree, the appropriate decision style for this problem is the group decision.

Note: The Vroom-Jago decision tree is found in all standard management textbooks in the decision-making chapter.

4. What issues regarding introducing change involving professional employees does this case bring up?

In general resistance to change is lower when the individuals affected by the change are involved in the change process. This is more so in the case of professional employees. When these professionals are academics, the problems are compounded. This is because academics prize their independence and autonomy. Academics can be expected to strongly resist any administrative decision that impinges on their autonomy. It is therefore very important to take a contingency approach to introducing change. The change strategy must be planned taking into consideration the situational factors, including the type of individuals affected by the change.

5. Do you think that the problem has a cultural dimension?

Certainly culture appears to have paid a role in aggravating the situation. Most Middle East countries are high on the cultural dimension of masculinity (Hofstede, 1985). Women still play a relatively subservient role in the middle-eastern society. Dr. Naseem's resentment maybe due to the fact that a woman initiated the change and that the tone of her memo was rather commanding.

6. When a supervisor loses his/her temper in a meeting, how can subordinates respond in order to defuse the situation and return to problem solving?

Students can be asked to brainstorm various effective responses. Some of the responses can be role-played to demonstrate their effect. Humor and empathy are effective responses to anger. Students may come up with creative ways of dealing with an angry boss.

EPILOGUE

Pranab Mukherjee, head of Operations Management, broke the silence "Gentlemen let us not lose our heads. This is a simple logistical problem that we can solve easily if we put our heads together. I suggest that we form a committee of interested people who will sit together after the meeting and come up with some ideas. I am willing to head the committee."

The committee headed by Mukherjee developed a plan whereby graduate assistants and some willing faculty members would take turns to help the library staff to distribute the books.

The faculty members who had already collected the textbooks from the library distributed them to their students. In both cases the students returned the books to the library on their own at the end of the semester.

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Exhibit 1

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The Oases, Middle East
www.meu.edu

To: Professor John Roderick
Dean, School of Business

From: Mrs. Marina Popovich
Assistant Director, Library

Date: January 7, 2000

Subject: Library-Textbooks distribution-New procedure

Dear Sir,

This is to kindly request to approve the new rules to distribute textbooks from the library starting Spring 2001.

1. Every instructor is in charge for the distribution and collection of textbooks for his/her course at the beginning and at the end of the semester.
2. Students who change courses during the add/drop periods, and late registration/transfer students can get/return the textbooks either through the instructor or directly from/to the library (if a book was taken from the instructor, it should be returned to him/her).
3. The procedure for taking books at the beginning of the semester:
   a. Instructor checks the list of the enrolled students for his/her course and the list of the prescribed books.
   b. Instructor with a few students goes to the library to take the textbooks for all students who have shown up during the first few lectures.
   c. Every student signs for the books and is informed that in the case of any damage/loss of the book he/she will be charged the double price of the book.
   d. One copy of the signed list is kept with the instructor, the original is returned to the library (the first day after the add/drop week) to enter this information into computer.

4. The procedure for returning the books at the end of the semester:
    a. Instructor collects all the books at the day of the final exam, marks the students in his/her list, returns the signed list and books to the library (with the help of a few students)
    b. Information about students who did not return or damaged the books is submitted to the Director of Administration (to charge the students with the double price), and the Dean's office (not to provide students with their transcripts until all problems with the library are resolved)
    c. All books should be returned to the library by the end of the final exams.

Let me attract you attention to the point that we are losing a lot of books every semester. The new procedures will help us to improve the situation.

If you approve these procedures, your order should be posted in the library, and every faculty and students should be informed about it.

Thank you very much.
Yours truly,

7/1/2000
Approved!
John Roderick
Dean, School of Business

ASHWORTH, INC. - A CASE STUDY

S. Altan Erdem, University of Houston-Clear Lake

CASE DESCRIPTION

The primary subject matter of this case concerns the components of marketing communications strategy in terms of generating leads and creating sales. The case has a difficulty level of three, appropriate for junior level. The case is designed to be taught in three class hours and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

This case is about a (fictitious) company "Ashworth, Inc." and its marketing communications strategy. The manager in charge, Jeff Gill, is faced with a challenge of justifying its budget to the senior management. He has to analyze and explain his expenses in trade advertising, literature, trade shows, direct mail, and PR in terms of the number of leads generated and sales completed. He decides to outsource some of his functions to MSC, a database marketing/leads management company, and together they are able to maintain the strategy intact, and most importantly, profitable.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

This case should be rather timely considering the ongoing emphasis on IMC in the marketing field. It is suggested that one uses this case after the promotion mix is covered and the students are familiar with the components of the marketing communications strategy. Once they are comfortable with the pros and cons of these components, this case presents the cost-related concerns by using an actual problem with financial data.

Suggested Questions

1. **Figure out the cost/benefit ratios marketing communications tactics (trade advertising, literature, trade shows, direct mail, or public relations) after the leads management program was put into place. Which program is stronger? Why or why not?**

Type of Expense	Amount Spent	Leads Generated	Resulting Sales Figures	C/B Ratio
Trade Advertising	$500,000	3500	$1,250,000	2.5:1
Literature	$300,000	1425	$500,000	1.6:1
Trade Shows	$650,000	7850	$2,550,000	4:1
Direct Mail	$50,000	725	$219,000	4:1
Public Relations	$150,000	1500	$421,050	3:1
MSC's fee	$100,000	NA	NA	NA
	$1,750,000	15,000	$4,940,050	2.8:1

Answer:

The cost/benefit ratios for trade shows and direct mail are stronger. The reasons are as follows:

Trade Shows:

The salespeople are at the show and are meeting the prospects. They can pre-qualify a prospect before it even gets to MSC. This results in a higher cost/benefit ratio.

Direct Mail:

Gill used direct mail tactics that narrowed down the prospects in the direct mail list-buying stage. This pre-qualified the lead prior to the direct mail piece going out. He also had MSC, who handled the direct mail, call the prospect and ask if he/she received the direct mailer. MSC telemarketers then qualified the lead over the phone prior to sending it to the sales force.

2. **As a marketing communications manager, what should Gill's next steps be? How should the above information be presented to management? What should he do the next time earnings are bad and the threat of freezing his budget happens?**

Answer:

Since Gill has proved his marketing communications tactics are working, he should focus more on the ones that have a greater return (trade shows and direct mail). By redirecting his dollars, in Year 2 of the test with MSC, he may be able to get a greater return, thus proving to his management that his tactics are adding to sales revenues (the cost of using MSC for the second year is not known at the moment).

Once he proves his department's worth to management, he may try to expand and hire a good marketing communications specialist to handle the planning and strategic development of the leads management program.

As for freezes, they should no longer affect his department. Once a department proves it contributes to the bottom line, management seldom makes the decision to freeze its budget.

BIG SKY CARVERS: A RURAL SUCCESS STORY

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CASE DESCRIPTION

The focus of this case is on product development for a small, but successful firm. The firm has an opportunity to expand its product line through a co-branding effort, but the new products represent a significant adjustment in how the products are made and who they are sold to. An important secondary issue deals with the opportunity to develop global sources of production as a means of lowering production costs. The case has a difficulty level of four to six. It should take about two class hours and the students will need to spend about two hours outside of class to prepare for it.

CASE SYNOPSIS

Big Sky Carvers (BSC)is a small, but quite successful firm specializing in home décor and gifts based upon a wide range of wildlife, from trout to grizzlies. While BSC is small, it is still a fairly large player within the focused industry niche for this type of product. A significant success factor for the firm has been the high level of craftsmanship exhibited in its pieces, which leads to generally higher prices. The attention to detail and quality has lead to a strong customer base, among both its retailers and consumers, for its products. The firm now has the opportunity to embark on a co-branded line of products which could develop a new method of production for the firm, leading to lower prices, and a possible expansion of the market for its products.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

The firm in this case is a leader within its niche in the industry, however it is likely that few students have heard of the firm or its products. Because of this relative lack of knowledge of the firm students will not have preconceived ideas about the direction the firm should take and will rely heavily on the information contained within the case. Even the website address provided in the case will only provide general information about the company and directs visitors to retail dealers in their area. These factors make it an excellent case to use for class discussion or possibly a case exam. There are a number of significant issues that the students should be encouraged to explore and discuss with this case.

Product Development

The main issue with the case is the development of a new product line that would be marketed to a new target market through the National Audubon Society. This product line would be very different than any other in the Big Sky Carvers (BSC) product assortment. Since this product would be something entirely new for the firm, the case provides a good avenue for the instructor to note that all pieces of the marketing mix have to be examined in making a decision. Simply determining whether a product has profit potential is insufficient in determining whether it is a good product decision for the firm.

Production Issues

The new product line will be made out of resin, which is a new material for BSC, and it will be made in China. The resin will help keep the costs of the product down so that BSC can retail the product profitably at a lower price. However, the off-shore production of the product may pose a number of problems. While it is easy to recognize the lowering of cost of production, there are a number of potential pitfalls that should be recognized:

The increased shipping time can cause larger swings in inventory, which can reduce the profitability of the product line. Since the time from point of manufacture to the final retailer will increase it will often fall on the firm contracting out the production to carry a larger inventory to assure timely shipments to its customers. The carrying cost on this inventory can create a significant drain on the product's overall profitability.

Assurance of quality control

Off-shore production may have to be monitored in order to assure the firm of the level of quality in the finished product. This could also raise costs in having to send someone from the home-office to provide quality control oversight or in hiring an agent within the production country to provide these services. Poor quality control can result in products that break easily or do not perform as expected. These types of problems can lead to a reduction in consumers' opinion of the firm and its products.

Theft of designs

There is always the possibility that your designs could be stolen and another firm could make the product at a lower cost and compete with you in the market. In world markets China has a reputation for design theft and lax prosecution of those stealing designs.

Lower employee loyalty

When a firm moves any of its production off-shore, it has to be concerned about its effect on its stateside workforce. The firm has emphasized its "family" type atmosphere and the look of this product would logically put it within the subject expertise of the current employees of the firm. After all, how many cardinals, bluebirds, or goldfinch do they see in China? And if this product line is successful there is the potential for more outsourcing of production could hurt the employment opportunities in Montana.

The firm does have some experience in bringing in products from other areas for its Home Accents line, but this experience is rather limited.

Product Fit

Another issue for this product line is its fit within the product assortment of BSC. The company was begun through the sales of high quality decoys that were used for home décor instead of hunting. The product lines have been significantly expanded since then, but a common underlying theme for many of the product lines has been that the subjects are wildlife sought by sportsmen. Songbirds are not hunted by sportsmen. Even though the sportsmen themselves may not be the purchaser of the product, many of BSC products are bought as gifts for the sportsmen because these products represent the enjoyable times spent hunting and fishing. Carvings or resin figures of songbirds would definitely fit within the category of wildlife, but not wildlife sought out by sportsmen.

The product may also have a difficult time fitting in with the current product line based on price. This product line will carry a lower price point than the current product lines. The management of the firm must be concerned about the impact of this on the rest of the products. Will the distributors be as willing to carry a new product line that will not generate as much margin for them? Will consumers view this as an overall lowering of quality of BSC products?

Co-Branding of Product

BSC does have some experience with selling a co-branded product. It has had a successful relationship with Ducks Unlimited (DU) in selling products designed for the DU member. This success in large part can be attributed to the similarity between the members of DU and most customers for BSC products. DU is a group of sportsmen dedicated to preserving and enhancing wetlands for the waterfowl that they enjoy hunting. The co-branding with the National Audubon Society will be very different since the majority of its members are people who shoot birds with a camera instead of a shotgun. BSC products have frequently been used in the past as fund-raising activities for a number of conservation groups, but these groups seem to be more along the lines of a DU rather than the Audubon Society.

