

Volume 11, Number 5

ISSN 1078-4950

JOURNAL OF THE INTERNATIONAL ACADEMY FOR CASE STUDIES

An official Journal of the

International Academy for Case Studies, Inc. and the Allied Academies, Inc.

Editors

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Editorial and Academy Information
are published on the Allied Academies' web page
www.alliedacademies.org

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Whitney Press, Inc.

*Printed by Whitney Press, Inc.
PO Box 1064, Cullowhee, NC 28723
www.whitneypress.com*

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The *Journal of the International Academy for Case Studies* is published by the Allied Academies, PO Box 2689, 145 Travis Road, Cullowhee, NC 28723, (828) 293-9151, FAX (828) 293-9407. Those interested in subscribing to the *Journal*, advertising in the *Journal*, submitting manuscripts to the *Journal*, or otherwise communicating with the *Journal*, should contact the Executive Director at info@alliedacademies.org.

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LETTER FROM THE EDITORS

Welcome to the *Journal of the International Academy for Case Studies*. 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 *JACS* 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 cases contained in this volume have been double blind refereed with their corresponding instructor's notes. 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, and those notes are published in the companion issue of this volume.

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.

Inge Nickerson, Barry University
Charles Rarick, Barry University

CASES

USING APB OPINION 21 AND IRC SEC. 1274 TO EVALUATE ACCOUNTING AND TAX ISSUES FOR AN UNUSUAL LOAN

David Coffee, Western Carolina University
Roger Lirely, Western Carolina University

CASE DESCRIPTION

This case considers the financial accounting and tax issues associated with a loan made by a manufacturing company to the Atlanta Braves baseball team. The case has a difficulty level of four/five and is appropriate for an upper level financial accounting class or tax class. It is designed to be taught in one hour and requires two hours outside preparation by students.

CASE SYNOPSIS

A manufacturing company loans the Braves money at an interest rate below market. The Braves donate 20 season tickets to the company. Students are required to evaluate this transaction to determine: (1) how it should be treated for financial reporting purposes by the lender; and (2) the proper tax treatment of the transaction by the lender. The case demonstrates how financial accounting issues and tax issues can be similar as well as different in a business transaction.

JUST A SIMPLE LOAN OR NUCLEAR PHYSICS?

On January 1, 2003 the Georgia Products Company loaned the Atlanta Braves baseball team \$100,000 in cash. The Braves signed a 3-year, 2% interest-bearing note due December 31, 2005. Interest is payable at the end of each year on December 31 and the principal is due December 31, 2005. The Georgia Products Company recorded the transactions to the loan as follows for 2003:

Georgia Product Books

January 1, 2003			
	Notes Receivable	\$100,000	
	Cash		\$100,000
December 31, 2003			
	Cash	\$2,000	
	Interest Income		\$2,000

As the partner in charge of the independent audit of Georgia Products, Gary Gaines is concerned about the loan. Gary has scheduled a lunch meeting with Linda Owens, Georgia Products Chief Financial Officer to discuss the loan. Gary and Linda, long time friends, are candid and to the point.

"Gary, the Board of Directors unanimously approved this loan so I'm not sure why we need to discuss this. I'm sure you've read the minutes. We feel the Braves have been an important part of the community and we wanted to show our appreciation to the Braves organization." Linda seemed just a little irritated, but Gary was used to her approach. Linda did not beat around the bush. She continued. "The Braves talked to us about increasing the interest of disadvantaged kids in the team. They had some good ideas, some really good stuff. But this kind of thing costs money. Roger (the Georgia Products CEO) took it to the board. Just between us, Roger asked the board for a gift. But you know the make-up of that group. They tabled that. Roger was able to squeeze a low interest loan out of them. Hell, I'm surprised he got that."

"Look Linda, I'm not questioning the right of the company to make the loan, nor am I suggesting that this is a misuse of stockholder money. My problem is how to properly account for this thing in the financials. And I have to wonder about tax implications."

"Gary, you worry to much. You've seen the books. We have a \$100,000 note from the Braves, which we report as a \$100,000 asset. We recognize the \$2,000 as interest revenue. This is not nuclear physics. Fact is, everybody benefited. Heck, Roger had hoped for a gift and was embarrassed to go back to the Braves with just an offer of a loan. Know what? The Braves were genuinely grateful. They told Roger they are paying 10% for their money right now and appreciated the support of Georgia products. Going to mention us in the Braves promotions as a supporter of the disadvantaged kids program. Good for the company, good for the Braves, good for the kids, know what I mean?"

"Linda, your not listening. I'm not questioning the value of this to Georgia Products. I'm concerned about reporting and tax issues."

"Gary, I always listen. We couldn't make this thing any easier for you. And the Braves? They are so pleased that they sent the Company 20 season tickets. Did I mention that? We hope you can join us on opening day.

Gary picked up the check. He was trying to remember whom the Braves opened with. Maddox on the mound, no doubt. "Linda, count me in. But now I have to go back to the office and figure out the financial part of this thing. And I need to talk to Philip, our tax partner. I'm not so sure. This might be nuclear physics after all.

GREEN ENTERPRISES, INC.

Javad Kargar, North Carolina Central University
Joi Ponder, North Carolina Central University
Marcus Phillips, North Carolina Central University

CASE DESCRIPTION

The primary subject matter of this case concerns strategic planning. Secondary issues include financing, working capital analysis, cash flow estimation, and break-even analysis. In this field-researched case, Topy Green, the CEO of Green Enterprises is faced with resolving some key questions about the direction of his company's strategy and turning around the company's operation. The company distributes good quality food products and makes profits, but is faced with negative working capital and cash flow difficulties. As the case closes, his advisors have asked him to address several key strategic questions. The case has a difficulty level appropriate for the first-year graduate level. The case is designed to be taught in 1.5 class hours and is expected to require 4 hours of outside preparation by students.

CASE SYNOPSIS

The case centers on an entrepreneur by the name of Topy Green, whose business has grown from a single truck food distribution operation into a \$6 million food distribution business in the State of North Carolina. After 23 years, the company faces significant growth hurdles in order to achieve nominal profitability with few cash flow difficulties. The company focused on distributing food products such as sandwiches to convenient stores mainly in North Carolina. Topy's primary goals, in the context of this case, are to achieve better profitability, build a strong balance sheet, and to build the brand name on a limited budget. This case communicates the challenges experienced by an entrepreneur, and provides students with the opportunity to simulate the creation of strategy and implementation in the context of this case.

INTRODUCTION

On a warm and humid day in May of 2004, Topy Green, the founder, CEO, and principal owner of Green Enterprises, was looking down at the first quarter financial reports that lay on his

desk. He had been reviewing recent company data to help him determine the direction that Green Enterprises should pursue. The financial statements reported that although the company enjoyed a better profit in the first quarter, the quarterly revenue had decreased by about 13.2% in 2004. While he recognized that no business could maintain a high growth rate forever, the reality of the decline in company growth would have an impact on the way Green Enterprises would move forward in its business. "Right now our most serious problem is cash flow," said Topy. "We could have sold more products if we had had more capital. We're often cash-poor because some of our customers pay too slowly. One of our biggest chain customers had recent organizational changes and is paying us slowly. We don't want to push them too much, because we might lose them to our competitors." Topy had to make decisions concerning accounts payable, staffing, marketing, merchandising, and financing that would ensure his company's long-term profitability.

Green Enterprises, with revenues of more than \$6 million in 2003, was a privately held corporation offering a full line of sandwiches, meats, and desserts. The company relied on food manufacturers for his products. A direct store delivery system (DSDS) composed of 12 route people and one branch office delivered food to over 800 customers serving consumers in its primary trade area of North Carolina.

Competing against old established companies in the sandwich category was a challenge. Topy knew that to be successful he had to be better than the competition, which had advantages of economies of scale, advertising campaigns, and brand name. The company's abilities to satisfy the regional taste preferences of consumers and to move quickly were strengths of the firm.

Topy turned to his computer and skimmed the memo he had begun to his sales staff. Two of these people had been with the company for over one year. Several of the staff had good experience in the food industry. Through his memo, Topy hoped to initiate discussion among his team about the future of the company. In his memo, he asked for his staff's input regarding market conditions, opportunities, and a realistic view of Green Enterprises' position in the current market. He also asked them to consider whether and how the company's strategy should change in light of the company's capabilities and resources and the current market condition. He valued their experience and insight and knew they would be affected by and would be charged with carrying out any change in the company's strategy. If the company's strategy needed to change, he wanted such a change to be a team decision.

COMPANY BACKGROUND

Topy Green, the founder of Green Enterprises, decided to go into business for himself because his career path created an opportunity for him. Excerpts from his resume appear in Exhibit 1.

Exhibit 1

Green Enterprises Inc.: Excerpts from Toppo Green's Resumé

Education

1970- High school Diploma

1973-1974- Two semesters of community college

Work Experience

June 1981 to present—as founder and president of Green Enterprises

1972-1981—Jubilee Salads as a salesman

1970-1972—United States Marine Corps

Toppo prided himself on the fact that he was in the United States Marine Corps for two years and worked about ten years for Jubilee Salads, a food distribution firm, and performed well. In 1981, Jubilee Salads was about to go out of business as a result of losing core accounts to its competitors. Jubilee Salads offered each of its 30 salespeople the opportunity to take complete control of their individual routes and trucks. Toppo decided to accept this offer, and without a business plan, he opened his own venture of Green Enterprises. Jubilee Salads agreed to supply food products for Green Enterprises for some time. As a result of his work ethic, Toppo was the only salesperson who was successful in maintaining and growing his venture. Within six months, he took over routes for Jubilee Salads to comprise one complete route. "My strengths include salesmanship, professionalism, and excellent communication skills," said Toppo, "And my passion for the job is to sell, and stay afloat. My main weakness is my inability to read and completely understand financial statements and know where every dollar is going."