Pricing

While the case provides little financial information, there is sufficient information that students should be able to at least explore how much profit the collection could provide on a per unit basis. Starting with a $79.00 retail price, the students can work backwards to see what price BSC would likely be selling the product at and from there its profit potential.

Assuming that retailers have a fifty percent margin on the product, the retailer would be willing to pay approximately $39.50. If BSC adopts the per unit shipped contribution, this would lower the actual value to the firm to between $34.50 and $31.50, depending upon the level that they agree to donate, based upon the recommended value of $5.00 to $8.00. Using the estimated profit margins of public firms of eight to fourteen percent, this would lead to a profit margin per item of $2.76 to $4.83 at the $34.50 selling price and $2.52 to $4.41 at the $31.50 selling price.

Students may say that these profit margins are too high, given that it is a low price-point item and the case states that lower-priced items may have lower profit margins. They should then be encouraged to state what would be an appropriate profit margin and how much profit would each item generate. Their figures should be lower than those stated above, and the instructor can note that essentially the eight to fourteen percent range could be considered a "best case scenario" and the students margins may represent a "most likely case scenario."

Some students may note that if the retailers are responsible for paying the donation to The Audubon Society it will provide greater revenue to BSC. If the retailer gives five percent of the retail price of $79.00, it would lower the actual retail revenue by $3.95 and the retailer would be willing to pay up to $37.53 for the product (75.05 2 = 37.53), while if the donation is ten percent the wholesale price could be as high as $35.55 (71.10 2 = 35.53). This could generate a discussion about why BSC would like the retailers to deal with the donation and the retailers would prefer it to be the responsibility of BSC.

Distribution

While the case doesn't provide a great deal of information about how the new product line will be distributed, it does suggest that "BSC will be able to sell this collection in more channels that what is traditionally used." Students should be encouraged to discuss what a broader source of distribution might mean for the company. On the one hand, new channels of distribution could open up new markets for the company and expand growth in lower-priced products. On the other hand, the firm has a committed core of licensed dealers across the country. While there are 300 of these dealers, that is a relatively small number. Any defection by the dealers in protest to a less expensive line or a new channel of distribution could cause large problems for the firm.

Target Market

A significant concern for the firm is in the new target market at which this product is aimed. Traditionally the BSC products have been targeted towards a customer with a significant amount of disposable income. These people have become collectors of BSC products and expect a certain level of quality and "collectability" in these products. A new lower-priced, lower-quality product may change their image of the firm and its other products. In addition, BSC has no history in trying to sell to this new target market. So not only would this require new products and new distribution channels, it may also require new forms and methods of promotion. This could significantly lower the anticipated rate of return for entering into this new market and new product area.

EPILOGUE

BSC introduced the line of resin songbirds, but discontinued sales of them within a short time because of low sales volume and profitability. The firm is still selling the hand-carved wood versions.

SUPER SISTERS, INC.

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CASE DESCRIPTION

The primary subject matter of this case sequence is the integration of statistics and business law. Secondary issues examined include the use and meaning of descriptive statistics, regression analysis, statistical index numbers, the legal responsibilities for detaining a customer in a store, the liability of a merchant for compensatory damages arising out of the commission of a tort, and related strategic management issues. The case has a difficulty level of three, appropriate for junior level. The case is designed to be taught in three class hours. That time estimate includes a formal class presentation by a team and a challenge by another student team. It is expected to require ten to fifteen hours of outside preparation by students for the case.

CASE SYNOPSIS

After observing a customer engage in suspicious conduct, the Loss Prevention Manager of a store detains the shopper after grasping her by the arm and shoving her back to the store. Apparently, the shopper lost her balance and fell on her back sustaining significant physical damage. The shopper was then escorted to the loss prevention room where she was asked to wait for the store manager, who showed up more than an hour later. Following some questioning in the loss prevention room, the shopper was allowed to leave after it was determined that she did not engage in shoplifting. Due to the significant injuries the shopper sustained she was permanently unable to resume her work as a successful sales person for a pharmaceutical company. She is now suing the store for lost future income under the legal claim of false imprisonment.

The statistics portion of the case requires students to use Excel to compute descriptive statistics, perform regression analysis, and project future income. Students are also required to carefully define the statistical terms they are using and explain the meaning of their results In the legal portion of the case, students are referenced to legal opinions and asked to evaluate whether the shopper is likely to be able to recover under the claim of false imprisonment. The students are then expected to utilize their previous statistical analysis to conclude whether, and if so how much, the court is likely to award the shopper for lost future income. Students also need to determine if the shopper is likely to recover compensatory damages for injury and a punitive award. Finally, the *student is asked to recommend strategic management policies that would serve to avoid reoccurrences of the problem.*

This case requires students to apply materials learned in most Business School's lower division core (LDC). It is used in a course at the beginning of the junior year that has goals to integrate LDC material while developing teamwork and communication skills. Specifically, the case requires knowledge of elementary statistics and a beginning business law course. Student teams prepare the case with tutoring from faculty who provide "just-in-time" specific knowledge as requested by student teams. A team of students formally presents their case solution, another team acts as a "challenge team" and the whole class participates in an active question and answer session.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

This case is designed for a junior level business course that integrates core material. The primary subject matter includes concepts from business law and statistics. Secondary issues include the meaning and use of descriptive statistics, regression analysis, price indices, inflation, present value, merchants' law for false imprisonment, and personal injury claims. It is assumed the student will have had a previous lower division course in statistics and business law. The completion of a previous introductory course in accounting and economics is recommended.

It is recommended that approximately 3 class hours be devoted to this case. This time includes a class of about 1.5 hours where students, after reading the case, discuss the facts and decide what coaching assistance they need in the case. The instructor then covers the background material she or he feels is appropriate for the case. Additional background reading could also be assigned. It is suggested that the second class period of 1.5 hours include either (1) a formal class presentation by a team of students, with possibly a challenge by another student team, or (2) a more traditional discussion of the case led by the instructor. In either situation, an overview of the issues in the case is given and the answers to the questions at the end of the case are discussed. It is suggested that the student teams or instructor use slides or PowerPoint presentations as appropriate.

This case is fictitious but was loosely based on several real world situations. It includes issues and analysis that have practical implications in statistics, law, accounting, and economics. It has been the experience of the authors that the many interesting issues in this case will challenge and motivate students.

ANSWERS TO SPECIFIC CASE QUESTIONS

1. **Put the data from Exhibit 3 in an Excel file. Use Excel, along with this file, to determine Mrs. Kim's real income for the last fifteen years. Do this by first converting each price index from percent by dividing by 100. Then, divide gross income by your converted (adjusted) price index. Using Excel, find the mean, median, and standard deviation of her past real income. Explain the meaning of these statistics. Can you use mean income to forecast future earnings? Take into account both statistical and non-statistical considerations.**

   One purpose for the first part of the question is to get students to think about the difference between actual income and real income. Students are also asked to prepare their spreadsheet for further analysis. After doing the required computations on the Excel worksheet provided with the case, they should get the results shown in Exhibit 1.

Exhibit 1: Calculation of Real Income

Number	Year	Gross Income	Price Index	Adjusted Price Index	Real Income
1	1987	41,273	113.6	1.136	36331.87
2	1988	42,805	118.3	1.183	36183.43
3	1989	44,239	124.0	1.240	35676.61
4	1990	45,724	130.7	1.307	34983.93
5	1991	47,472	136.2	1.362	34854.63
6	1992	49,391	140.3	1.403	35203.85
7	1993	52,888	144.3	1.443	36651.42
8	1994	50,547	148.2	1.482	34107.29
9	1995	54,810	152.4	1.524	35964.57
10	1996	55,019	156.9	1.569	35066.28
11	1997	58,734	160.5	1.605	36594.39
12	1998	55,879	163.0	1.630	34281.60
13	1999	61,125	166.6	1.666	36689.68
14	2000	59,350	172.2	1.722	34465.74
15	2001	62,781	177.1	1.771	35449.46

Students can then use the Excel procedures for descriptive statistics to answer the rest of this question. The results are shown in Exhibit 2 below. Students must then pick out the mean, median, and standard deviation from the Excel output. They also must define them.

Exhibit 2: Descriptive Statistics for Real Income	
Real Income	
Mean	35500.32
Standard Error	226.78
Median	35449.46
Mode	#N/A
Standard Deviation	878.31
Sample Variance	771424.78
Kurtosis	-1.31
Skewness	-0.08
Range	2582.39
Minimum	34107.29
Maximum	36689.68
Sum	532504.74
Count	15.00
Confidence Level (95.0%)	486.39

The mean real income (35,500.32) is the sample average, a measure of central tendency of the sample. The median (35,449.46) measures the real income in the middle position of the sample; equal numbers of observations have income both below and above the median. If the size of the sample is an odd number, the median is the middle value. If the size is even, the median is the average of the two values in the middle. The standard deviation (878.31) measures the variability or dispersion of real income and is the positive square root of the variance.

Exhibit 1 shows that mean gross income appears to increase with time. Using the mean of a time series to forecast the future would ignore the effects of time and not be appropriate. However, real income does not appear to be related to time (see Exhibit 1). A better case can be made for projecting mean real income into the future. The confidence level in Exhibit 2 indicates that one can be 95% confident the population or real mean will be between (35,500.32 + 486.39) and (35,500.32 - 486.39). Therefore, real income does not appear to vary too much and is not related to time. It is reasonable to assume then that Mrs. Kim's real income will continue to be about 35,500.32 for some time in the future, provided Mrs. Kim's work situation and the economy remain the same as they have for the last 15 years.

2. **How do you interpret the price indices in Exhibit 3? How are they constructed? Use Excel regression to analyze the relationship between the adjusted price index (dependent variable, i.e. 1.136) and year (independent variable, i.e. 1987). Interpret your regression findings by discussing the coefficient of determination (R-square), the regression coefficient, the p-values, and the regression equation. Can you use the regression equation to predict the price indices? Take into account statistical, macroeconomic, and other considerations.**

What is a price index? A price index shows the relationship between the price level in a given year and the price level in a base year. The base year of the index is 1982-1984. The index value for the base year is always 100. The price index value for 1987 is 113.6. This means that the general level of prices has risen by 13.6% since 1982-1984 for the bundle of goods in the index purchased in 1982-1984.

How does one use price indices? Any time series of economic data will be reported for each year at the price level that exists in that year. This is called nominal data. Nominal means at the existing level of prices. One uses the price index to adjust a nominal time series of data to eliminate the effects of inflation so as to see what is happening to the real variable over time. (Real means adjusted for inflation. Real data is sometimes reported as in constant dollars). The calculation for each year is

Real xx = Nominalxx / (Price Indexxx/100)

So

Real 87 = Nominal87 / (Price Index87 / 100)

By dividing the nominal gross income data by the adjusted price index for each year, one gets a real time series. In this case the real time series shows that the gross salary has remained relatively flat over the 15-year period.

How are price indices constructed? A price index is constructed by taking a basket of goods and services, purchased in the base year, and calculating what it would cost to buy the same basket with the same goods in the same quantities in some other year. By comparing the total expenditure necessary to purchase the same basket, one can isolate the price change effect.

The most commonly quoted price index is the Consumer Price Index or C.P.I. The C.P.I. is calculated by taking a historic basket of consumer goods, purchased in some past base year, and estimating the current cost of buying the same basket.

Example: Suppose there are two goods, X and Y. In the base year of 2000 the average consumer purchased the following quantities at the indicated prices.

Basket 2000: P_x = \$ 200, Q_x = 100; P_y = \$ 10, Q_y = 300.

Suppose the prices of these two goods in 2001 are P_x = \$ 210; P_y = \$11 How much have prices risen?

CPI 2001 = $[(P_{01} \text{ x } Q_{00}) / (P_{00} \text{ x } Q_{00})] \text{ x } 100$.

The numerator is what it costs to buy the same basket today; the denominator is what it cost to buy the basket in 2000 (the base year). The ratio will then reflect the amount of change in prices.