In 1992, he expanded his business operations by adding one additional route to make a total of two routes. In 1993, he acquired contracts with NC State University and UNC-Chapel-Hill and added one additional truck to the company. As he acquired more business accounts, he added more trucks and routes to the operation. Since 1994, the company had grown rapidly. Riding the tidal wave of growth in the wholesale food distribution industry, Green Enterprises had expanded its operations in four States, from the entire state of North Carolina, to the top third of South Carolina, the bottom third of Virginia, and the Bluefield, West Virginia, corridor. Between 1994 and 1999, the business had grown dramatically fielding a fleet of 26 trucks and routes. Driven primarily by passion for profit and executed without a comprehensive plan, however, the company suffered from a lack of consistency, poor control, low gross profit margin, and inefficiency. By the end of 2000, Green Enterprises had reached an annualized sales rate in excess of \$7,900,000 but was losing nearly \$1 million in sales and significant sums of cash. As a result of the cash flow problem in 2001, Toppo decided to reduce the number of trucks and routes from 26 to 14. Since 2003, the company remained operating with 12 trucks.

Toppo's initial dream was to build a profitable company and sell it to a larger company. He had no aspirations of having a successor for the company. In 2003, he lost the contracts with NC

State University and UNC-Chapel Hill. Unfortunately, Green Enterprises turned out to be slightly better than a breakeven business, hamstrung by several factors:

- ◆ Gross profit margin of the industry was low.
- ◆ Turnover rate of salespeople was high.
- ◆ Topy was managing the business with the same structure that he was using in the early years.
- ◆ The company could not afford to have more area managers to have better control over each route.
- ◆ Topy did not have the money to promote its services.
- ◆ Competition in the wholesale sandwich market became intense.
- ◆ There were minimal controlling procedures in place.

Despite these problems, Green Enterprises survived. Although Topy's financial plan included balance sheets and income statements, he had a limited knowledge of analyzing and understanding his financial statements.

FOOD DISTRIBUTION INDUSTRY

The food distribution industry was comprised of companies that distributed food products including processed foods, frozen foods, packaged foods, and dairy products to retailers (i.e. convenience and grocery stores) and institutional establishments (i.e. universities and schools). These companies added value to the product in terms of logistics and product marketing without transforming the product from its wholesale state. The food distribution industry operated with a low contribution margin and a high cost of goods sold due to associated vendor and transportation costs. Food distribution companies usually did not service the walk-in client as their major source of income and seldom had physical displays of the products they sold. Additionally, these companies operated from a business and warehouse office and solicited their customers via face-to-face marketing, telephone, or through internet advertisements.

The food distribution industry was comprised of two types of wholesalers. Companies that sold on their own account were known as merchants, jobbers, and drop shippers. Typically, these companies maintained close relationships and contacts with their customers and rented a warehouse to receive and handle goods they purchased for their customers. The second type facilitated sales and purchases of products to retailers and wholesalers for a commission and were known as business-to-business marketers, agents, brokers, auction companies, and manufacturers' representatives. These firms did not finance, own, or handle the products they sold and operated from their offices.

The food distribution industry had been on a rise as a result of more and more Americans dining out and demanding more convenient food choices as opposed to preparing home cooked meals. In 2003, overall income levels had experienced a continual rise, and the percent of disposable income had increased by more than 4%. In the same year, the food distribution industry was totaling \$400 billion in sales annually, of which two-thirds was for food at home.

The overall market was segmented into single stores, conventional supermarkets, supercenters, large warehouse stores, and smaller convenience and specialty stores. Single stores accounted for 25% of total sales (\$400 billion), whereas the conventional supermarkets accounted for approximately 40% of the total sales and had been experiencing a decline in their share of grocery sales for the past ten years. Superstores such as Wal-Mart and Target were growing and accounted for 20% of the total sales. Small grocery stores accounted for a much smaller percentage of market shares and were rapidly declining. However, large warehouse stores and smaller convenience and specialty stores were accounting for the most increased market share.

Increased technology in the invention of refrigeration and microwave, transportation and logistics infrastructures, and modern accounting and financial practices were supporting the growing trend. Most analysts predicted that as long as the demand remained for fast and convenient food items, the food distribution industry would be there to finance, warehouse, and transport the food items to the market.

THE MARKET AND COMPETITION

The market area that Green Enterprises covered still included the entire State of North Carolina, the top third of South Carolina, the bottom third of Virginia, and the Bluefield, West Virginia, corridor. “Any convenience store in the market area is a potential customer,” said Toppo. “In our market area, there are more than 5,000 convenience stores, out of which we serve fewer than 800.” In addition to convenience stores, Toppo had diversified into the market for the small grocery stores and family owned grills and restaurants.

The market for the company’s products was highly competitive. It faced a variety of local and regional competitors. Two of the company’s competitors were larger than Green Enterprises and had substantially greater financial resources. Green Enterprises was the third largest local food distributor in its market area. The largest competitor was Sunburst Foods, which had a strong financial resource, was well known with over 65 years in business with its own brand name, and an older management team. Sunburst’s market area included the entire State of North Carolina with distribution facilities located in Goldsboro, Salisbury, Vanceboro, and Wilmington. The company’s second largest competitor, Fisher-Rex, had a younger management team and implemented many new innovative ideas. “Competition in the industry is intense and is mainly based on price,” said Toppo. “To survive in this industry, you have to know your competition—their strengths and weaknesses.”

Increased competition also appeared in the form of new large retailers such as Wal-Mart, Target, and Costco. These new competitors had some impact in terms of reduced market share within Green's traditional customer base. Another external factor was the slow economy with resulting job losses starting in 2001. Topy could not anticipate the arrival of the new competitors into his market area and the downturn of the economy.

The company competed on the basis of quality products and services offerings, price, and ongoing customer service and support. Topy responded to competitive pressures by exploiting his company's agility. "What differentiates me from other competitors in the food distribution industry is my customer service. I don't just deliver the products to my customers. I place them on their shelves and in their refrigerators," he said. "Superior service is our niche in the marketplace; we respond quicker and faster than our competitors when customers need us."

According to Topy, location was the most important factor in the sales of sandwiches, perhaps more than brand name. He thought that quality was the equivalent of brand name, and his products had better quality than that of his major competitors, Fisher-Rex and Sunburst Foods. "My company was created by my competitors because they were failing to service customers with high quality products. I think the difference in product is the difference between Green Enterprises and my competitors," he said.

Even so, Topy was especially worried about the price-cutting war. "I've always priced to value," said Topy. "My customers have always been willing to pay a premium for the excellent service I give. They want fast, reliable, dependable service, and they know I have staked my reputation on giving such service. Our service is exceptional and distinctive compared to our competitors. Salespeople build relationships with their store accounts and service their refrigerators so that the displays are presentable."

MARKETING

Product Mix

Over the years, Green Enterprises relied almost exclusively on sandwiches, desserts, meats, and salad sales. Topy felt that the company was offering a more diversified product line than its competitors to meet and exceed customer expectations.

Green Enterprises was not dependent on any one supplier and maintained back-up suppliers for major products. Further, it utilized competitive pricing among its suppliers to obtain the best value for the customer's dollar. The company carried products from approximately twenty different suppliers with their own brand names. Because over 80% of food purchases were by impulse

buyers, it was essential to have the varieties and price points of the product available at the stores. For example, Green Enterprises' sales literature listed over 90 varieties of sandwiches.

Topy was planning to add its own name brand products, "Granny Green," into the market beginning in July of 2004. The new items would include seven new sandwiches with 20% more meat and higher quality ingredients than its competitors' products. The new introduction of Granny Green would require some form of advertising to generate a brand image. The possibilities according to Topy included offering free samples of the products and posting small signs to attract potential consumers. Topy had already contacted a company in Ohio to make the private-label brand for Green Enterprises. The company's gross profit margin on its own private-label was expected to be around 35 percent.

Channels of Distribution

One of the strengths of Green Enterprises was the existence of 12 established direct store delivery routes. Route drivers were sales people, merchandisers, and delivery persons. Their job was to listen and help the customers achieve their sales goals for the sandwich category in their stores. Although the route system was such a critical element of business success, Topy did not make a large investment of time and funds in the route staff. He occasionally met with some of the salespeople on a one to one basis to exchange ideas. However, management never visited the salespeople as a group at the beginning or end of the day to share the vision and mission, to learn what the route people were hearing about the product, to find out what support they needed, and to give them advice on new strategies.

The route system was divided into 12 geographical areas (six in town and six out of town) all supported by the main office and warehouses in Hillsborough. The building is owned by Topy Green and rented to Green Enterprises. This organization was partly dictated by existing store chain needs. Salespeople with low route sales felt that the system did not favor them as commission was based on sales. Although the gas price was going up, some salespeople also felt that their routes were long and time consuming, and several accounts required multiple visits a week.

Each route salesperson was provided with a hand-held inventory tracking device to keep track of inventory on a daily basis. The most important part of the business was to increase sales by improving service to existing accounts and to develop new business. The salespeople on the out-of-town routes usually faxed their orders to the office at the end of each business day. Those with in-town routes uploaded their hand-held inventory tracking devices to the main office system at the end of each business day. With a hand-held device, each driver was able to reduce paperwork and allocate more time to the fundamentals of his job. According to Topy, "We wanted to free up the route salespeople so they could increase sales and their commissions, too."

Pricing

Green Enterprises' pricing strategy did not allow the area manager and salespeople the discretion to raise and lower prices and to support promotions. Toppo believed that it would be impossible to position a reputation if pricing were not unified, so he designated himself as the sole person in the organization to give a price quote other than the published price. "I have told everyone that our pricing was not inflexible; however, only I would decide what was acceptable." He committed himself to respond to all calls from salespeople on pricing within an hour.

Craig Hales, who directed the sales force in the field, explained that Toppo did not discount. He stated that "Toppo prices products on a par with two direct competitors, Sunburst Foods, and Fisher-Rex, because our quality is better and we can beat them with services." However, Toppo was considering a price increase on the products in the near future to improve his contribution margin.

Promotion

Green Enterprises continued to acquire new accounts through existing customer referrals. According to Toppo, the best way to acquire new customers was strictly by word of mouth. In addition to visiting referrals, Toppo also picked a specific geographic area twice a week and made a cold call visit to some convenience stores in order to earn new accounts. "Through these cold calls, an average of 3 new accounts is picked up weekly," said Toppo. The company also occasionally got some new accounts as a result of the advertisements carried by the company trucks.