CPI 2001 = $\{[(\$210 \text{ x } 100_x) + (\$11 \text{ x } 300_y)] / [(\$200 \text{ x } 100_x) + (\$10 \text{ x } 300_y)]\} \text{ x } 100$

= {[(\$ 21,000) + (\$3,300)] / [(\$20,000) + (\$3,000)]} x 100

= (\$24,300) / \$23,000) x 100 = 1.057 x 100 = 105.7

The price index has risen from 100 to 105.7, thus the price level has risen by 5.7%

Excel regression is used to analyze the relationship between the adjusted price index and year. The regression results for the Super Sisters case are shown in Exhibit 3 below. The coefficient of determination measures the percent of the variation of the price indices accounted for by the variation in year. It is rather high for a regression, over 99%.

P-value is known as the observed level of significance. It is a measure of the probability of error. Exhibit 3 shows that the p-value for year is 3.98706E-15 or about $3.987 \text{ x } 10^{-15}$. This number is expressed in scientific notation. The number -15 in the exponent implies that one can move the decimal in 3.987 to the left fifteen places giving .000000000000003987. The probability of error is therefore extremely small. The relationship between year and adjusted price index is significant at any level, including .05 or .01, above .000000000000003987, the p-value. Thus, the relationship between year and price index is significant, strong, and apparently linear. (Students may want to draw a scatter diagram to reinforce these ideas).

The regression coefficient for year of 0.043725 would represent the slope of the straight trend line. On average each new year will bring an increase in the price index of 0.043725. Thus, the inflation is about 4%. The regression equation is

Y (Price Index) = Intercept + Year Coefficient (X or Year)

Y (Price Index) = - 85.718117 + 0.043725 (X or Year)

The formula above could be used to predict the price index for future years. For example, you can plug the year 2002 in the equation about and get 1.819, a prediction for the price index.

As long as the economy of Green behaves in the future as it has in the past, the equation above could provide a reasonable forecast for the price index. However, if there were an increase in inflationary pressures in the future, which have not occurred for the last 15 years, then the regression equation would lose its utility. Conversely, less inflation in the future would also lessen the usefulness of the equation.

Exhibit 3: Regression Results

Regression Statistics				
Multiple R	0.996142035			
R Square	0.992298954			
Adjusted R Square	0.991706566			
Standard Error	0.01787684			
Observations	15			
ANOVA				
	df	SS	MS	F
Regression	1	0.535325175	0.535325175	1675.082335
Residual	13	0.004154558	0.000319581	
Total	14	0.539479733		
	Coefficients	Standard Error	t Stat	P-value
Intercept	-85.71811667	2.130285995	-40.23784453	4.96517E-15
X Variable 1 (Year)	0.043725	0.001068346	40.92776973	3.98706E-15

Analysis of the causes of any sustained inflation has shown that the major determinant of inflation is growth of the money supply in excess of real economic growth. If the monetary authority (in the US it is the Federal Reserve) is expected to follow the same basic policies in the coming years as it followed during the time series of data, the regression can be used to predict the future changes in the index.

3. **Assume that Mrs. Kim's real income will not change over the next ten years. Use the mean real income from question 1 to determine projected real income for the future ten years of Mrs. Kim's work expectancy. Use the regression equation from question 2 to project adjusted price indices for the next ten years. Assume that Mrs. Kim pays 20% of her actual income in taxes and that Green will not provide significant state assistance. Use the projected real income and adjusted price indices to estimate Mrs. Kim's net actual income for the next ten years. What would be the likely amount of an award to Mrs. Kim based on a present value rate of 10%? Discuss the factors that could cause Mrs. Kim's future income to differ from your estimate.**

Exhibit 4 below shows a ten-year projection for Mrs. Kim's income. The mean real income from question 1 becomes the projected real income shown in column 6. The regression equation from question 2 is used to calculate the adjusted price indices shown in column 5. The adjusted index (column 5) is multiplied by real income (column 6) to determine the actual gross income in column 3. A tax of 20% is subtracted from gross income in column 3 to get net income in column 7. Net income is multiplied by a present value factor with a rate of 10% to get the values in column 8, which are then totaled. (A spreadsheet that will accept alternate values could be used for grading purposes.)

Factors that could cause Mrs. Kim's future income to differ from the estimate in Exhibit 4 are numerous. They include the wage market for Mrs. Kim's position, inflation, changes in income tax rates, changes in interest rates, state assistance, etc.

Exhibit 4: Projections of Mrs. Kim's Income

Number	Year	Gross Income	Price Index	Adjusted Price Index	Real Income	Net Actual	Present V.
16	2002	64586.91	181.93	1.819	35500.32	51669.53	46972.30
17	2003	66139.16	186.31	1.863	35500.32	52911.33	43728.37
18	2004	67691.41	190.68	1.907	35500.32	54153.13	40686.05
19	2005	69243.66	195.05	1.951	35500.32	55394.93	37835.48
20	2006	70795.91	199.42	1.994	35500.32	56636.73	35166.95
21	2007	72348.17	203.80	2.038	35500.32	57878.53	32670.92
22	2008	73900.42	208.17	2.082	35500.32	59120.33	30338.08
23	2009	75452.67	212.54	2.125	35500.32	60362.13	28159.38
24	2010	77004.92	216.91	2.169	35500.32	61603.94	26126.08
25	2011	78557.17	221.29	2.213	35500.32	62845.74	24229.75
Total =							345913.37

4. Would the merchant's defense relieve Super Sisters, Inc. from liability under the cause of action of false imprisonment? In answering this question, please read and identify the relevant law from the following case precedent: Thomson v. LeBlanc, 336 So. 2d 344 (1976).

No, the merchant's defense is not likely to relieve Super Sisters, Inc. from liability under the cause of action of false imprisonment. A merchant has the privilege to detain a customer on the merchant's premises provided that: (a) the party making the detention had a reasonable cause to believe that the detained person had committed a theft. Reasonable cause requires that the detaining officer have articulable knowledge of particular facts sufficiently reasonable to suspect the detained person of shoplifting. To have articulable knowledge, the merchant must conduct preliminary investigation of his suspicion, if time permits; (2) the detention must not have lasted longer than for a reasonable period of time; and (3) the detention must have been conducted in a reasonable manner. In determining whether the detention was conducted in a reasonable manner, courts examine the following factors: (a) whether the merchant threatened the customer with an arrest; (b) whether the merchant coerced the customer; (c) whether the merchant attempted to intimidate the customer; (d) whether the merchant used abusive language towards the customer; (e) whether the merchant used force against the customer; (f) whether the merchant promptly informed the customer of the reasons for the detention; (g) whether the detention took place in public next others. See Thomson v. LeBlance.

Super Sisters, Inc. (the "Sisters") would argue that the merchant privilege protects it from liability for false imprisonment to Mrs. Kim. First, Mr. Lee, its Theft Prevention Manager, had a reasonable basis to believe that Mrs. Kim had committed a theft. Mr. Lee had a reasonable basis to believe that Mrs. Kim had committed a theft because, based on concrete personal observations, he had articulable knowledge of particular facts suggesting that Mrs. Kim had just engaged in shoplifting. The articulable knowledge of particular facts is based on Mr. Lee's personal observations of Mrs. Kim, who was standing next to calligraphy sets in the store, making a sudden move to her pocket. Mr. Lee then observed her proceeding at an accelerated pace toward the store's exit. He noticed that Mrs. Kim's side pocket was stuffed. Mr. Lee then conducted a preliminary investigation of what he believed to be a shoplifting incident as he proceeded directly to where Mrs. Kim had been standing and noticed that a calligraphy pen set was missing from a rack that was fully stocked up earlier that day.

While Mrs. Kim will concede that Sisters may have had a reasonable basis to believe that a theft may have taken place, she would argue that Sisters have not conducted the detention in a reasonable manner and for a reasonable time. First, the detention was not conducted in a reasonable manner. While Mr. Lee did not threaten Mrs. Kim with an arrest or use abusive language when dealing with her, he intimidated, used force and effectively coerced Mrs. Kim to follow him to the Loss Prevention Room. The intimidation, the force and the coercion was accomplished when Mr. Lee shouted at Mrs. Kim in public, grasped her by the arm and shoved her back to the store, causing her to lose her balance and severely hitting her back. Also, Mr. Lee failed to conduct the detention in a reasonable manner because he did not promptly inform Mrs. Kim of the reasons for her detention but waited for more than eighty minutes to do so.

Second, the detention lasted for an unreasonably long period of time. While a reasonable length of detention under these circumstances would have been anywhere from five to fifteen minutes, here the detention lasted for at least eighty minutes.

Therefore, since Sisters would not be able to demonstrate two of the three required elements for the merchant's privilege, Mrs. Kim would be able to prevail in her cause of action against Sisters for false imprisonment.

5. **Assuming that Super Sisters, Inc. is liable for false imprisonment and assuming that Mrs. Kim is deemed unable to locate another job for life due to her present medical condition, is a court likely to award her compensation for loss of future income? What standard will a court consider in determining whether Mrs. Kim is entitled to compensation? In your opinion, is Mrs. Kim's settlement offer reasonable? Support your opinions with a discussion of the legal and practical possibilities. In answering this question, please read and identify the relevant law from the following case precedent: Caldwell v. Kehler, 643 A.2d 564 (1994).**

Yes, a court is likely to award Mrs. Kim compensation for loss of future income. The principal goal of damages in personal injury actions is to compensate fairly the injured party. Fair compensatory damages resulting from tortuous infliction of injury encompass no more than the amount that will make the plaintiff whole. The injured party has the right to be compensated for diminished earning capacity. The measure of damages for tort recovery encompassing diminished earning capacity can be based on the wages lost as a result of the defendant's wrongdoing. That measure includes the value of the decrease in the plaintiff's future earning capacity. Although generally objectionable for the reason that their estimation is conjectural and speculative, loss of future income dependent upon future events are allowed where their nature and occurrence can be shown by evidence of reasonable reliability. The award of damages for loss of future income depends upon whether there is satisfactory basis for estimating what the probable earnings would have been had there been no tort. A satisfactory basis for an existing basis may include reliance on specific statistical models based on past earning records. The proper measure of damages for lost future income in personal injury cases is the present value of net income after taxes. See Caldwell v. Khler, at 2-3.

Here, statistical analysis of past earnings could be used to estimate with reasonable degree of reliability the present value of Mrs. Kim's net loss of future income. Based on the statistical analysis discussed above, the projected present value of Mrs. Kim's net loss of future income is $345,913.37.

To facilitate an amicable resolution of this dispute, Sisters should seriously consider making a counter offer to Mrs. Kim's settlement proposal. This would avoid costly and risky litigation, especially since Mrs. Kim has overestimated her loss of future income by more than $400,000 ($750,000 - $345,913.37). Since Sisters would likely be held liable under false imprisonment for the injuries sustained by Mrs. Kim, the settlement counter offer should include all of Mrs. Kim's documented medical bills of $765,000. Further, based on the analysis above, the net present value of Mrs. Kim's lost income is $345,913.37. Hence, Sisters' counter settlement offer should be at least $1,110,913.37.

In determining the total amount of the counter settlement offer, Sisters may also consider increasing the amount to take into account the costs of litigation to the extent this dispute goes to trial. Further, they may consider the possibility of a jury awarding Mrs. Kim punitive damages. Lastly, Sisters may wish to consider the costs of bad publicity that may be triggered by a prolonged litigation.

6. What actions would you recommend should be taken to prevent a reoccurrence of a situation similar to that involving Mrs. Kim? What company policies need to changed or added? Discuss the relevant management issues.

This is an open-ended question. Many good answers are possible here as long as they are well thought out. Certainly the way operations are currently carried out needs to be changed. Jimmie Lee and, perhaps, other personnel need to be given training on customer relations and the customer's legal rights. Mr. Lee may also need to be disciplined. Preventative actions also need to be taken to prevent shop lifting. Objective procedures are needed to determine when a person's actions are suspicious and if they should be detained. Some policy needs to be set so that upper levels of management can be quickly accessed when they are needed.

AMAZON.COM IN 2003

Javad Kargar, North Carolina Central University

CASE DESCRIPTION

The primary subject matter of this case concerns making an online retail business profitable. Secondary issues include (a) assessing the long-term attractiveness of pure online retail industry, (b) understanding and comparing strategy elements and competitive advantages in e-commerce with traditional firms, and (c) evaluating growth strategies. The purpose of this case is to provide students with enough information about Amazon's business situation, to be able to chart the course of action the company should take at a given point in time. The case has a senior or second year graduate level difficulty. The case is designed to be taught in three class hours and three hours of outside preparation by students.

CASE SYNOPSIS

Jeff Bezos opened his Amazon's virtual book store in 1995 in Seattle, Washington. Amazon's online store was a big hit, with about $5 million in the first year of operations. To expand on his success, Jeff introduced other products, including DVD, and electronics. In 2002, Amazon was the world largest online retailers. Unfortunately, the business had not yet made any profit. After four years of single-minded focus on growth, in year 2000, Amazon focused exclusively on increasing its efficiency. Beginning late 2001, Amazon shifted its focus on growth prospects again. Jeff believed that Amazon had reached a point where it could afford to balance growth and cost improvement. This balance began to pay off in the fourth quarter of 2002, where the company generated $198 million in free cash flow for the first time. After falling out of favor along with the Internet sector in 2000 and 2001, Amazon's stock staged a rebound in 2002 as investors bought back into the idea that Amazon would be around for a long time and would start generating real profits. However, it seemed that survivability was still an issue for those investing in Amazon due to massive negative operating cash flow, excessive debt, significant payments for its suppliers and bondholders, intense competition, and the slow economy.

As a low-margin retailer, the case opens with Jeff facing the dual challenge of trying to improve margins and service a large amount of debt. Numerous efforts by Jeff to advertise online and traditional media, lower prices, and free delivery had failed to attract more new customers. Jeff and some of his top level managers had different opinions on the solutions to their problems.

INSTRUCTORS' NOTES

Information was basically gathered from the public interviews with Bezos and other company officials on TV and at the Company's quarterly conferences. Background information on the industry and the company was drawn mainly from annual reports of the company and publicly available information.

CASE OBJECTIVES AND USE

The case is primarily a Strategic Management/Business Policy case. It explores the unique challenges that Jeff Bezos, founder and CEO of Amazon faced as he grew his venture from one product to many variations. It provides a good opportunity to analyze the business strategy as it relates to financial alternatives. The case could be used as a means to discuss several managerial issues involved in strategy formulation and implementation. In this role, some or all of case discussion questions would be appropriate to assign in advance, and class discussion could be led to achieve one or more of the following objectives:

- To assess the long-term attractiveness and profitability of the online retail industry.
- To understand the main strategy elements of an online retailing firm.
- To help students understand that most elements of a strategy in e-commerce is not that different from traditional firms.
- To assess internal situation, and risk and uncertainties that an online retailer is facing.
- To assess the external environment of online retailers, and perform Porter's 5-forces of model.
- To illustrate the costs of growing fast without profitability.
- To provide students with an opportunity to assess Amazon's strategic situation, growth prospects and to recommend a set of strategic actions to improve its long-term competitive position and overall financial performance.

ANALYSIS OF CASE

Begin the discussion by asking a class member to briefly summarize the background of the case. Continue the discussion by asking the class: What can you tell us about Amazon's current situation? Record the class's comments on a flipchart or blackboard. You may use the following information to summarize the company's current situation.

January 2003 Profile

Losses:

- ♦ $149 million in 2002
- ♦ Is on track to lose money every year since its inception in 1995
- ♦ Is on track to lose money for the first three quarters of every year
- ♦ With the exceptions of year 2001 and year 2002, lost money every fourth quarters of year
- ♦ Cumulative Losses of over $3 billion

Not a Strong Balance Sheet:

♦	Total Equity:	$(1,352,000,000)
♦	Total Long-term Debt:	$2,277,300,000
♦	Total Assets:	$1,990,400,000
♦	Current Ratio:	1.52
♦	Quick Ration:	1.22
♦	Working Capital:	$549,700,000

Cash on Hand:

- ♦ $1.3 billion

How long Will It Last?

DISCUSSION QUESTIONS

The key questions for discussion at this point are:

1. What is your evaluation of Amazon's financial condition? What does Amazon's financial pulse tell us? What problems do you see?
2. What are the key elements of Amazon's business model? What are its main competitive advantages as an online retailer?

3. What were the main elements of Amazon's business strategy?

4. What was Amazon's generic business strategy? How well was it working?

5. What were the main details of the company's strategy?

6. How does a strategy differ for e-commerce vs. traditional firms?

7. Who were the stakeholders of Amazon's zShops, and how did zShops add value to the stakeholders?

8. What are some of the external risk factors that might affect Amazon's future performance?

9. Evaluate online retailing industry using Porter's five forces of model. Which of these forces were strongest? Which one was the weakest?

10. Based on the preceding evaluation of Amazon's situation, and industry environment, what problems and issues do you think Amazon's management needs to address? What is more critical?

11. What recommendations would you make to Amazon to get the company on the road to profitability?

12. If for any reason Amazon does not make enough money to pay its bond interest and principal obligation, what additional sources of financing are available for the company?

ANSWER TO THE QUESTIONS

1. What is your evaluation of Amazon's financial condition? What does Amazon's financial pulse tell us? What problems do you see?

Everyone in the class should be able to see the symptoms of Amazon's weak financial condition:

- ♦ The speed with which Amazon is "burning" its cash reserves.
- ♦ Amazon had an accumulated retained earning deficit of $1.35 billion as of Dec. 31, 2002, and may incur additional deficit.

- As of December 31, 2002, Amazon had incurred over $3 billion operating losses, and it may continue to incur more losses for the foreseeable future. The company's loss was growing till 2000, but it dropped in year 2001 and 2002.

Fiscal year 1997	-31,020,000
Fiscal year 1998	-124,546,000
Fiscal year 1999	-719,968,000
Fiscal year 2000	-1,411,273,000
Fiscal year 2001	-567,277,000
Fiscal year 2002	-149,100,000

- Big increases in losses per share of common stock till 2000, then dropping over the past two years.

- A sharp decline in the company's current ratio and quick ratio from 1997 through 2001. They were slightly improved in 2002.

	Current Ratio	Quick Ratio
Fiscal year 1997	3.13	2.93
Fiscal year 1998	2.63	2.44
Fiscal year 1999	1.37	1.07
Fiscal year 2000	1.39	1.21
Fiscal year 2001	1.31	1.15
Fiscal year 2002	1.52	1.22

It is very important to discuss why Amazon's financial condition is not so strong. The causes of poor financial performance are what must be illuminated here. Several factors stand out:

- Company has a modest gross margin, and it is improving very slightly. Amazon's margin is low because of free shipping, inventory stocking, order fulfillment costs and inventory right-offs. These are part of the company's cost of goods sold.

Fiscal year 1997	20%
Fiscal year 1998	22%
Fiscal year 1999	18%
Fiscal year 2000	24%
Fiscal year 2001	25%
Fiscal year 2002	25%

- ♦ The big amortization costs for goodwill (a factor that hurts earnings but does not have adverse cash flow implications). Amazon's amortization expense dropped from $322 million in 2000 to $74 million in 2002.

- ♦ The big jump in marketing and fulfillment costs. For years, Amazon was spending more than its gross profits in marketing and fulfillment operations in order to achieve the revenue growth rate. For example, in 1999, Amazon's gross profit was $290 million and its marketing and fulfillment expenditures were $413 million. Within the year 2000, gross margin had grown to $656 million, but marketing and fulfillment expenses had shrunk to $495 million. Within the past two years, Amazon had better leveraged its marketing and fulfillment dollars. It is a good idea to compare gross profits with marketing and fulfillment expenditures.

	1995	1996	1997	1998	1999	2000	2001	2002
Gross Profit (000s)								
	102	3,459	28,818	133,664	290,645	655,777	798,558	992,600
Marketing & Fulfillment Expenses (000s)								
	200	6,081	40,077	132,654	413,150	233,221	408,266	482,570

- ♦ Big outlays for technology development expenses at the company's Web site. Amazon spent $160 million on its Web site and technology in 1999, $269 million in 2000, $241 million in 2001, and $216 million in 2002.
- ♦ Amazon has significant indebtedness. As of December 31, 2002, Amazon had total long-term indebtedness of $2.28 billion. Its indebtedness could limit the company's ability to obtain necessary additional financing for working capital, capital expenditures, debt service requirements in the future, and react to changes in

technology and in the event of an economic downturn. Amazon may not be able to meet its debt service obligations. From 1997 through 2002, the company reported as much as $11.24 billion in revenue, and it had about $9 billion long term loan to meet its cash needs. That is about 80 cents for every $1 of merchandise sold.

	1997	1998	1999	2000	2001	2002	Total
Total Sales (000s)	$147,787	$609,819	$1,639,839	$1,789,623	$3,122,433	$3,932,900	$11,242,401
Debt Load (000s)		$348,140	$2,082,697	$2,127,464	$2,156,133	$2,277,300	$8,991,734

- ♦ High interest expenses to bondholders. Amazon is paying over $111 million interest a year. Beginning in November 2003, Amazon will also begin to make additional semi-annual interest payments on its senior discount notes.

- ♦ It might be also a good idea to share the following trend analysis on some selected financial and operating ratios with the students, and see any ratio shows an improving trend.

	1997	1998	1999	2000	2001	2002
Cost of Goods Sold as % of revenue	80.5%	78.1%	82.3%	76.3%	74.4%	74.7%
Marketing & Fulfillment as % of revenue	27.1%	21.8%	25.2%	21.5%	16.4%	12.3%
Technology and Content as % of revenue	9.1%	7.6%	9.7%	9.75%	7.72%	5.48%
Gen., & Administrative as % of revenue	4.6%	2.6%	4.3%	3.94%	2.88%	2.9%
Operating Loss as % of revenue	-22.1%	-17.9%	-36.9%	-31.28	-13.20%	1.6%
Interest Expenses as % of revenue	-0.2%	-4.4%	-5.2%	-4.74%	-4.46%	-3.63%

- ♦ Poor inventory management in the past, but it has been improved greatly since year 2000. In 1999, when Amazon's sales grew 167% from the previous year, its inventories ballooned by 648%. When a company manages inventory properly, it should grow along with its sales growth rate. When inventory grows faster than sales, it might mean demand is slowing and the company is not selling as much as it is buying. Since buying inventory requires cash, an increase in inventory causes cash to fall. Conversely, when accounts payable increase, so do a company's cash balances. By delaying payments to creditors, management frees up cash. If you don't par creditors, they won't supply you in future. The inventory analysis below shows how costly a growth was in 1999 without profitability, but it was improved in the last two years.

	1997	1998	1999	2000	2001	2002
Total Sales (000s)	147,787	09,819	1,626,689	2,761,983	3,122,433	3,932,900
% growth		313%	167%	58%	13%	26%
Inventory (000s)	8,779	29,501	220,646	174,563	143,722	202,400
% growth		236%	648%	-21%	-18%	41%

Also, Amazon's ability to turn over its inventory rapidly enough has declined in 1999. Amazon's rate of inventory turnover plummeted from 20.6 times in 1998 to 7.37 times in 1999. The inventory process improved in 2000, and increased from 14 in 2000 to 20 in 2001. It seems that Amazon is beginning to manage the inventory process better with higher sales and an even more complex product mix.