According to Toppo, route salespeople were trained to service their routes well. He prided himself on being a great salesman and did not expect less from his route sales force. He had told all the salespeople to talk with the customers and ask them what was needed so that the company could design a program to address those needs.

Green Enterprises did not advertise because it was not a norm within the industry and its major competitors did not engage in any marketing activities. "Because 81-83% of snack foods sales are by impulse as people walk through the store, the choices are based less upon television advertising than they are for other products. What is essential is to have your product well displayed where people are making choices in the convenience store," he said. The products were displayed in a refrigerator owned by Green Enterprises or the store. Salespeople fill the refrigerator with products that sell best in each particular store. Often times this product selection depended on the demographics of the area. In most cases, the product line was catered toward a specific group. Salespeople pay attention to their target customers such as construction workers, truckers, and highway workers. The company also provided a microwave to each customer.

ORGANIZATION AND CULTURE

Under Toppo Green, the decision-making process had become rigid in all areas. Toppo communicated directly and often with all of the employees.

As of March, 2004, Green Enterprises had 19 employees. The company considered its current employee relations to be satisfactory. The company had no organizational chart. As chairman and president, Toppo managed all route designs, sales, marketing, purchasing, controlling inventory, and day-to-day operations as well as all financial and accounting work. His area manager, Craig Hales, had about 11 years of on and off service with Green Enterprises. Born and raised in Durham county and Orange county, North Carolina, he had firsthand knowledge of the major market area. Before Craig joined Green Enterprises, he ran bread routes for about seven years and milk routes for ten years. According to Toppo, Craig was honest, dependable, and had good sales abilities. Craig handled the day-to-day operations when Toppo was out of the office.

There was no daily or weekly meeting with salespeople to focus on their performance or exchange ideas. Indeed, Toppo did not believe that setting short-term measurable goals for each salesperson was a good idea. "There are no sales quotas set for the sales force. That strategy does not apply to this kind of business," Toppo said.

Toppo did not have time to look to the future while dealing with day-to-day problems. He had got so bogged down with current concerns that he had lost his sense of direction. His goal was to achieve yearly sales growth revenues of \$1 million for the next five years.

Toppo believed that recruiting a salesperson was not a difficult task. Having a clear driving record was a must, while education and sales experience were added advantages. The job called for a person who was physically strong, hard-working, a self-starter, honest, and eager to make some money. There was an on-the-job induction upon a salesperson joining the company. Usually Toppo or Craig would accompany such a new hire on the route for about three weeks before letting him run the route on his own. The company had a high turnover rate for salespeople. Within 2003, the company had over thirty new salespeople on its payroll in different periods. Only two salespeople had been with the company over a year.

Apart from the nine percent commission, the sales force was given vacation and often some monetary rewards to higher achievers.

RECENT COMPANY PERFORMANCE

In 2003, the company had experienced a tough year (Exhibits 2 and 3). Although the business was contributing positively to overhead and profit, sales revenue had declined and resulted in a negative cash flow. Key vendors and the employees were being paid on time, but some suppliers were being asked to accept payments beyond their terms. During the year of 2003, Toppo

was barely able to keep afloat. After meeting his bank obligations, he was able to pay some of his accounts payable. Out of the \$377,913 accounts payable balance at the end of March, 2004, about \$220,000 was payable to only three suppliers and was more than one year old. The company was purchasing about \$3,000,000 a year from those three suppliers. Topy was paying about \$5,000 a month on his old accounts payable. As the bank officer had said in early 2004, "Topy, I'm concerned about your cash position. You have reached your credit limit, and we know cash doesn't grow on trees. You need to restructure your accounts payable."

During the first three months of 2004, Topy had made some progress on the cash position of the company. He had raised the price slightly on some products. While such price changes had somewhat improved performance since the beginning of the year of 2004, the operation still remained as a significant cash drain on the business. When the company was short and needed cash to make payroll or buy supplies, the bank loaned the money to the company. The company had, in the past, been able to raise additional cash when cash was needed. Topy knew that was not possible anymore in light of the poor performance of the company's operation, and because most of the company's assets were already encumbered by bank debt. While the company still had some cash on its balance sheet, unless performance improved, that cash would soon run out.

Exhibit 2 – Green Enterprise, Inc.: Consolidated Statement of Operations				
	Three Months Ended March 30, 2004	Three Months Ended March 30, 2003	Year Ended December 31, 2003	Year Ended December 31, 2002
Sales Revenues	1,407,532	1,621,994	6,247,303	7,277,597
Cost of Goods Sold	999,695	1,233,698	4,694,847	5,297,256
Gross Profit	407,837	388,296	1,552,456	1,980,341
Operating Expenses:				
Vehicle lease and expenses	82,794	102,198	385,238	432,406
Sales Expenses	126,678	145,979	562,257	654,984
General & Administrative	130,992	120,602	593,156	843,528
Depreciation	0	0	0	22,081
Total operating expenses	340,464	368,779	1,540,651	1,952,999
Profit (Losses) from operations	67,373	19,517	11,805	27,342
Interest income (expenses)	597		2,290	2,605
Profit (Loss) before income taxes	66,776	19,517	9,515	24,737

Exhibit 3 – Green Enterprise Inc.: Balance Sheets			
Assets	March 30, 2004	Dec. 31, 2003	Dec. 31, 2002
Current Assets			
Cash	4,344	(45,605)	(71,181)
Accounts receivable	76,978	87,189	122,413
Inventories	113,714	65,131	156,186
Other	543	543	110
Total Current Assets	195,579	107,258	207,528
Fixed Assets			
Autos & Trucks	18,944	18,944	18,944
F & F	7,880	7,880	7,880
Building & Land	2,695	2,695	2,695
Equipment	120,230	134,629	133,700
Less Acc. Depreciation	(105,996)	(103,289)	(103,290)
Lease Deposits	8,658	8,657	8,657
Total Fixed Assets	52,411	69,516	68,586
Total Assets	247,990	176,774	276,114
Current Liabilities			
Accounts Payable	377,913	360,559	502,325
Accrued liabilities	1,293	3,176	325
Accounts payable to affiliates	733	14,777	31,482
N/P Equity Line	74,719	50,603	0
Total Current Liabilities	454,658	429,115	534,132
Long-term Liability			
N/P – Stockholders	47,698	41,896	44,456
Stockholders' Equity			
Common Stock	100	100	100
Retained Earnings	(254,466)	(294,337)	(302,574)
Total Liabilities & Equity	247,990	176,774	276,114

POTENTIAL DIRECTIONS FOR THE COMPANY

Topy's main ambition for Green Enterprises was to turn it around to a positive equity. He noted that the company must become competitive in a world-class way. He also recognized that the road to becoming world class was going to be difficult. He was fully convinced that his organization had to change in terms of moving toward a continuous improvement paradigm. He also realized that the larger volume of business meant higher accounts receivable, higher inventory, higher accounts payable, and higher cash needs. To realize his ambition, he planned to rely heavily on his team of professional advisors. "I have never doubted my ability and courage to turn the company around," said Topy. "We must now grow in an orderly way. That's why I need sound, expert advice." Among his present advisors were:

- ◆ Mary Speight, heads Small Business Resources and Technology Center of NCCU
- ◆ Five MBA students coached by a university professor, who helped him in strategic planning, cash flow, and market projections

Green Enterprises' board of directors rarely met. Topy preferred to consult with his team of professional advisors. "I know they will continue to help me survive and grow," he said.

Topy's first approach in trying to address marketing and sales concerns was to have a company meeting involving his salespeople and hammer out a consensus as to the major issues facing the company and how to address them. Some of the more pertinent problems identified were: (1) high salespeople turnover; (2) insufficient familiarity with customers; (3) lack of planning; (4) lack of training systems; (5) no "process" for improvement; (6) no common goal/direction; (7) lack of communication and teamwork; and (8) lack of motivation. Topy pondered a strategy to solve these problems with his advisors. Together they brainstormed the following questions:

- ◆ Should we reevaluate the market, the company's strengths and resources, and the competitive industry and develop a new vision?
- ◆ What competencies and resources can we depend on to survive and grow in our increasingly competitive environment?
- ◆ What should be the company's geographic focus? Should we continue to aggressively expand our geographic coverage, or should we be more selective about where our products are sold and our routes are built?
- ◆ Finally, what are the possible ways to improve our gross profit margin and cash flow?

"These are tough decisions," Topy thought to himself. "It is a good thing we have strong advisors to help us make the decisions."

NUNIVAK ISLAND MEKORYUK ALASKA (NIMA) CORPORATION: AN EXAMINATION OF A NATIVE VILLAGE CORPORATION'S STRATEGY DEVELOPMENT

**Wayne Don, NIMA Corporation
Art Warbelow, Warbelow's Air Ventures, Inc.
Steven P. Landry, University of Alaska Fairbanks**

CASE DESCRIPTION

The primary subject matter of this case involves developing a strategy for NIMA to determine which ventures to accept with specific attention to developing a strategic framework to examine the viability of entering various markets based on incomplete information and the lack of full-time management as identified in the case. The case has a difficulty level of 4, appropriate for the undergraduate level. The case is designated to be taught in 1.5 class hours and is expected to require 2-3 hours of outside preparation by students.

CASE SYNOPSIS

This case examines the evolution of native corporations under the Alaska Native Claims Settlement Act of 1971 and some of the challenges facing native corporations. The primary subject matter of this case concerns the development of strategy for a small native village corporation on Nunivak Island, with the added challenge of determining both strategic and operational issues falling solely within the purview of the corporation's board of directors. Specifically, the core issues surround the decision(s) whether to enter into some combination of three potential ventures where the board of directors acts as the principal operational manager. This uncharacteristic approach to management is a result of a tumultuous history and cultural issues. Embedded within the case lies an attempt by some to make the argument for hiring a full time general manager to the shareholders.

INTRODUCTION

The board of directors had just finished meeting and were trying to create a new direction for the corporation. They convened in the village corporation headquarters, although it was considered the corporate headquarters, in reality it was a building with a fax machine, phone, computer and a part time administrative assistant who took care of day-to-day operations. Jimmy Smith, Chairman of the board was trying to figure out whether the board was on the right track. Had they over committed the corporation in their exuberance of changing the strategy and mission of the corporation? Did they really know what we were getting themselves into? The last two years had seen a dramatic shift in the composition of the corporate board of directors. Terry and Wayne Don had recently been elected and were beginning to move the corporation in a new direction. Both were college graduates and were finishing up Masters of Business Administration programs at the University of Alaska Anchorage (UAA) and the University of Alaska Fairbanks (UAF), respectively. Terry was in the second year of three-year term. He had been able to make some subtle changes to the board's approach to business and was chiefly responsible for the technological changes in the corporation; he had created a website (www.nimacorporation.com) and also began to chart a fiscal course for the corporation. As treasurer he was on a campaign to cut costs and take charge of the corporation's finances.

Wayne was a relatively new member who had been elected to the board 4 months earlier. He was in the military assigned to teach Reserve Officer Training Corps to students enrolled in the UAF Military Science program. He was learning the corporate culture and had volunteered to head up a cultural tourism project slated to start in the summer.

Jimmy thought about the ventures that they decided to pursue: renovating foreclosed properties, Eco-tourism, and entering the 8A (a US Federal government initiative discussed in more detail later in the case) market. The last venture was a partnership with a prominent electrical company in Alaska. If they could break into this they might be able to grow revenues for the long term. This was by far the most exciting and promising venture for the corporation. Jimmy thought about the goals and verbiage they had just adopted:

Vision

To be an Alaskan Native Corporation that is the standard for economic success, corporate growth, and cultural preservation

Mission

To pursue and develop economic opportunities that will enhance shareholder standard of living through business diversification, professionalism, innovation, and respect for heritage and culture

Values

Maintain open honest two-way communication with shareholders
 Continuous improvement
 Increase and maintain cultural pride and respect for people
 Service to shareholders, public, and customers
 Dedication to corporate vision and mission statements

Short term goals

1	Develop a core competency
2	Develop financial goals fiscal awareness-budget, investments. Set up a method for bi-annual performance evaluation
3	Learn the industry
4	Build rapport with industry leaders in Alaska, Nationally. Promote association and networking activities in the state.

Long term goals

1	Becomes village corporation leader statewide- top ten in the state
2	Increase Statewide, National and International financial holdings
3	Job creation and dividend distribution for shareholders
4	Double assets and holdings

Did they have the capacity to pursue such lofty goals? After all, as much as they all wanted to grow the corporation they did this on the side. The board members who worked full time were also the members taking on projects and trying to get the corporation on the right track. How should NIMA approach establishing structure to support their new strategy? Should they hire a general

manager (GM) to do this full time? How could Jimmy make a convincing case to the shareholders who had historically opposed this? The other problem was finding the right person to hire as a general manager for the corporation. One option was to hire a shareholder. NIMA had tried this in the early 1980's and failed. The person was not trained and was accused of mishandling corporate money. He resigned and the corporation had not entertained hiring a GM since. The other option was to hire a non shareholder. Several interior native village corporations had hired non shareholder general managers and had mixed results. One of them who tried this saw their revenues grow from \$2 million to \$11 million in a four year period. Others who tried this weren't quite as successful and Jimmy knew the circumstances had to fit the situation in order for this to work. He had spent a lot of time trying to figure out how to go about this and present it to the shareholders. Despite the relatively positive changes the corporation experienced they had lost revenue for the year. Their chief source of revenue was a general store, which sold merchandise and fuel to the residents of Mekoryuk. The general store was the sole source of gasoline, stove fuel, basic foodstuffs, limited hardware for basic construction and maintenance, and lumber. Food products were flown in through a commercial air carrier year round. Fuel and lumber were brought in on a barge typically in the summer around June or July.

BACKGROUND SETTING

Nunivak Island

Mekoryuk is at the mouth of Shoal Bay on the north shore of Nunivak Island in the Bering Sea. The Island lies 30 miles off the coast. It is 149 air miles west of Bethel and 553 miles west of Anchorage. Mekoryuk is part of the Yukon Delta National Wildlife Refuge.

"Nunivak Island has been inhabited for 2,000 years by the Nuniwarmiut people, or Cup'ik (Choop'ik) Eskimos. The first outside contact was in 1821 by the Russian American Company, who recorded 400 people living in 16 villages on the Island. A summer camp called 'Koot' was noted at the current site of Mekoryuk in 1874. In 1891, Ivan Petroff found 702 Eskimos in 9 villages, including 117 people at 'Koot'. An epidemic in 1900 decimated the population, leaving only four surviving families in the village. In the 1930s, the Evangelical Covenant Church was built by an Eskimo missionary, followed by a BIA school in 1939. People moved to the village from other areas of the Island to be near the school. Reindeer were introduced for commercial purposes in 1920 by an Eskimo-Russian trader. The operation was purchased by the Bureau of Indian Affairs (BIA) in the 1940s and a slaughterhouse was constructed in 1945. The reindeer were crossed with caribou from Denali Park; the resulting animals are larger and harder to handle than other reindeer in the state. 34 musk-ox from Greenland were transferred to the Island in 1934 in an effort to save the species from extinction. Today, the musk-ox herd numbers around 500, and calves from this herd

have been relocated and introduced to other areas of Alaska. A post office was opened in 1940. In the 1940s, the women lived in semi-subterranean sod houses and the men stayed at one or more 'kasigi', or men's community houses. At that time, traditional ceremonies and religious beliefs were still practiced. The 50s and 60s brought considerable change. An airstrip was built in 1957, and the Territorial Guard was formed. Men went to Fort Richardson near Anchorage for training. By then, Mekoryuk was the only permanent community on the Island. During this time, many families moved to Bethel to be near the high school, returning during late Spring for fishing and sea mammal hunting. The City was incorporated in 1969. A high school was constructed in 1978"

The Bering Sea which surrounds Nunivak Island strongly influences the climate of the island. Foggy and stormy weather is frequent. Average precipitation is 15 inches; annual snowfall is 57 inches. Summer highs average 48 to 54; winter highs run 37 to 44. Extremes have been recorded from 76 to -48. (<http://www.awrta.org/communities.cfm?city=Mekoryuk>)

History

The village corporations were created through Alaska Native Claim Settlement Act (ANCSA) which was passed in 1971 by Congress. The act created 13 regional corporations and roughly 270 village based corporations which were to be managed by the residents of each respective community. The regional corporations were structured in the same manner as modern corporations with the same corporate governance laws and the structure to support the corporation. The regional corporations represented geographic (villages) areas that were staffed by shareholders of the respective regions. One of the nuances of ANCSA was that shares were non-transferable to non-decedents and could not be sold. Another nuance was that unlike corporations with similar corporate structures they were not subject to oversight from the Securities and Exchange Commission due to their status as Native owned corporations. This particular clause in the governance had come under increasing scrutiny due to increasingly large revenues some of the regional corporations were bringing in as a result of investments, joint ventures and partnerships with various national and international companies. One regional corporation had recently distributed and unprecedented \$50,000 dollar dividend to all its shareholders from a phenomenally successful business venture.

During the ANCSA corporations' infancy in the early 1970's, many of them were mismanaged due to a lack of experience and education. This had more recently become the exception and not the norm as various Regional corporations employed shareholder CEO's who were seasoned businessmen as a result of their experiences early on. The regional corporations were in much better shape than a majority of the village corporations. Villages elected directors for their local corporations and those directors would dabble in various investments and ventures. A lot of the ventures failed because of a lack of capability with respect to the directors.

PAST FAILED VENTURES

Air Taxi Service

NIMA suffered two failed ventures in the early and mid 1980's, which really made the community suspect of any board investments and projects. Several neighboring villages partnered with NIMA Corporation and invested in a small passenger flying service, which flew passengers and cargo within the Yukon Kuskokwim (Y-K) Delta. The fleet was minimal but the start up was substantial to finance aircraft and create an operating budget to get the business up and running. The business was poorly managed and the oversight from the village corporations was minimal to non-existent. Several problems emerged right away; there were cash flow problems as the business was struggling to create market share and generate revenues. Several of the villages recognized some problems with the way the business was being operated and sold majority ownership to NIMA Corporation.

There was a demand for air transportation within the Y-K Delta with aircraft being the only means of transportation in many of the remote villages in rural Alaska. Residents of remote communities relied on aircraft for everything: basic transportation to the regional hubs, shipping of cargo, mail, and medical evacuation to regional hospitals. To meet these basic needs the village corporations decided that establishing an air taxi service would be a good investment that would definitely generate revenue and benefit their shareholders.

The NIMA leadership was confident that the air taxi service was a good investment. They felt because they were even more isolated and remote than the neighboring villages that they needed to make this investment work. Although Mekoryuk was serviced by a commercial carrier they felt that the added flights to their community would benefit their shareholders. This was very sound reasoning to keep the business, but it proved to be a very costly mistake.

The business struggled from the beginning and never recovered. Management had assured NIMA that they were experiencing growing pains and simply needed to establish themselves before they started generating revenues. The leadership's unconditional trust in management turned out to be a big mistake. The business ultimately declared bankruptcy. NIMA was left with the onus as the major owner to settle all liabilities. A review of the entire case turned out some potential issues of embezzlement and questionable business practices. The net result was the corporation's damaged credibility and the loss of over a million dollars.

Real Estate (Condominiums)

New board leadership on NIMA decided to try another venture, this time in real estate. Anchorage had experienced growth for 5-10 years in the mid and late 1980's, so the board decided

to invest in condominiums, which they thought was a sure way to recoup their losses from the failed air taxi business. This project seemed promising at the time but they failed to recognize a couple of key facts: 1) the required capital to finance the project would literally put the corporation in a position of insolvency if it wasn't managed correctly, and 2) the real estate and housing market were in a state of recession due to high interest rates.

Despite the ominous signs that pointed to failure the board did not recognize any problems and pursued the condominium venture. As with the last venture, this project was plagued with cash flow problems and a lack of understanding about what they facing. The required analysis to go into a project of this magnitude was non-existent in terms of in-house talent and capabilities. Thus, the board put themselves in a position which jeopardized the solvency of the corporation.