	1998	1999	2000	2001	2002
Total Sales (000s)	1,229,819	1,626,689	2,563,492	2,897,316	3,932,900
Inventory (000s)	29,501	220,646	174,563	143,722	202,400
Inventory Turnover	20.67	7.37	14.68	20.16	19.43

Another interesting way to stimulate the discussion is to take a vote on the question: Is Amazon on the right track? Find out how many students think Amazon is growing too fast? Just about right? Too slow? Is the growth rate above or below what investors believe would be necessary to bring Amazon.com into profitability? What assumptions have Jeff Bezos and the "growing just right" voters made? What can go right? What can go wrong?

2. What are the key elements of Amazon's business model? What are its main competitive advantages as an online retailer?

The key competitive advantages of Amazon include:

- ♦ Amazon got to its market first. None of the big booksellers were given much thought to the Net in 1994.
- ♦ Amazon spent heavily on traditional advertising to establish a brand.

- Amazon's site exploits the Net's potential to build a "community" around a product. For example, Amazon publishes customer reviews as well as outside reviewers. It seems that the depth of potential discussion is an issue with the success of a site.

- Amazon's ability to maintain records of customer preferences and then act on that information gives it another advantage as an online retailer. Amazon asks people to name some of their favorite products—the books, or authors that they liked best. And then its software program tells a person what other people with similar tastes liked so that person can add it to his shopping list.

- Books are quasi commodities—there is no need to try them on before buying them. They are also small-ticket, and impulse items that are easy to ship. Established distribution channels mean that Amazon can maintain a low inventory, ordering only the books customer request. As a result, the firm's inventory turned over 42 times in 2002 versus only 2.1 times for Barnes & Noble.

- Amazon has lined up alliances and exclusive agreements with 28,000 sites, including Yahoo, and America Online. A customer who visit, say, StarChefs.com to check out recipes from celebrity chefs can click a button that lets him order cookbooks from Amazon. There are infinite array of topics that makes it easy to sell Amazon's product through other sites.

3. What were the main elements of Amazon's business strategy?

The principal competitive factors in Amazon's market segments included price, selection, availability, convenience, information, discovery, brand recognition, personalized services, accessibility, customer service, reliability, speed of delivery, ease of use and ability to adapt to changing conditions. For its services and third-party sellers channels, additional competitive factors included the quality of its services and tools, and speed of performance for its services.

Amazon's marketing strategy was designed to strengthen and broaden the Amazon brand name, increase customer traffic to its Web sites, build customer loyalty, encourage repeat purchases, and develop incremental product and service revenue opportunities. The company delivered personalized pages and services, and employed a variety of media, business development activities and promotional methods to achieve these goals.

Price was the most important factor of Amazon's sales-determining factors. Amazon attributed much of its growth to an emphasis on price-cutting, like free shipping for orders of $25 or more. The company would make that offer a permanent part of its business.

Amazon also had invested significant resources in the development and maintenance of its technology base. It had implemented numerous Web-site management, search, consumer interaction, recommendation, transaction-processing and fulfillment services, using a combination of its own proprietary technologies and commercially available, licensed technologies.

Amazon had its own warehouses and distribution centers in order to have better control over its inventory and shipping activities. Although Amazon's distribution decision promised cost savings through larger volume ordering and lower shipping costs, it also meant that Amazon needed to generate much higher sales to justify its costs.

Amazon's online retail channel offered a broad range of categories of new products to customers. These products included books, music, DVDs, videos, electronics, computers, camera and photo items, software, computer and video games, cell phones and services, tools and hardware, outdoor living items, kitchen and house ware products, and magazine subscriptions.

Customer service was also critical to expanding and retaining its customer base. Customer service representatives were available 24 hours a day, seven days a week to provide assistance via both e-mail and toll-free telephone. The company's more than 200 customer service representatives were working in six customer service centers located in different parts of the country.

4. What was Amazon's generic business strategy? How well was it working?

Amazon's generic strategy was clearly aimed at building long-term competitive position at the expense of near-term profitability. Amazon has competed in ways that violated most aspects of a good strategy. Rather than focusing on profits, Amazon sought to maximize revenue and market share at all costs, pursuing customers through discounting, giveaways, promotions, and heavy advertising. Some people might argue that it may not be true. For example, Japanese succeeded in United States by similar strategy of initially building market share (volume) without concern for immediate profit. Rather than concentrating on delivering real value that earned an attractive price from customers, Amazon pursued indirect revenues from sources such as advertising and stock rather than cash from its corporate partners. Finally, Amazon used price as the primary competitive variable. For example, Amazon sold quality books at price below traditional booksellers. Probably Amazon was trying to integrate broad differentiation and low price strategies, but it had not been successful in doing so at the time of the case, and in fact it is very difficult to integrate these two elements.

The strategy can be said to be working well in terms of:

- ♦ Giving Amazon good market visibility on the Internet
- ♦ Generating good levels of traffic at Amazon's Web sites.
- ♦ Boosting Amazon's revenue and market share
- ♦ Narrowing losses
- ♦ Recently generating positive operating cash flow

But the strategy was not working in terms of:

- ♦ Producing profitability – Amazon's losses were high, but started dropping
- ♦ Generating better gross profit margin
- ♦ Putting the company on a sustainable financial footing
- ♦ Affirming the company's business model and proving that Amazon is a viable company with a viable business

5. What were the main details of the company's strategy?

Record the class' comments on a flipchart or a blackboard. Students ought to be able to identify the following strategy elements for Amazon:

- ♦ Has an appealing, informative online store; an easy-to-use website; gives shoppers the tools to find a selection quickly
- ♦ Keeps the website on cutting-edge of technology (spend heavily!)
- ♦ Promotions and giving discounts
- ♦ Superior information technology infrastructure
- ♦ Superior knowledge database—Amazon accumulated and analyzed information on purchasing behavior of customers
- ♦ Consumer information--Offering community features such as book reviews from various sources and providing recommendations based on interests or previous purchases

- ♦ In-house order fulfillment. Unlike more online retailers, Amazon has built and maintained control over distribution creating its own distinctiveness
- ♦ Offering attentive customer service to promote repeat customers
- ♦ Fast and reliable product shipments to customers
- ♦ Reliability--Customers feel more comfortable when they give their credit card information than through an unknown individual online retailer
- ♦ Convenience of one-stop shopping with zShops
- ♦ Protecting customers by providing guarantee for purchases
- ♦ Facilitating 24/7 customer service
- ♦ Invested heavily in brand advertising
- ♦ Negotiates cross-promotional arrangements with other websites
- ♦ Advertise heavily on traditional media
- ♦ Sells advertising on the company's web site. Amazon pursues indirect revenues for advertising
- ♦ Economies of scale. Amazon had build economies of scale, both in infrastructure and in the aggregation of many buyers and suppliers that deter new competitors or place them at a disadvantage
- ♦ Economies of scope. As a pure retailer, Amazon has economies of scope in books, CDs, and Video products. In zShops businesses, Amazon is only taking advantage of economies of scope with its brand name, customer interface, and technological infrastructure, not of its knowledge database, warehouse infrastructure, or expertise in logistics
- ♦ Using price as the primary competitive variable
- ♦ Focusing on maximizing revenue, market share and cash flow
- ♦ Pursuing stock rather than cash from its corporate partners
- ♦ Grow the business by offering different products to consumers, and organizations, merging, acquisition, expanding into international markets, and establishing strategic alliances with major retail stores

6. How does a strategy differ for e-commerce vs. traditional firms?

This case shows that major elements of the strategy in e-commerce are not that different from traditional firms. The main different is technology used to reach customers. So the structure of costs to operate should differ somewhat as a result. Still need a product/service that serves a need for a cost-group and has an acceptable return for level of risk. When students figure this out for themselves, this is a good learning opportunity. As Porter points out:

Having a strategy is a matter of discipline. It requires a strong focus on profitability rather than just growth, an ability to define a unique value proposition, and a willingness to make tough trade-offs in choosing what not to do. Company must stay the course, even during times of upheaval, while constantly improving and extending its distinctive positioning. Strategy goes far beyond the pursuit of best practices. It involves the configuration of a tailored value chain that enables a company to offer unique value. (See "The Six Principles of Strategic Positioning," *Strategy and Internet*, p.71.)

7. Who were the stakeholders of Amazon's zShops, and how did zShops add value to the stakeholders?

Unlike retail, where Amazon sells and controls the service to customers, Amazon acts as an intermediary in zShops, offering a cyber shop space, where the independent shops can sell their products to customers. Amazon changes a monthly flat fee and a commission on the transaction.

The three major stakeholders of the zShops are: customers, shop merchants, and Amazon.

Value of the zShops to Amazon's customers

- Convenience of one-stop shopping. With zShops, customers can enjoy a large number of product selections from one site, instead of spending time, surfing on the Web for every product they want to buy. In addition, customers avoid having to type their shipping address and credit card information every time they complete a transaction. But it can be very distracting with all the "pop-ups" about the other sites.

- Reliability. When customers order the product and give their credit card information, they feel more comfortable than through an unknown individual online retailer.

- Guarantee by Amazon. Amazon's A-to-Z guarantee gives protection to its customers by providing a $250 guarantee for regular purchase and a $1,000 guarantee for purchases made through its 1-Click ordering capability.

Value of the zShops to shop merchants

- Credibility. The individual zShops obtain credibility by being under Amazon umbrella.

- ♦ Brand recognition. By affiliating with Amazon, the shops benefit from the brand recognition Amazon has been able to build. An individual store would not be able to build a strong brand name in such a short period of time.

- ♦ Access to a large distribution base. By operating under Amazon's umbrella, zShops can have access to the large number of customers who visit Amazon. It would cost each individual shop a lot of advertising and marketing expenses to obtain even a fraction of Amazon's customer base.

- ♦ Technology infrastructure from Amazon. It will be too costly for a small retailer to open an independent online store that has the e-commerce capabilities Amazon has.

- ♦ Guarantee. Amazon's guarantee to customers of up to $1,000 for each purchase gives the individual stores a quality place to shop.

- ♦ Access to Amazon's client database. By sharing the information on customers accumulated and analyzed by Amazon, the individual stores can have a better understanding of customers' needs.

Value of the zShops to Amazon

- ♦ Additional stable source of revenue through the monthly fees paid by the stores. Since Amazon has a strong brand name and growing customer base, it should be easy for it to attract retailers to join the zShops network.

- ♦ zShops helped utilize Amazon's distribution system

- ♦ Amazon can accumulate and analyze customer behavior data in the much broader product range offered by the zShops. By providing better and more information to the customer will result in attracting and retaining an increased number of customers. But this is an issue of customer privacy. What if a customer does not want his name to be shared?

8. What are some of the external risk factors that might affect Amazon's future performance?

The following are some of the risks and uncertainties that might have negative impacts on Amazon's future performance:

- Amazon faces intense competition. The e-commerce market segments in which Amazon competes are relatively new, rapidly evolving and intensely competitive. Other companies in the retail industry may enter into business combinations or alliances that strengthen their competitive positions.

- Amazon's business could suffer if it is unsuccessful in making strategic alliances. Entering into third-party services arrangements is complex and initially requires substantial personnel and resource commitments by Amazon. This may constrain the number of such agreements Amazon is able to enter into and may affect its ability to deliver services under the relevant agreements.

- The seasonality of Amazon's business places increased strain on its business. Amazon's disproportionate amount of net sales is realized during the fourth quarter. If the company does not stock popular products in sufficient amounts, it can significantly affect its revenue and future growth. If the company overstocks products, it may be required to take significant inventory markdowns or write-offs, which can reduce its gross profits.

- Amazon's computer and communications systems and operations can be damaged or interrupted by fire, flood, power loss, break-ins, and act of wars. If this happens, it can damage its reputation and will be expensive to remedy.

- Amazon's stock is highly volatile. Future volatility in the stock price can force the company to increase its cash compensation to employees or grant larger stock option awards than it has historically. This can hurt its operating results.