They had contracted the project out to a construction company and managed as best they could; but as was the case with the previous project, the lack of experience and the background to manage a project of this magnitude and complexity doomed the corporation to failure. The project was behind schedule which forced the corporation to invest more than it had projected. Consequently, they had to figure out how to recover. In the end they sold the condominiums for much less than they had invested and were able to recover only a portion of their investment. However, importantly, they were able to keep the corporation solvent.

THE THREE NEW INITIATIVES TO BE CONSIDERED

Housing Venture (Renovating Foreclosed Properties)

Despite skepticism from failed businesses and a general feeling of distrust, the current board began looking into further potential business opportunities. Several of the board members began to aggressively seek opportunities in the region and within the state. This resulted in three apparently very promising opportunities: 1) purchasing foreclosed properties, renovating them and putting them back on the market; 2) engaging in an eco tourism venture on Nunivak; and 3) entering into a partnership with a prominent electric company within the state. This last venture was very promising and could help NIMA establish a core competency.

Terry had been studying the housing market for a few months and had looked into the feasibility of creating a business by purchasing foreclosed properties, doing some finishing work and putting the houses back on the market. He had talked to a number of realtors and personally visited a number of foreclosed properties to assess the quality and potential labor to put the houses back on the market. After a number of discussions with industry leaders and some quantitative data he decided to present this idea to the board for consideration.

During a scheduled quarterly meeting in Anchorage, Terry presented his idea for this proposed business. His concept for this business was that they purchase several 2-3 bedroom houses

that were in the \$150,000 dollar range, hire a crew of four and give them 2 weeks to do finishing work on the houses. They would have a shareholder hiring preference and the employees would need to provide their own tools. He projected a net profit of approximately \$30,000 for the first year and approximately \$50,000 for the following year.

The presentation was well received but several of the board members had some questions about how Terry had proposed to run the business. Nathan Toots had some reservations about the project and asked some very pointed questions. "This business looks promising but I am wondering how you plan on your crew doing finishing work in two weeks? And my other question is how long do you plan to keep this going? All year or seasonally?" Terry had thought these issues through before, but had not included some of the operational issues in his presentation. "Nathan, those are good questions and I'm glad you asked. In order to keep the crew on task I have included a \$2,500 bonus for each house that is completed ahead of the two week schedule. On your second question I would like this business to work seasonally this first year for two reasons: 1) it allows us to enter this market on a trial basis; and 2) the demand for houses in this area is usually seasonal so I think It's in our best interest to operate from May-August when there is usually the most activity." Nathan was pleased with this and so were the other board members. After further discussion the board decided to take on this venture. The board unanimously decided to enter the market on a trial basis and purchased three houses to work on for the first year.

Tourism Venture

The next business venture proposed was an eco tourism venture that would involve outdoor adventure and education on Nunivak Island. Terry had been in contact with the Alaskan Outdoor Center, which is a non-profit adventure and education focused company. The company was operated by Martin Leonard who had 30 years of experience in the industry and had paddled some 30,000 miles in the United States, Alaska, Canada and former Soviet Republic of Russia. Martin had run several outdoor adventure programs for students in the Bethel area and had been very successful. The curriculum was a tremendous hit with all participants and agencies that signed on for the summer. Martin had done some local advertising and marketing within the Bethel area and was completely booked from June-August.

Martin and Terry had been talking after he had made a trip to Nunivak and paddled around the island. Martin saw significant potential in the area for operating a similar type of program he had developed in Bethel. The discussion was ongoing and had been for approximately a year. Terry really liked the concept and decided to present this idea to the board at a quarterly meeting in Mekoryuk. During the January quarterly meeting Terry presented the idea to the board. In addition to simply presenting his concept to the board he also invited Martin Leonard to Mekoryuk to provide additional information and sell the concept to the board of directors.

Prior to the January meeting, the Chairman of the board, Jimmy Smith, received a call from Cruise West, a tour ship that operates in the Bering Sea Region from June-July. The ship cruises from Anchorage to Saint Paul Island, Saint Lawrence Island, Little Diomed Island, Provedenia and Nome. Once they reach Nome, passengers disembark and return to Anchorage. A new group boards and the ship follows the same route in reverse back to Anchorage. The ship had run into weather the previous summer and took refuge near an old settlement, Nash Harbor, on Nunivak Island. During this time the passengers along with the tour guides made an impromptu landing at Nash Harbor. It was a tremendous hit with the passengers. Cruise West had contacted Jimmy to make arrangements for four scheduled stops, two in June and two in July. Terry and Martin really wanted to take advantage of this opportunity to ensure that it would become a long term opportunity for the community.

As Terry began to outline the concept developed by Martin and the Alaskan Outdoor Center he could see that some of the board members had some concerns. He laid out the concept as follows; “You know the Alaskan Outdoor Center developed a program for the youth in the Bethel area and were sold out the entire summer last year. They offered basic wilderness survival and adventure based activities like kayaking, backpacking, and hiking. We have a most unique set of topography and resources in the Y-K Delta to offer the same kind of services. Our resources are our culture and the unique history of the Island and our people. If we take this on we have a tremendous potential to grow this thing and provide a viable business for our people here on the island.” Martin offered to provide his services and resources to get this off the ground. He was also very keen on providing services to the tourists on the Cruise West ship that would make four stops during the summer.

Wayne had some reservations about the project: “you know tourism in general is a very dicey thing especially in this part of the state. How are we going to be able to sustain this kind of operation for just four cruise ship stops? Can we reasonably justify the costs to start up this business and market this thing based on the limited needs of a cruise ship that may decide not to stop on Nunivak next summer?” Terry and Martin had thought this through and knew that there might be some concern. Martin replied, “Wayne, those are some valid concerns but we are not starting this thing to cater only to the cruise shippers. We want to become a resource for the Y-K Delta as a viable provider of outdoor education and adventure based activities. Our operations for the last couple of years have proved that this model and market are rich for expansion. We wouldn’t have too much marketing to do on this thing because we are getting requests monthly for reservations. All these contacts and requests will become yours. I’ll be here this summer to help get this thing off the ground.” Wayne thought about what was just said and seemed to be more willing to accept this project. “Okay, that sounds more feasible than how I thought this thing was being put together.”

At this point the group began to discuss how to incorporate the cruise ship and the outdoor adventure based activities so that neither one of the markets were being excluded. As the board discussed the matter, the idea of creating a culture camp that would cater to both the cruise ship and the local Y-K market began to take shape. Edward Shavings and Nathan Toots really embraced the

idea and they expressed a great deal of enthusiasm for the start up of this business. “You young folks are on to something with this culture camp. We have a really unique story to tell and the land has a story of its own that will keep people coming for many years. We need folks like you to take on things like this and tell our story.” A discussion soon ensued as to who would head up this venture. Terry initially offered but soon reconsidered after a conversation with his brother. Wayne had volunteered to take this on because he felt that his brother had taken on enough responsibility with the housing venture and administrative tasks associated with being the board treasurer.

Partnership (Electric Company association with respect to 8A Program)

Terry had approached a prominent electric company in the state about venturing into the 8A program. Program participants receive business development assistance from the SBA and other government agencies on a range of different levels. One key benefit is the opportunity to receive "sole-source" contracts (not exceeding \$3 million for goods and services, and \$5 million for manufacturing). Participants can also bid for "set-aside" contracts of any size in competition with other participants in the 8(a) Program. Participants typically remain in the 8(a) Program for a period of nine years, during which they are encouraged to grow their competitive and institutional know-how through a monitored combination of 8(a) and non-8(a) contracts.

To participate in the 8(a) program, a company must be owned and operated by individuals who are socially and economically disadvantaged. There are comprehensive (and sometimes complicated) rules and regulations for reviewing and evaluating applications for certification. The benefit of taking the time to learn the 8(a) process is that you can open the door to major opportunities for business growth by getting certified. ([http://www.fedaccess.com/8\(a\)program.htm](http://www.fedaccess.com/8(a)program.htm)) Several regional corporations had capitalized on this and were bringing in large contracts with the military and various agencies in the federal government. Terry had been communicating with this company which was very interested in the partnership and the potential of the 8A program. With the impending influx of US Army soldiers from the Stryker Brigade into Anchorage and Fairbanks, the potential to contract service for electrical components was very enticing, particularly because the highly digitized military vehicles would be reliant on this type of service. (Note: This partnership is still being negotiated and to preserve the fidelity and proprietary nature of the process the company will remain unnamed.)

CHAIRMAN’S DILEMMA

Jimmy couldn’t help feeling excited and a little worried about the potential for these ventures. How should NIMA proceed? Have they taken on too much too soon? Is it feasible to hire

a general manager to help develop the structure and grow the corporation? Wayne and Terry were certainly capable of taken on the projects but they were both working full time and going to graduate school. Do we have the resources and the time to do all this? He was also very excited about the strategy and goals they had just adopted. He was a little concerned about whether or not they had the structure to support such a lofty strategy. How are we going to develop the structure? How do we present this to the shareholders, especially in light of the failed ventures? He sat in the village corporation headquarters an hour before the annual meeting and finalized his thoughts for his annual address to the shareholders.

BOARD OF DIRECTORS

Jimmy C. Smith, 46, Chairman. Received an AA in business from Sheldon Jackson College. Over 15 years of experience as an administrator at the local, city and state levels of government. Currently serving as a board member for Calista Corporation.

Nathan R. Toots, 67, Vice-chairman. Served two terms as a board member and various positions as an officer on the board. Ordained minister with background in administration at the local level.

Terry Don, 36, Treasurer. In the second year of a three year term as a director. Graduated from UAA with a BA in Criminal Justice, currently pursuing an MBA with one semester remaining. Background in banking, administration and procurement.

Edward Shavings Sr., 78, Secretary. Master guide and commercial fisherman. Over 30 years of experience as a leader in the community on various boards.

Abraham David, 42, member. Professional pilot and guide. Second term as a member of the board of directors on NIMA Corporation.

Wayne Don, 32, member. Elected October 2003. Currently serving in the Military as an Instructor, UAF Military Science Department. Graduated from UAF with a BA in Criminal Justice in 1994. Currently in the final year of MBA program at UAF.

Moses Whitman Sr., 58, member. Over 20 years of experience as a member of the NIMA Corporation board of directors. Served as general manager of general store for 28 years.