- Government regulation of the Internet and e-commerce is evolving and unfavorable changes can harm Amazon's business.
- The imposition by state and local governments of various taxes upon Internet commerce can decrease the company's future sales.

- Amazon source a significant portion of its inventory from a few vendors. If they stop selling merchandise to Amazon on acceptable terms, it may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms.

9. Evaluate online retailing industry using Porter's five forces of model. Which of these forces were strongest? Weakest?

Although some have argued that today's rapid pace of technological change makes industry analysis less valuable, the author believes the opposite is true. As Porter points out:

Whether an industry is new or old, five underlying forces of competition determine its structural attractiveness. Analyzing the forces illuminates an industry's fundamental attractiveness, exposes the underlying drivers of average industry profitability, and provides insight into how profitability will evolve in the future. The five competitive forces still determine profitability even if suppliers, channels, substitutes, or competitors change. Because the strength of each of the five forces varies considerably from industry to industry, it would be a mistake to draw general conclusions about the impact of the Internet on the long-term industry profitability; each industry is affected in different ways.

Our analysis of the competitive forces using Porter's five-forces model of the industry is presented below.

Competitive Pressures from Substitution – moderate to strong

Traditional retailers and discount stores are the principal substitutes. One of the best tests of the competitive power of substitutes is whether they are drawing sales and buyers away from the online retailing industry rivals. Here, it is online retailers that are eroding the business of traditional retailers (rather than the other way around)

- ♦ Most people are accustomed to buying products in stores where they can see what they are buying and make on-the-spot comparisons and decisions (=strong substitute)
- ♦ Online retailers can offer a wider selection than brick-and-mortar retailers, further weakening competitive pressures from substitutes (=weak substitute)
- ♦ Online retailers do not have a cost advantage over brick-and-mortar retailers (=strong substitute)
- ♦ It is unclear whether online stores can match offline stores in price, convenience, and service.
- ♦ Even if online stores do catch on with a growing number of people, offline stores could retaliate with a bricks-and-clicks strategy of their own, using their existing

store locations as local warehouses for picking orders and sending out delivery, such as Wal-Mart (-strong substitute)

- ♦ Catalog retailers with toll-free numbers and automated fulfillment centers have been around for decades. Still the issue for catalog firms is print cost for catalog and mailing cost versus Internet site cost (=moderate substitute)

- ♦ Internet dampened the bargaining power of off-line retailers by providing online retailers with new, more direct avenues to customers (weak substitute)

Threat Of Additional Entry Into Online Retailing – moderate to strong

- ♦ Barriers to entry for new start-up online stores are reasonably high and there are already a substantial number of online retailers; new market entrants would need significant financial and advertising resources to develop brand recognition and the distribution capability necessary to serve the marketplace. In addition, until the existing companies prove that their business models and strategies are capable generating profits, there won't be a rush to enter the market (=a weaker likelihood of entry)

- ♦ The most likely entrants are the existing off-line retailers looking to expand their market presence and sales. Entry barriers especially for bigger retail giants like Wal-Mart and Target are relatively low. They already posses much of the needed infrastructure. It may be only a matter of time before they start their own online operations. They also have significant advantages in having established brand recognition (=a strong likelihood of entry)
- ♦ New entry is also likely in the form of an existing online retailer acquiring or forming a strategic alliance with an online retailer (=a moderate likelihood of entry)

The Bargaining Power of Suppliers – moderate to strong

- ♦ The major manufacturers and distributors of products have no particular incentives to give online retailers the same deals as their high-volume customers (=strong bargaining power)

- ♦ At present, Amazon operates on a relatively large scale. It has the bargaining power that comes from buying in volume. But, because of the somewhat precarious financial condition of Amazon, whose losses are mounting, suppliers may impose relatively more stringent conditions on payment for the items supplied (=strong bargaining power)

- Amazon has few major suppliers (=strong bargaining power)

- Software, servers, and Web site hosting services are readily available at competitive prices from multiple sources (=weak bargaining power)

The Bargaining Power of Buyers – moderate to strong

- The buyers are individuals. No one person has the ability to bargain for and get better terms than is generally offered to all buyers. The only exception is buyers do not pay a delivery charge on large orders in some sites. There are millions of customers (=moderate power)

- Internet technology allows buyers to gather extensive information about products easily. Customers can also choose among many more options from which to buy, not just local retail stores but also various types of online retailers. Because the Internet reduces the importance of location, it widens the geographic market from local to regional or national (=bolstering buyers bargaining power)
- Low switching costs for customers. On the Internet, buyers can switch online retailers with just a few mouse clicks, and new Web technologies are systematically reducing switching costs even further (=high bargaining power)

- As customers become more familiar with the technology, their loyalty to their initial online retailers will decline, because they will realize that the cost of switching is low (=strong bargaining power)

- The power of customers will also tend to rise in the future. As buyers' initial curiosity with the Web wanes and subsidies end, companies offering products on-line will be forced to demonstrate that they provide real benefits (=strong bargaining power)

Rivalry among Online Retailers – very strong and getting stronger

- Rivalry among online retailers is influenced by the other four forces. Jockeying for position among rivals is active and centers around:

- Price discounting; Internet technology reduce variable costs and tilt cost structures toward fixed cost, creating significant greater pressure for companies among e-tailers to engage in destructive price competition (=increases rivalry)

- Ability to generate website traffic by different promotional programs and advertising

- Well-known reputation and brand image

- Selection

- Innovation in Web site functionality and features; buyers expect good features

- Accuracy of order filling

- Delivery times and delivery charges

- Attentive customer service (reps available on a 24/7 basis)

Other factors affecting the intensity of rivalry among the online retailers:

- Growing globalization of competition; there are already a substantial number of online retailers (=increases rivalry)

- The market for the products that Amazon sells is maturing—slow growth heightens rivalry, as competitors fight to build volume and market share. Achieving above-average growth means being successful at stealing sales from traditional booksellers (=increases rivalry)

- Consumers have low switching costs; the switching of customers increases competition among rival online retailers (=increases rivalry)

- It is more difficult for online retailers to differentiate themselves, as they lack potential points of distinction such as personal selling. With more competitors selling largely undifferentiated products, the basis for competition shifts more toward price (=increases rivalry)

- The use of the Internet tends to expand the geographic market, bringing many more companies into competition with one another (=increases rivalry)

- ♦ Many established off-line companies are now more familiar with Internet technology and are deploying on-line applications; with a combination of new and old companies and lower entry barriers, online retailing will likely end up with an increase in the number of competitors and fiercer rivalry (=increases rivalry)

10. Based on the preceding evaluation of Amazon's situation, and industry environment, what problems and issues do you think Amazon's management needs to address? What is more critical?

The obvious issue is how best to extricate the company from impeding financial disaster. The company must find some ways to get the company to the point where it can generate more positive cash flow from operations. This is the point of the case. That much should be obvious.

- ♦ How to increase sales growth? This is the key to profitability. To cover present annual operating expense of about $928 million with a gross margin of 23%, Amazon needs annual sales of $4 billion to be profitable. Amazon is just about to realize this volume of sales.

- ♦ How to improve the company's gross profit margin? The company already brought the order fulfillment process in house. This will help improve the margin in the long term, if they last that long. Other moves involve having product lines with high margins, partnership with more physical retailers.

11. What recommendations would you make to Amazon's management to get the company on the road to profitability?

Students will find this the hardest part—translating good analysis into good recommendations for action is not easy, especially without a solid strategy. But this is a perfect case in which to push the class hard for sound recommendations on "what to do".

The author suggests the following actions be taken:

- ♦ Amazon management should only consider expanding its product line within the existing product groups that may grab the attention of customers—those that are popular brand, high margin and are hard to find in typical retail stores. Also stop selling unprofitable items.

- A new and different marketing/promotion campaign is needed to spark consumer interest in online retailing. Our recommendation would be to concentrate the company's marketing budget in the core business (book, CDs, and videos); for the company to prove its new business model and strategy are viable, it needs to be able to point to market success in at least one or two of its product groups very quickly. Once Amazon management learns how to attract users and build order volume in one or two product groups, the learning can be transferred to the other product groups. Amazon is good at having a large stock of hard-to-find books and music. It can be a category killer in this area only. Although, Amazon's overall revenue in the company's core books, music, and video segment was about 80% of its total revenue in 1999, it has dropped to 54% in 2001.

- The company should put all plans to enter additional product groups on hold until it is successful in its present product groups. Maybe part of the problem is its current mix.

- Stop growing in the international markets. It is costly to establish international facilities and operations, promote the brand internationally, and develop localized Web sites. Amazon may not succeed in these efforts. These operations may never be profitable.
- More focus on cash flow. Determination of cash flow per share will be a strong indicator of the price people might be willing to pay for a share of ownership in any company.

- Management probably needs to be more conservative in pioneering new Website technologies, until the company's financial situation improves. Management also should push hard for more cost reductions and improved operating efficiency (one of the keys to better profit margins and improved cost competitiveness). Amazon needs to prepare for increased price competition and get its costs in shape in case buyers become more price-sensitive and price competition becomes more of a factor. It might consider closing some of the distribution centers, because Amazon has squandered the company's financing by overbuilding its distribution network.

- Review ways to increase the effectiveness of the company's marketing budget. Amazon needs to find ways to reduce the costs of acquiring customers. It needs to figure out to better leverage its marketing dollars. Also, Amazon's sales should be increased as fast and as much as possible.

- Enter into more alliances with Internet portals to help generate additional site traffic and build awareness of Amazon. Management should approach the Internet portals with whom it has contractual marketing agreements to explore the possibilities of stretching out its payments in the event that it has difficulty generating the cash to meet its obligations on schedule. We don't expect the portals to assume more risk. Alternatively, Amazon might agree to pay them a fee for referrals that result in sales.

- ♦ Divest some of the businesses. Management has also squandered its financing by investing in marginal online retailers, which are now failing. Given the challenges in these businesses, lower gross margins and higher marketing requirements, the prospects might not look good.

- ♦ Merger or Acquisition. Amazon is not an attractive take over, until the stock price goes much lower.

12. If for any reason Amazon does not make enough profit to pay its bond interest obligation, what additional sources of financing are available for the company?

Amazon has enough cash to make the few more interest payments on the bonds. After that, it will need to get to start generating profit on its sales. Again, becoming profitable might be difficult in this economy because of the way Amazon has set up its business model.

It is important to realize that a bond analyst of credit has a different job than an equity analyst. The value of equities is 100% in the future. Creditworthiness is completely tied to the present. If we estimate a company's value based on 2002 results and do not look into the future, we have a low chance of being right. But if we estimate its creditworthiness on 2002 results, we have a 100% chance of being right. Debt analysts look at the company financials. They want to know whether or not company has adequate cash to make its debt payments. In 2002, the company's "Times Interest Earned" ratio was 0.61, much lower than accepted ratio. As long as the company has cash flow, and can pay the coupon, the convertible bonds are more attractive. But equity analysts, on the other hand, are more focused on a company's growth outlook. They want to know what the catalysts are that will help earnings. Debt analysts have their own biases. They tend to do backward-looking and not at projected estimates or the potential of a company's business plan.

Bonds are supposed to be less risky than stock, because they carry a specific obligation by the company to pay interest regularly, and the full principal at maturity. Amazon shares, on the other hand, pay no dividend and their current price is less than half the $78 conversion price for the 4.75% notes. So investors in the convertibles have to rely on their interest payments for now, while hoping for a rebound in the stock to allow them to convert. Of course, an assumption for bondholders is that the borrower is making money at least enough to meet its interest obligation. If the payment of the coupon becomes questionable, then that changes the conclusion.