QUESTIONS

1. What do you see as the board's function? Consider the following:
 - a. What can individual board members do to best serve NIMA?
 - b. Should the board hire a CEO/GM from outside the village to run the corporation?
 - (i). If so, what qualification should they look for, and what authority/responsibility should be given?
 - (ii) How should (s)he be compensated?
 - (iii). If not, what alternative plan would you propose?

2. What strategic framework would you suggest for the Board when it considers proposals put before it? In light of what you suggest, examine and discuss the three initiatives:
 - a. Housing Venture (Renovating Foreclosed Properties)
 - b. Tourism Venture
 - c. Partnership (Electric Company association with respect to 8A Program)

3. What would you decide to pursue? Possibilities include any combination from zero to all three. Defend your decision.

*Exhibit A contains NIMA's financial statements (current with respect to the timeline of this case) in order to provide contextual backdrop. This information may be used as deemed appropriate in the analysis of the case.

Exhibit A			
NIMA CORPORATION AND SUBSIDIARY			
Consolidated Statements of Earnings (Loss): Years Ended December 31, 2003 and 2002			
		2003	2002
Sales		819,006	851,480
Cost of good sold		507,678	548,154
Gross profit from sales		311,328	303,326
General and administrative expenses:			
Salaries and payroll taxes		143,480	153,630
Travel, per diem, and stipends		92,531	73,474
Professional fees		76,993	63,412
Scholarship expenses		39,784	40,169
Insurance		37,114	33,133
Telephone and utilities		25,453	26,294
Depreciation		19,647	12,478
Office supplies		10,922	7,514
Shareholder benefits		9,911	12,859
Meeting expense		7,086	5,900
Penalties		4,619	1,206
Repairs and maintenance		3,523	11,239
Pension expense		2,887	3,500
Education and training		2,445	-
Licenses and other taxes		1,139	288
Consultants		700	1,722
Rent expenses		55	651
Advertising		-	3,001
Miscellaneous		1,998	1,568
Total general and administrative expenses		480,287	452,038
Loss from operation		(168,959)	(148,712)
Other Income (expenses) :			
Interest income		117,038	113,345
Resource revenue (7(i) funds)		91,250	47,399
Dividend Income		19,264	27,906
Rental Income		5,015	2,950
Interest expense		(2,142)	(112)
Gain/(Loss) on sale of investments		33,720	(45,560)
Miscellaneous		7,891	6,625
Total other income		272,036	152,553
Earnings before income taxes		103,077	3,841
Income tax expense		(12,637)	(5,292)
Net earnings(loss)		90,440	(1,451)

Exhibit A			
Consolidated Statements of Comprehensive Earnings (Loss): Years ended December 31, 2003 and 2002			
Net earnings (loss)		90,440	(1,451)
Other comprehensive earnings (loss), net of tax-Unrealized holding gain (loss) during period		62,286	(17,033)
Comprehensive earnings (loss)		152,726	(18,484)
NIMA CORPORATION AND SUBSIDIARY Consolidated Statements of Cash Flows Years ended December 31, 2003 and 2002			
		2003	2002
Cash flows from operating activities:			
Net earnings (loss)		90,440	(1,451)
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:			
Depreciation		19,647	12,478
Decrease (increase) in assets:			
Accounts receivable		(10,488)	2,697
Inventory		(27,348)	12,407
Prepaid expenses		(3,038)	(234)
Accrued interest		3,525	3,397
Income tax deposit		1,244	-
Deferred tax asset		5,885	(5,885)
Increase (decrease) in liabilities:			
Accounts payable		2,250	380
Payroll taxes payable		(1,496)	(1,201)
Income taxes payable		7,345	(13,308)
Income tax penalties payable		-	(949)
Deferred income tax payable		26,203	-
Deferred revenue		(1,432)	(8,489)
Net cash flows provided (used) by operating activities		112,737	(158)
Cash flows from Investing activities:			
Proceeds from sale of marketable securities		1,774,093	563,632
Collection on note receivable		351,369	341,792
Purchase of equipment		(13,473)	(2,899)
Short term note to shareholder		6,359	(6,359)
Investments in marketable securities		(2,250,201)	(857,131)
Net cash (used) provided by investing activities		(131,853)	39,035
Net (decrease) increase in cash and cash equivalents		(19,116)	38,877
Cash and cash equivalents at beginning of year		578,773	539,896
Cash and cash equivalents at end of year		559,657	578,773
Cash paid for interest		2,142	112
Cash paid for income taxes		4,048	18,599

Exhibit A			
NIMA CORPORATION AND SUBSIDIARY			
Consolidated Statement of Earnings (Loss): Year Ended December 31, 2003			
	NIMA Corporation	NIMA Store	Consolidated
Operating revenues	-	819,006	819,006
Cost of goods sold	-	507,678	507,678
Gross profit	-	311,328	311,328
Operating expenses:			
Salaries and payroll taxes	12,188	131,292	143,480
Travel, per diem, and stipends	85,483	7,048	92,531
Professional fees	71,839	5,154	76,993
Scholarship expense	39,784	-	39,784
Insurance	9,500	27,614	37,114
Telephone and utilities	5,308	20,146	25,454
Depreciation	5,013	14,634	19,647
Office supplies	4,778	6,144	10,922
Shareholder benefits	9,543	368	9,911
Meeting expense	7,086	-	7,086
Penalties	4,619	-	4,619
Repairs and maintenance	61	3,462	3,523
Pension expense	-	2,887	2,887
Education	2,445	-	2,445
Licenses and other taxes	390	749	1,139
Consultants	700	-	700
Rent expense	-	55	55
Miscellaneous	1,864	135	1,999
Total operating expenses	260,601	219,688	480,289
(Loss) earnings from operations	(260,601)	91,640	(168,961)
Other income (expense):			
Interest income	115,926	1,112	117,038
Resource revenue (7(i) funds)	91,250	-	91,250
Capital gains/ (losses)	33,720	-	33,720
Dividend income	19,264	-	19,264
Rental income	4,650	365	5,015
Interest expense	(2,142)	-	(2,142)
Miscellaneous	1,834	6,059	7,893
Total other income	264,502	7,536	272,038
Net earnings before taxes	3,901	99,176	103,077
Income tax expense	-	(12,637)	(12,637)
Net earnings	3,901	86,539	90,440

Exhibit A			
NIMA CORPORATION AND SUBSIDIARY			
Consolidated Balance Sheets: December 31, 2003 and 2002			
		2003	2002
Cash and cash equivalents		559,657	578,773
Investments - Securities available for sale		2,277,644	1,739,250
Trade receivables, net of allowance for doubtful accounts of \$6,285 for 2003 and 2002		20,567	10,079
Short-term note		-	4,201
Note receivable, current portion		406,128	393,720
Inventory		305,512	278,164
Prepaid expenses		8,003	4,965
Accrued Interest		10,843	14,368
Income tax refund receivable		-	1,244
Deferred tax benefit		-	5,885
Total Current assets		3,588,354	3,030,649
Note receivable, excluding current portion		717,683	1,083,618
Buildings and Improvements		232,709	232,709
Furniture, fixtures, and equipment		139,779	126,306
Fuel tanks and accessories		88,428	88,428
Total property and equipment		460,916	447,443
Less accumulated depreciation		426,560	406,913
Net property and equipment		34,356	40,530
Restricted cash - Loan guarantee for Bering Sea Reindeer Products		75,000	75,000
Investment in WAVE Stores, Inc.		25,000	25,000
Stock Investment		1,925	1,925
		4,442,318	4,256,722
Accounts payable		2,630	380
Payroll taxes payable		-	1,496
Income taxes payable		12,637	5,292
Deferred revenue		4,958	6,390
Deferred tax liability		26,203	-
Dividends payable		3,150	3,150
Total current liabilities		49,578	16,708
Common stock, par value \$.01 per share; 1,000,000 shares authorized, 30,500 shares issued and outstanding		305	305
Contributed capital		1,841,354	1,841,354
Donated capital		76,354	76,354
Accumulated equity		2,423,864	2,333,424
Accumulated comprehensive equity (deficit)-Unrealized gain (loss) on securities available for sale, net of deferred income tax		50,863	(11,423)
Total stockholders' equity		4,392,740	4,240,014
		4,442,318	4,256,722

NIMA AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Incorporation

NIMA Corporation (the Corporation) was incorporated under the Alaskan Business Corporation Act as a village corporation, pursuant to provisions of the Alaska Native Claims Settlement Act (the Act, Note 2) enacted by Congress on December 18, 1971. The Corporation is located within the geographic region encompassed by Callista Corporation.

Principals of Consolidation

The Corporation and its wholly owned subsidiary, NIMA Store Inc., are reflected in the consolidated financial statements. All material intercompany balances and transactions have been eliminated in consolidation.

Operations

The Corporation operates a general merchandise store and fuel company in Mekoryuk, Alaska.

Revenue Recognition

The Corporation recognizes revenue by the accrual method. The largest source of revenue is from store sales. Revenue is also received from distributions under terms of the Act as described in Note 2. The Corporation's portion of revenues arising from Callista Corporation's resources, or revenues derived from timber and subsurface mining owned by other regional corporations, will be recognized in the year such amounts become known.

Deferred Revenue

The Corporation's store has received State food assistance funds for certain individuals, which at year end had not yet been used to purchase groceries. The Corporation has recorded these funds as deferred revenue until the individuals have used the entire balance.

Monies from ANCSA

Distributions from the Alaska Native Fund have been recorded as paid in capital.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventory

Inventory is valued by use of the retail inventory method, which involves pricing individual items at current selling prices and reduction of the amounts so determined to cost by the amount of markup percentages.

Depreciation

Depreciation is calculated using the straight-line and accelerated methods.

Income Taxes

As described in Note 2, certain distributions to the Corporation are exempt from taxation.

Pension Plan

The Corporation has a Simplified Employee Pension Plan (SEP), which is funded in part by the employee at an amount of 5 percent of the employee's salary. The employer also matches the amount contributed by the employee.

Comprehensive Earnings

During the year the Corporation adopted FASB Statement No. 130, Reporting Comprehensive Income. Statement 130 requires reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Trade Accounts Receivable

Trade accounts receivable are recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends.