The only financing avenues we see are (1) selling additional shares to obtain additional equity capital or (2) finding a company interested in buying an equity stake in the company. With the existing economic slow down and capital market, we don't see that the company's prospects are bright enough to attract investors to buy additional shares. Offering additional shares means dilution of current shareholders, meaning that any future earnings for the company will be spread out over many more shares. Who would invest in a company that has an outstanding debt in the form of bond, not bank loans, that has no collateral and S&P credit rating of junk bonds? It has no ability to raise any more money in the public section. Given the concerns, Amazon shares should be valued like traditional retailers, with a multiple of one times projected annual revenue. That would value Amazon at about $12 a share, calculated below:

Amazon Revenue in 2002	$3,932,900,000
Amazon's Revenue Projection for 2003, @15% rise	$4,522,835,000
Amazon's Value @ Multiple of 1 time Projected Revenue	$4,522,835,000
Amazon's Number of Shares	378,400,000
Price of a Share	$12

Finding a company (perhaps a giant retailer such as Wal-Mart or a big supplier willing to risk putting $1 billion in venture capital into the business seems to the best choice.

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SPORTS DE FRANCE, S.A.

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CASE OVERVIEW

This case poses a dilemma faced by mature retail chains: how can the company continue to increase revenues when it can no longer grow (for environmental, financial, and/or legal reasons) by inserting clones of existing stores into new markets? The case begins by indicating that Sports de France, a major sporting goods retailer with outlets throughout suburban Europe, has decided to terminate its unsuccessful 10 year initiative to increase revenues and profits by introducing retail sporting goods shops in city centres in France. At the last minute, however, the experienced manager assigned to terminate the initiative finds reasons to believe that adoption of a new retail strategy for the city centre shops could save the project. The challenge for students is to develop a new and profitable retail strategy. The case is based on discussions conducted by the authors in France. The case is appropriate for undergraduates as well as students in MBA and Executive Development programs. It is designed to be taught in a 1.5 hour long class session, and is likely to require a couple of hours of preparation by students.

CASE SYNOPSIS

Bernard LaCrois is Special Assistant to Louis Verdun, Chairman of Sports de France. The company owns and successfully operates a chain of large sporting goods stores in suburban locations not only throughout France but also throughout Europe as well. For the past 10 years, the company has been attempting to increase its revenues and profits by developing small retail sporting goods shops in city centres in France. Each of these last 10 years, however, this city centre initiative has generated losses of approximately half a million dollars. Based on the company's inability to generate profits from the city centre shops, Chairman Verdun has decided to terminate this initiative, and has assigned LaCrois responsibility for accomplishing this objective within the next 180 days. However, discussions with the retail consultant hired to help terminate this initiative have convinced LaCrois that one last attempt should be made to see whether the city centre shops can be made profitable. Data and information in the case include:

1. *Description of the challenge faced by the company.*
2. *On the company: Historical overview, current performance, and the business model underlying that performance.*

3. *Characteristics of the retail strategy which the company has been using for its city centre shops.*
4. *Characteristics of the competitive situation.*
5. *Information on the attitudes, shopping behaviors, and lifestyles of consumers living in city centres in France.*

INSTRUCTORS' NOTE

Our hero, Bernard LaCrois, Special Assistant to the Chairman of Sports de France S.A., faces the following situation:

1. For nearly 30 years, Sports de France S.A. has owned and operated a chain of large self-service retail sporting goods stores in suburban locations in (first) France and (later) other European countries. The company's business model (large size stores, broad and deep assortment of products many of which are manufactured by the company and sold under its own brand names, prices which are low compared to national and/or international branded items, low levels of customer service compared to traditional retail shops in France, etc.) has been very successful, both in terms of revenue growth and profits.
2. For the last 10 years, in an attempt to increase Sports de France revenues and profits, Sports de France has been pursuing a "City Center Shops Project" (CCSP) initiative. The initiative involves opening small retail sporting goods shops in city centres in France. Unfortunately, the initiative has not been profitable; over the last 10 years, losses have averaged half a million dollars per year.
3. Louis Verdun, Chairman of Sports de France S.A. has now decided to terminate the CCSP initiative, and has appointed LaCrois to organize and oversee the wrapping-up of this project. However, in the process of discussing the situation with the retail consultant hired to help him wind down the CCSP initiative, LaCrois has come to believe that the CCSP initiative could still be successful. Now, taking advantage of the 180 days he has been given to terminate the project, LaCrois is eager to see whether he can make the CCSP initiative a success. The question, of course, is what changes should be made, so as to convert an initiative which has lost money every year for 10 years into a success.

As regards lessons and/or information which students should learn from this case, at least five points can be made:

1. Students will learn a bit about retailing in France, and a bit about the attitudes and behaviors of certain consumers in France.
2. Students will discover that theories and/or conceptual frameworks relating to business growth and/or retailing can suggest non-intuitive ways of dealing with managerial challenges which can be very useful.
3. Student will discover (or, be reminded) that the conceptual framework they apply when analyzing problems and opportunities will effect not only the recommendations they make but also the variables on which they focus their attention.
4. Students will have the opportunity to consider the extent to which the solution they recommend ends up being similar to the solution Bernard LaCrois successfully used.
5. Irrespective of the solution they recommend, students will find that they have learned a bit about the sorts of challenges and opportunities faced by retail chains and the managers who run them.

DISCUSSION QUESTIONS

I often select one student to lead the discussion. Another approach would be to solicit input from various students at various stages of the analysis. Either way, my usual approach to this case is threefold:

1. Solicit from students the details of the case. Usually, I write much of this information on the board, so that if questions on "facts of the case" arise, we will have much of that information in front of us.
2. Ask an individual student or the class as a whole to address a very specific series of questions. Those questions, and comments relating to three possible solutions to the case, are as listed below:

1. What is the main problem?

Students usually conclude that Bernard LaCrois must revise CCSP's strategy. I reinforce the idea that if we were Bernard LaCrois, this is a reasonable statement of the challenge he faces.

2. What kind of problem is this?

Instructors should not be surprised if there are as many answers to this question as there are students in the class. Clearly, there is no one "right" answer. However, two alternative approaches, each of which seem quite relevant to the situation, are as indicated below:

1. Retail strategy-related problem.
2. Turnaround strategy-related problem.

3. For the kind of problem selected, what are the key variables and which expert says so?

For students concluding that the main problem is the need for a new retail strategy, Kotler (2003) indicates that the key marketing decisions for retailers include: (1) Target market selection; (2) Product assortment and procurement-related issues; (3) Service and store atmosphere-related issues; (4) Price-related issues; (5) Promotional issues; and (6) Location-related issues. For students believing that this is a turnaround strategy-related problem, Sheth (1985) identifies nine key alternatives which he believes should be considered: (1) Entrenchment; (2) Sell to intermediaries; (3) Mandatory consumption; (4) Go International; (5) Broaden the product line; (6) New situations; (7) New applications; (8) Repositioning; and (9) Remarketing.

4. What data from the case relate to the key variables?

As implied above (and this is one of the key learning points of the case), the data on which students focus will depend on the main problem they identify. Those believing the main problem is the need for a new retail strategy should focus on and reference data relating to the key retail decisions and variables identified above. Appendix 1 identifies data from this case which relate to those variables. For students believing the main problem is turnaround strategy-related, Appendix 2 provides definitions of each variable and then identifies data from the case which relate to each variable.

5. What alternative solutions can be identified?

Because research suggests we make better decisions if we identify alternatives and then chose one, I require students to identify at least two alternatives. Of course, students having difficulties coming up with a second alternative can be reminded that one possible solution is to "change nothing."

6. Which one alternative does the class/student recommend, and why?

"Changing nothing" is unlikely to help Bernard LaCrois achieve his objective of making the CCSP initiative profitable. Thus, it appears likely that students will recommend use of a new retail strategy or a turnaround strategy. Regarding the characteristics of a new retail strategy which could generate profits, the following suggestions can be made:

1. *Regarding Target Market:* The case suggests that there are three primary target markets for the city centre shops: (1) People who are 60 years old or older; (2) Children; and (3) Young women. Because older men and women in France both prefer blue or black, sportswear aimed at this group should feature those colors. Of course children prefer brighter colors, so sportswear aimed at children should be much more colorful. As for young women, the case indicates that members of this segment patronizing SDF's city centre shops are looking for clothing which is not only fashionable and colorful and correctly-sized, but also has the technical characteristics (for example, waterproof, breathable, etc.) of serious outdoor equipment.
2. *Regarding Product Assortment and Procurement:* The case suggests that city dwellers want name brands, not private brands. The implication is that while the Sports de France private brands sell well in the suburbs, customers patronizing the city centre shops want to be able to purchase national and/or international brands such as Aididas, Nike, and Solomon. So, while the product assortment in a city centre shop can still include SDF's private brands, city centre product assortments shops need to be very strong in international brands like Nike and Aididas. Also, because some city dwellers will examine large and/or heavy items (bicycles, bags of golf clubs, skis, etc.) in a city centre shop during the week but then travel on the weekend to a large suburban store to actually make the purchase, the city centre shops must display at least a small selection of these large and/or heavy items. In other words, while SDF's city centre shops do not expect to sell many of them, these big and/or heavy items must be part of the city centre shops' product assortment. Please note:
    a. The company is still wondering why this sporting equipment is so important to consumers. Their best guess is that those "sportives totems" (that is, the pieces of sporting equipment) help customers ensure themselves that while they are in a strange store, it is still a true Sports de France shop.
    b. There are two exceptions to the rule that city centre shops sell few of the bigger, heavier items. As noted in the case, the city centre shops do stock an assortment of sleeping bags and climbing ropes, and do sell substantial quantities of those items.
3. *Regarding prices:* The case indicates that the prices city dwellers know (that is, their reference prices) are the prices which the national and/or international brands like Nike sell for in other city centre shops. One implication is that prices in SDF's city centre shops can be higher than the prices in its large suburban stores, where consumers are more price-sensitive. Another implication is that SDF's city centre

shops need to send staff members out regularly to check the prices offered by competitors, to ensure that prices at SDF city centre shops do continue to be attractive relative to those of nearby competitors.

4. *Regarding services and store atmosphere*: The case indicates that people living in city centres are on very tight schedules. Also, the case indicates that certain groups of customers tend to appear at certain times. For example:

    9:00-10:00 am: Having finished breakfast, older people come out to shop. With this group, times are likely to vary somewhat, depending on the season and/or the week.

    11:30 am-12:30 pm: Because they are released from school for this hour, children and mothers appear in city centre shops this time of day.

    1:00 pm-2:00 pm: Because this is lunch hour, adults appear in city centre shops this time of day.

    4:30 pm-5:00 pm: Because school gets out at 5pm, mothers may drop by city centre shops for a few minutes when they are on their way to school to pick up their children.

    6:30 pm-7:00 pm: Dinner is likely to be at 7pm, so adults and/or children on their way home to dinner may stop at city centre shops for a few minutes during this time-period.

    The above information makes it clear that for city centre shops, there are at least five times each day when service (especially, being able to purchase and pay quickly) is very important. Also, because customers patronizing city centre shops are likely to make multiple small purchases throughout the week, it becomes important to build relationships. So, having staff in the city centre shop who are motivated to recognize and greet customers, to build relationships with them, and to expose them to various promotional offers and/or special incentives is very important.

5. *Regarding promotion:* The case indicates that only producers (that is, manufacturers) are allowed to advertise on national television in France. As indicated earlier, customers patronizing the city centre shops tend to be more interested in buying national/international brands, not SDF's private brands. So, while the large SDF shops in the suburbs can use television advertising, the small city centre shops

(which focus on reselling national brands) are limited promotionally to local radio stations, newspapers, and personal selling by the staff plus customer word of mouth.