NOTE 2 — ALASKA NATIVE CLAIMS SETTLEMENT ACT*The Act*

The Act, which settled the aboriginal Alaska Native land claims against the United States government, provides for the division of the State of Alaska into 12 regional areas, each of which is represented by a regional corporation. Further, a thirteenth regional corporation was established for those Alaska Natives residing outside of Alaska. Each regional area has in turn, a number of village corporations, which were also established by the Act. Enrollees to the regional and village corporations are shareholders of such corporations and are required to be Alaska Natives as defined by the Act.

Alaska Native Fund

The Act established the Alaska Native Fund, which has received \$962,500,000. Amounts in the Fund have been distributed to regional corporations based upon relative Native enrollment. Section 7(j) of the Act provides that regional corporations shall distribute 50 percent of receipts from the Fund to the village corporations' and the regional corporation's shareholders who are not also shareholders of village corporations.

The Corporation has received its full entitlement, which has been credited to contributed capital.

Revenue from Timber Resources and Subsurface Estate

Section 7(i) of the Act provides that 70 percent of revenues received by each regional corporation from timber resources and subsurface estate patented to it under the Act shall be divided annually among the 12 Alaska regional corporations in proportion to the number of enrollees in each.

Section 7(j) of the Act requires that each regional corporation must distribute not less than 50 percent of funds received under Section 7(i) to the village corporations in its region and to its at-large shareholders.

Common Stock

As provided by the Act, 100 shares of Class A common stock were issued to each Native officially enrolled to the Corporation upon completion of the Alaska Native Roll. The stock issued, dividends paid, or other stock rights may not be sold, pledged, assigned, or otherwise alienated, except in certain circumstances by court decree or by death. These restrictions continue in force until amended by the Company with the approval of shareholders.

Income and Property Taxes

Funds and properties received under provisions of the Act from the Alaska Native Fund are not subject to any form of federal, State, or local taxation when received.

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2003, the Corporation has cash deposits with a book value of \$539,014 and a bank balance of \$580,108. The amount not covered by Federal Depository Insurance, Securities Investor Corporation or Wachovia Securities, Inc insurance is \$167,217.

NOTE 4 – INVESTMENTS – SECURITIES AVAILABLE FOR SALE

Securities are classified in the balance sheet according to management's intent as either securities held to maturity or securities available for sale. Management has elected to classify its assets as available for sale.

The amortized cost and approximate market values of securities are as follows:

	Cost	Unrealized (Loss) Gain	Fair Market Value
2003			
Bonds	1,173,597	1,348	1,174,945
Mutual Funds	517,339	33,317	550,656
Equities	509,642	42,402	552,044
	2,200,578	77,067	2,277,645
2002			
Government securities	100,752	362	101,114
Corporate bonds	991,681	9,435	1,001,116
Equities	664,125	(27,105)	637,020
	1,756,558	17,308	1,739,250

The unrealized gain or loss is recorded net of a deferred income tax liability of \$26,203 for 2003 and a deferred income tax benefit of \$5,885 for 2002.

NOTE 5 – NOTES RECEIVABLE

	2003	2002
On October 10, 1998, the Corporation paid \$75,000 as a loan guarantee for Bering Sea Reindeer Products; the \$75,000 plus \$7,500 interest is due back within 90 days. No funds have been collected at December 31, 2003. The \$7,500 has been booked as a current note.	7,500	7,500
On December 31, 1998, the Corporation loaned \$30,000 to Bering Sea Reindeer Products to be paid back with \$3,000 interest by January 31, 1999; \$1,000 has been collected at December 31, 2003.	32,000	33,000
The agreement for funding the Southwest Alaska Land Acquisition (SWALA) was completed in October 1999. In this agreement, NIMA Corporation will receive seven equal payments of \$410,692.82 and a final payment of \$361,500.30.	1,084,311	1,436,838
Total notes receivable	1,123,811	1,477,338
Less current portion	(406,128)	(393,720)
Notes receivable, excluding current portion	717,683	1,083,618

NOTE 6 – LOAN GUARANTEE FOR BERING SEA REINDEER PRODUCTS

The Corporation entered into an agreement with Bering Sea Reindeer Products (BSRP), a wholly owned subsidiary of the Indian Reorganization Act Council of Mekoryuk, Alaska, to guarantee a \$75,000 loan from a local financial institution to BSRP for working capital. The Corporation paid the \$75,000 to Wells Fargo Bank (WF) to be held as collateral on the loan to BSRP until the loan is repaid by BSRP to WF. The loan is to be repaid at 10 percent per annum from proceeds of the operation of the reindeer meat processing plant. The meat of the plant is collateral for the loan.

NOTE 7 – INCOME TAXES

Income tax expense is \$12,637 and \$5,292 for 2003 and 2002, respectively. The actual tax expense differs from the "expected" tax expense (computed by applying U.S. federal corporation income tax rates to earnings before taxes) as follows:

	2003	2002
Computed "expected" tax expense	35,046	1,305
Penalties	1,570	410
Alaska income tax net of federal tax benefit	1,548	437
Meals and entertainment	772	979
Depreciation adjustment	254	(821)
Dividend deduction	(4,585)	(6,642)
Use of prior year capital loss carryover	(11,465)	-
Capital losses in excess of capital gains	-	15,490
Surtax exemption	(10,505)	(5,866)
	12,635	5,292
Current income tax expense	12,635	5,292
Deferred income tax liability long term	26,203	-
Deferred Income tax benefit long term	-	5,885

LINES AT LOAF N' LATTE

William C. Brothers, Western Carolina University
Stephen B. Jarrell, Western Carolina University

CASE DESCRIPTION

This case applies queuing theory in a small business. Students gain an appreciation for the usefulness as well as the difficulties of producing appropriate data and analyses rather than working text problems that contain only summary measures. Specifically, students analyze interarrival and service times collected during a five day period. (Values are included and can be changed to renew and reuse the case.) The case has a difficulty level between three and four and can be completed by Junior and senior level undergraduate students in introductory quantitative analysis, operations research, or management science courses in 2 – 3 hours time. Analysis can include computation of the current situation at the business as well as explorations of alternative arrangements.

CASE SYNOPSIS

Like many entrepreneurs, Anna Jamison believed she had an idea that would prove to be a viable and sustainable business. She created a coffee shop and vegetarian restaurant in a small college town. She succeeded. The business became a favorite among professors and college students. The alternative menu appealed to this demographic. It offered customers a variety of vegetarian items and baked goods that could not be found in other food establishments near the campus. Additionally, the relaxing atmosphere allowed customers to work and study, so students and professors spent hours in the restaurant drinking coffee and working on projects. Ms. Jamison appreciated these customers despite the limited space. In the past, long lines were never a problem, but recently several complaints surfaced, and some customers even walked out rather than wait in the long lines during lunch periods. Anna wishes to address this problem before Loaf n' Latte develops a reputation for slow service. She would like to evaluate options and remedy the situation.

COMPANY DESCRIPTION

Loaf 'n Latte, a restaurant located in a small college town opened in 1997. Since its inception, a strong client base developed, consisting largely of professors and students at the local university. Loaf 'n Latte offers baked goods, a variety of coffees, and organic foods.

“We feel we’ve captured a niche,” confided the owner Anna Jamison. “We’re not just a coffee shop. Unlike traditional coffee shops, our menu offers more than sweets and snacks. For breakfast we’ve got a full slate of baked goods to go along with our special varieties of coffees and coffee drinks. People can fill up at lunch on veggie sandwiches and dishes they can’t get anywhere else, on or off campus. We give people a chance to enjoy a vegetarian lifestyle and still not sacrifice the quality of their meals.”

Loaf ‘n Latte provides an easy-going atmosphere where students and professors work on projects while enjoying a cup of coffee, and other patrons do not feel rushed; it is a place where people come to relax. Business hours are from 7 a.m. to 5:30 p.m. Generally, the busy periods are early in the morning from 8-9 a.m. and during the lunch hours 11 a.m.-1 p.m.

The interior consists of a kitchen that protrudes and mingles among the 10 tables, several benches, three additional chairs, and couch. Anna scattered this furniture lazily (amongst a limited space) to create a relaxed atmosphere which offers an escape from the noisy college traffic and bustle just outside the door. Currently, only one person takes orders at Loaf n’ Latte so there is a single line that meanders amongst the tables. Meanwhile, two people prepare orders in the kitchen during lunch.

Ms. Jamison explains “We cater to people who want to hang around longer than it takes to choke down a burger and fries and run to the next class. Our atmosphere encourages people to lay back and enjoy our products--we offer free refills as long as they want to stay. This situation is great for us, because it keeps customers in the shop. They smell the bread baking or the spices in the other foods and get so hungry that we’re soon making back more than they could ever drink in coffee. Many customers only stop for coffee or grab orders to go. Generally, crowding has not been a problem. However, we’ve recently noticed lines getting longer, especially during lunch. The congestion detracts from the atmosphere we’re trying to preserve. But more importantly we’ve seen customers leave the line or turn back at the door when the line was long.”

Professor Joe Tonker, a regular since the second week Loaf ‘n Latte opened and regular commentator on local activities and businesses, mentioned the crowd to Ms. Jamison. “I’m having a hard time getting Harvey to come join me. He doesn’t have much time between classes and he’s always complaining about waiting. He’s threatening to go to the faculty lounge instead, but he likes coming here. He enjoys escaping from campus, and he would miss the atmosphere and good conversation.”

Ms. Jamison stopped and chatted with a group of familiar students in the shop one day, when she heard them discussing the lines and waiting. After opening the conversation with some banter, she told them she had overheard their conversation and expressed her concern for her customers and her business. Two of these students were about to graduate in business, one in mathematics, and they offered some suggestions from their classes. Amongst the multitude of suggestions lay unusable ones such as charging people a service fee for an extended stay, but once they got serious, Ms. Jamison was pleased to hear several of the alternatives which she thought could very well work

for Loaf 'n Latte. She asked the students if they knew how to choose the best way to alleviate the problem.

For free coffee until graduation, these students promised to organize a group of friends from the Business School to observe customer behavior during lunch time. Then they will develop some alternatives for Ms. Jamison's congestion problem. Hopefully they will be able to ascertain how Ms. Jamison can solve her waiting problem without resorting to limiting time people can spend in the shop.