In summary, then, it seems likely that the revised retail strategy for the city centre shops should incorporate at least the following recommendations:

1. Target three groups of consumers: (1) Adults older than 60; (2) Children; and (3) Young women.
2. Sportswear for adults should be primarily in blue or black. Sportswear for children should be in bright colors. The product assortment should feature national and/or international brands, not the private brands which SDF features in its large suburban stores. As noted earlier, sportswear for women should be fashionable, colorful, and right-sized; it should also offer the technical characteristics of serious outdoor equipment. This group will be interested not only in international brands, but also SDF private brand products which meet the above criteria. Also, small amounts of large and/or heavy equipment (golf clubs, skis, windsurfers, etc.) need to be on display at each city centre shop, so that patrons living in the city centre can inspect and gather information on the equipment during the week, before going to the large suburban stores on the weekend to make their purchases.
3. At times which are key shopping opportunities for patrons living in city centres (that is, 9:00-10:00 am, 11:30 am-12:30 pm, 1-2pm; 4:30-5:00 pm, and 6:30-7:00 pm),SDF's city centre shops must provide patrons with very quick and convenient shopping and payment. In other words, the city centre shops must be fully staffed at these times. Also, SDF's city centre shop staff must strive very diligently to build relationships with their customers. Finally, shop managers should work very hard to retain shop staff who have managed to build good relationships with customers.
4. Prices at SDF's city centre shops should be slightly lower than prices in other shops located in the city centre. For each city centre shop, a staff member should (once a week) do a price comparison on sporting goods offered by other shops in the city centre, to confirm that the prices offered by SDF city centre shops actually are lower than prices offered by other nearby shops.
5. The media mix for SDF's city centre shops will include local radio, newspapers, personal selling (by city centre shop staff), and customer word-of-mouth. The message will focus on the fact that SDF city centre shops, while offering SDF products, offer an assortment of national and

internationally-branded sporting goods at prices which are low compared to nearby shops.

7. What negatives are associated with the alternative selected by the class leader and/or other members of the class?

Very few solutions are risk and/or problem-free. Negatives associated with the solution proposed by the class leader and/or other members of the class could include the following: (1) The chosen alternative, which requires a considerable change from the product assortment used in SDF's large suburban stores, could be costly in terms of both time and money; (2) The chosen alternative requires that several other aspects of the retail strategy for SDF's city centre shops (including levels of customer service offered during key timeframes, price levels, and the promotional mix) be different than the retail strategy for the company's large suburban outlets; and (3) Because LaCrois has little time available, any aspect of the revised retail strategy which is time-consuming will create problems for him.

EPILOGUE

Barnard LaCrois did implement a new retail strategy for SDF's city centre shops. And suddenly, the city centre shops started winning all sorts of intra-company contests, including: (1) highest number of jackets sold; (2) highest margins on jackets; and (later on) (3) highest number of sportswear items sold. Key elements of the new strategy included:

1. Older people and children and young women were targeted as the key consumer groups. For adult sportswear items, therefore, blue or black colors were stressed. Special offers were developed for the women. Of course, for childrens' sportswear items, brighter colors were stressed.
2. The new product mix featured a strong assortment of national and international brands. In addition, small assortments of the big and/or heavy items (bicycles, golf clubs, skis, windsurfers, etc.) were shown in SDF's city centre shops, so customers could inspect them during the week before going to the large suburban stores on the weekend to make their purchases. This equipment also reinforces the idea that customers are in a true SDF store.
3. SDF city centre shops hired a number of young (18-20 years old) girls who were passionate about one or more specific sporting activities (i.e., biking, golf, skiing, tennis, windsurfing, etc.) to work as salespeople in the city centre shops. These new staff members were coached and counseled on how to build relationships with

customers, and were urged to have fun, make customers feel good, and make friends with customers. They were also motivated and rewarded for informing customers about special promotions and offers. In addition, the managers of SDF's city centre shops made sure that at the times when various customer groups were likely to come into the stores (children during their 11:30-12:30 lunch break, workers during their 1:00-2:00 pm lunch break, etc.) that enough staff would be available in the shop so that customers would always be able to purchase and pay quickly. Specifically, the five times during the day when SDF city centre shops are always sufficiently staffed so as to able provide perfect service to every customer are: (1) 9:00-10:00 am; (2) 11:30 am-12:30 pm; (3) 1:00-2:00 pm; (4) 4:30-5:00 pm; and (5) 6:30-7:00 pm.

4. Prices at SDF's city centre shops were increased, to be slightly lower than the prices for sporting goods offered by other stores and shops located in a particular city centre. In addition, a staff member from each SDF city centre shop was assigned the task of collecting data each week on the actual prices offered by other shops in that city centre, so as to ensure that SDF's city centre shops always offered good value for money compared to other stores and shops located nearby.
5. Local radio stations and newspapers were used to promote SDF stores and their products. In addition, however, SDF staff provided verbal messages and distributed flyers, brochures, and samples to patrons entering their shops. Staff sought out customer feedback very intensively. SDF staff able to sell featured promotional products were able to earn special bonuses.

As indicated above, the new strategy was very successful. Chairman Verdun cancelled his directive to terminate the CCSP initiative. The city centre shops began to contribute significantly to overall Sports de France revenues and profits, and continue to do so today.

APPENDIX 1: CASE INFORMATION RELATING TO RETAIL STRATEGY VARIABLES

A. Target market: The case indicates that the three primary target markets for Sports de France (hence, SDF) city centre shops are: (1) Consumers 60 years and older; (2) School children; and (3) Young women.

B. Product assortment and procurement: The case indicates that city centre patrons have a powerful preference for national and/or international branded items. Thus, while the shops may continue to stock SDF's private branded items, it appears that city centre shop assortments must feature strong assortments of national and international branded items. Because city centre patrons may come to SDF city centre shops to collect information on larger items (bicycles, skis, windsurfers, etc.) which they will purchase later from a large SDF suburban store, the shops must display at least small assortments of these larger and/or heavier items.

C. Service and store atmosphere-related issues: The case indicates that there are five times each day when city centre shops are likely to be quite busy: (1) 9:00-10:00 am, when older consumers are likely to do a bit of shopping after breakfast; (2) 11:30 am-12:30 pm, when children in school are released from school for lunch; (3) 1:00-2:00 pm, when working adults are out on lunch hour; (4) 4:30-5:00 pm, when mothers going to school to pick up their children may shop; and (5) 6:30-7:00 pm, when adults and/or children going home for dinner may shop. At these preferred shopping times, it is clear that SDF's city centre shops must be fully-staffed, so as to be able to help customers shop and pay quickly. Because city centre patrons are likely to make multiple shopping trips each week, it is important to staff city centre shops with individuals who are able to (and enjoy) building relationships with customers.

D. Price-related issues: The case indicates that customers who patronize SDF's city centre shops form their reference prices based on the prices of national and/or international branded items available in the immediate neighborhood. In other words, their reference prices are higher than those of suburbanites who shop weekends at SDF's large suburban stores.

E. Promotion-related issues: The case indicates that only manufacturing companies are allowed to advertise their products on French television. The case also indicates that city dwellers prefer national and/or international branded items. So, product assortments for SDF city centre shops will need to be heavy on national and internationally branded items, that is, on items which SDF city shops will not be allowed to advertise on television. For this reason, television is not likely to be an effective promotional medium for SDF's city centre shops, even though it is highly effective for SDF's large suburban stores. The case identifies several other promotion tools which SDF city centre shops should be able to use to good advantage, including local radio, newspapers, personal selling, and consumer word of mouth.

F. Location: The case indicates that these retail outlets are located in city centres across France.

APPENDIX 2: CASE INFORMATION RELATING TO TURNAROUND STRATEGY OPTIONS

1. Entrenchment: Sheth (1985) indicates that sometimes a failing product or business can be revived by taking market share away from existing competitors. Ways this can be done include segmentation, focusing on heavy users, setting up multiple channels of distribution, etc. An example would be 7-Up Bottling Company of Nigeria, which dramatically increased its business and took substantial market share from Coca Cola in Nigeria when it added Pepsi (that is, a cola-flavored drink) to its product portfolio. This option appears quite relevant to the city centre shops situation. Clearly, the target markets for the city centre shops are different from the group targeted by SDF's large suburban stores. Now, the marketing mix variables (product, price, promotion, and place) for the city centre shop patrons need to be reviewed, to ensure that the marketing mix used is appropriate for all groups of patrons living in city centres. For additional data on these marketing mix variables, see Appendix 1.
2. Switch to intermediaries: In situations where it is difficult to sell directly to ultimate consumers, Sheth indicates that it is sometimes possible to sell to consumers through intermediaries. An example is that while it may be difficult to interest consumers in buying a product labeled "artificial soy cheese," producers do sell millions of pounds of artificial soy cheese each year to companies who make low-to-midrange frozen pizzas and then sell those pizzas through supermarkets to ultimate consumers like you and me. Except in the case of sportswear and equipment for team sports, this option does not seem very relevant to this case.
3. Mandatory consumption: Sheth indicates that it is sometimes possible to get governments to pass laws requiring consumers to purchase certain products or services. An example is the requirement that people driving cars must purchase insurance. It seems unlikely that any government would pass a law requiring consumers to purchase a particular brand of sporting goods.
4. Go international: Sheth indicates that in some cases, companies have been able to create a turnaround success story by introducing existing products into overseas markets. Because this case features an attempt to turnaround SDF's City Centre Shops Project (that is, an initiative dealing with retail operations located in city centres across France), it seems unlikely that the "go international" option has much relevance here. Readers may be interested to know, however, that another SDF initiative was to purchase a small chain of sporting goods shops in the United States.
5. Broaden the product line: Sheth indicates that sometimes it is possible to turnaround a failing situation by selling not just the basics but everything else consumers will need so as to be able to gain the maximum benefits from their purchase. In other words, rather than selling just personal computers, a company might also offer customers all the other things they will need (peripherals such as printers and scanners; cables; modems; supplies; warranties; etc.) so as to be able to get maximum benefit from the core product purchased. This option may have relevance to the situation discussed in this case study. As the case indicates, while city centre shop patrons do not typically purchase large heavy items (bikes, skis, windsurfers, etc.), they may come (on weekdays) to a city centre shop to collect information and then travel (on the weekend) to a large suburban SDF shop to purchase that particular large and/or heavy item. The implication is that while SDF city centre shops may not sell many of these large and/or heavy items, the presence of at least a small assortment of such items in city centre shops may benefit SDF's large suburban stores. It should be noted, however, that this appears to be a peripheral benefit which could help suburban revenues and profits but is not likely to improve very much the revenues and/or profitability of the city centre shops themselves.
6. New applications: Sheth indicates that sometimes a failing business can be saved by finding new applications for a product. For example, a company selling small numbers of bars of pine-scented soap discovered that these bars were quite effective at keeping deer out of vegetable gardens planted by home gardeners; the company dramatically increased sales and profits by promoting multi-bar packets to gardeners living in areas surrounded by forests. This option does not appear to be particularly relevant to the city centre shops situation.

7. New situations: Sheth indicates that sometimes a failing business can be saved by finding new situations when its products and/or services can be used. Currently, most orange juice in the United States is consumed at breakfast. However, if a second major usage situation or occasion could be identified, and if U.S. consumers vigorously participated in this second usage situation or occasion, revenues and profits of orange juice producers should increase enormously. Given the fact that consumers are using sporting apparel not only for sports for also as leisure wear, this option could have some relevance to the city centre shops situation.
8. Repositioning. Sheth indicates that sometimes a failing product or service can be saved by repositioning it. A very famous example is the fact that the original target market for Marlboro cigarettes (that is, the first full-length cigarette with a filter) was women. That positioning failed totally. As readers know, however, the product was repositioned to target outdoorsmen, and has earned billions of dollars for Philip Morris. This option does not appear to be particularly relevant to the city centre shops situation.
9. Remarketing: Sheth indicates that sometimes a product or service developed for industrial customers can be successfully remarketed to ultimate consumers (or, visa versa). An example would be Global Satellite Positioning (GSP) units, which were developed for the military but have now become very popular with sportsmen. This option does not appear to be particularly relevant to the city centre shops situation.

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