The following data resulted from the arrival and server data calculated by the students at random times during the lunch rush, between 11 and 1, and on random days. They learned from Ms. Jamison that a counter server costs her about \$6.75 per hour (including employer taxes and employee benefits). The university's economic development center found wage data from a recent impact study. Specifically the average hourly salary for university personnel and students is about \$12 per hour. Zero arrival time values occurred when a group of customers arrived together.

CASE DECISION

Once they collected the data, the group of students contacted you last night for help with the computations for the operating characteristics of the queuing system now in use at Loaf 'n Latte. You agreed to produce these estimates using computer software. After working with the data and determining that the M/M/1 model was appropriate this morning, you observed that you have all the information you need to compute the characteristics of alternative systems and compare the cost of these systems with the cost of the single server system. So you have decided to also generate solutions for a server team (one takes orders and payments, while the other prepares the order) that reduces server time by 15 seconds. The last alternative you wish to study is a system with two identical servers that work independently and at the same rate as shown in the data. Afterwards, you want to present all of the results in a systematic way and add some non-technical terms that make the results understandable to Ms. Jamison and others who are not familiar with business jargon. Finally, you think it would be appropriate to make some suggestions, based on your experience in other small cafes, coffee shops, and pubs that might help alleviate the waiting problem.

COLLECTED DATA:

INTERARRIVAL TIMES											
3	73	0	300	63	27	40	200	0	118	60	68
96	12	289	0	0	12	55	100	54	23	300	144
2	146	16	12	0	258	125	35	0	18	10	187
281	189	120	0	90	5	20	30	289	140	205	191
439	108	1	224	235	55	25	225	20	44	305	112
163	140	195	74	365	2	90	2	86	250	265	246
279	54	52	133	97	2	80	18	79	115	80	52
204	384	228	104	93	4	180	2	41	318	210	433
282	85	155	23	138	252	90	360	351	60	105	235
20	303	2	250	87	45	1	53	204	127	10	59
3	327	0	16	220	4	54	10	395	440	70	228
269	139	6	84	36	116	165	270	40	130	45	476
28	214	242	48	146	1	30	0	168	140	303	84
140	212	323	67	39	6	90	420	71	25	0	39
185	44	44	0	329	228	2	300	45	135	53	160
50	135	0	75	260	1	3	29	5	310	29	9
0	0	293	0	3	139	5	147	26	145	52	135.6

SERVICE TIMES						
7	95	115	5	220	20	20
64	112	27	35	240	15	143
20	121	67	55	167	130	130
22	19	48	17	55	45	46
57	26	13	25	60	205	65
170	96	20	215	57	45	63
134	41	125	30	102	45	9
46	227	62	25	151	50	51
5	53	45	70	221	95	98
180	101	30	42	34	60	41
27	10	35	25	25	35	192
84	56	175	54	50	35	54
56	96	62	100	20	25	46
43	127	90	40	37	83	46
105	39	81	10	122	165	10
43	88	50	10	29	30	16
143	62	35	60	45	65	10
49	43	32	65	18	25	35
66	75	53	30	65	30	153
30	73	65	10	121	150	16
23	37	30	140	144	20	71
29	25	73	10	220	212	7
90	10	7	5	122	205	147
19	95	27	15	35	15	81
109	58	61	30	60	105	4
90	45	105	31	25	57	72
115	50	115	115	180	105	99
18	89	61	135	40	60	54
52	58	59	30	65	58	1
145	112	46	60	35	40	74
176	40	68	105	15	114	34

THE GALACTICA SUV¹

Craig B. Barkacs, University of San Diego
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CASE DESCRIPTION

The purpose of this case is to provide an intercultural/international negotiation exercise that tests the ability of students to overcome cultural obstacles and think outside the box in order to structure a creative deal. The case has a difficulty level of five to seven, depending upon the depth with which the instructor wishes to explore the case, as well as the comfort level of the instructor with respect to the various issues. The negotiation exercise is designed to take from one and a half to two class hours (including the debrief), although more time may be spent on it. The case also requires approximately thirty to forty-five minutes of in-class or outside preparation time by the students.

CASE SYNOPSIS

What do you suppose would happen if a space alien from a distant and different culture arrived on the lot of a futuristic planet earth spacecraft dealership to negotiate the purchase of a space vehicle? In order to find out, climb into a Galactica SUV spacecraft, buckle up, and enjoy the ride!

This case is designed for use as a role playing opportunity in an international negotiation class. The subject matter of the negotiation derives from an activity many students have already engaged in – the purchase of a vehicle (in this case, however, that vehicle is a futuristic spacecraft, i.e., the Galactica SUV). Each student is assigned a role, either that of space alien CN-319 (the buyer) or that of earthling Spacey Starr (the seller), and then given time to prepare. The student is instructed to stay in role for the duration of the negotiation. Moreover, the student must make use of the cultural characteristics provided for each assigned role.

In order to avoid the cultural stereotyping that occurs in most intercultural or international negotiation exercises, this case deftly finesses the issue by creating two fictional cultures. CN-319, the prospective buyer, is a Banatarian from the planet Banatar, and each student playing this role is given a confidential role sheet describing certain cultural characteristics of Banatarians. Spacey Starr, the seller, is an earthling. Unfortunately for Spacey Starr, however, earthlings often confuse Banatarians with Vanatarians (from the planet Vanatar). While Banatarians and Vanatarians share some common cultural characteristics, they are diametrically opposed on others. Spacey Starr, who

mistakenly believes prospective buyer CN-319 is a Vanatarian, prepares for the negotiation by becoming acquainted with Vanatarian cultural characteristics, which are outlined in the confidential role sheet provided to those playing the role of Spacey Starr. Accordingly, the well-intentioned (but ill-informed) Spacey Starr character inadvertently tends to commit cultural faux pas after cultural faux pas.

In addition to substantive lessons on conducting an integrative negotiation, the case also introduces a variety of cultural issues that often can and do occur in a real world intercultural or international negotiation. By having to contend with cultural confusion, the case tests the ability of students to deal with cultural errors, learn from mistakes, and overcome them. After the negotiation exercise has been completed, the instructor thoroughly debriefs the case to explore both the negotiation and cultural issues. Detailed instructions on how to conduct a debrief are included. Moreover, there is also a list of negotiation terms and definitions to assist those who are new to teaching negotiation.

THE GALACTICA SUV

CONFIDENTIAL – Role for CN-319, Supply Chain Analyst – CONFIDENTIAL

It is Friday morning, the last day of the month. CN-319, Supply Chain Analyst for Banatar Technologies of the Planet Banatar, is on Planet Earth finishing a cost analysis involving one of the company's major suppliers. The cell-screen rings and the face of XR-424, CN-319's cousin and president of Banatar Technologies, appears.

CN-319: "XR-424, I'm surprised to see your face on the screen. Is the wedding still on?"

XR-424: "Sure is! Everything's set. Last night, however, JK-957 and I were talking about our honeymoon. After we get married tomorrow we plan to fly over to the next quadrant for a few days. We decided that the company SpaceVan is way too stuffy for our honeymoon, and we'd much rather make the trip in a sporty Space Utility Vehicle [SUV] with the stars all around us. CN-319, to make a long story short, I want you to purchase a new Galactica SUV for the company. On yeah, and I absolutely must have it by tomorrow, in time for JK-957 and me to take it on our honeymoon."

CN-319: "I've seen a couple of Galactica SUVs around the galaxy – totally hot! Great acceleration. Which model do you want?"

XR-424: "That's no problem. There is only one model and it comes fully loaded with multiple disk CD player, Bose stereo, leather interior – the works! The only issues are color and where to buy the spacecraft. I want either gunmetal silver or bright red. Last week I saw an advertisement in the Interplanetary Union-Tribune from a dealer in next galaxy over and, according to the ad, the dealer is quoting the price ^46,000. Unfortunately, they cite delivery two weeks after receipt of an order accompanied by a ^10,000 deposit. ** We both know that Banatar Technologies needs a new spacecraft – one that fits our high-tech sleek image. Besides, maintenance is becoming a real problem on the SpaceVan. When we get the new SUV, I'm going to give the SpaceVan to charity for tax purposes. And since it is time to update our image, what better occasion than for the president's honeymoon? Make it happen, CN-319!"

As soon as XR-424 hung up, CN-319 got right back on the cell-screen. The first call was to the dealer in next galaxy over (in the Snickers Galaxy). The salesperson confirmed the price of ^46,000, and indicated that delivery of the highly coveted spacecraft would take two weeks. Moreover, both of the desired colors (gunmetal silver and bright red) would be available.

Given that business had already brought CN-319 to earth, CN-319 then called the local Planet Earth Galactica SUV dealer (in The Milky Way Galaxy) and talked to Spacey Starr. CN-319 learned that the Planet Earth Galactica SUV dealer had three spacecraft in stock, including a bright red one. Spacey quoted a price of ^51,800, but seemed willing to make a deal.

CN-319 then called the Galactica SUV dealer in the next solar system over, a relatively short (two-hour) space journey from his own planet of Banatar. A price of ^47,800 was quoted with immediate delivery of any color, and the dealer specifically confirmed both a gun metal silver and a bright red Galactica SUV were on the lot and ready to go.

Armed with this information, CN-319 decided to visit the local Planet Earth dealer in an effort to see if it was possible to get Spacey Starr to come down on the ^51,800 price quoted during their cell-screen conversation. On the way to the Planet Earth Galactica SUV dealer, CN-319 recalled something from a Supply Chain Management course once taken as a student at the University of San Diego – the professor said that salespersons frequently received as much of their income from bonuses as from commissions. A classmate at USD supported the professor’s observation, saying that when she worked in spacecraft sales her bonus for her monthly sales quota was ^4,000 – and that was three years ago! With these and other thoughts in mind, CN-319 enters the Planet Earth Galactica SUV showroom.

****NOTE:** “Points” are the currency in use in this exercise and are designated by an upward arrow sign [^] preceding the number.

KEEP THIS SHEET CONFIDENTIAL – DO NOT LET THE OTHER SIDE SEE IT!
CULTURAL CHARACTERISTICS SHEET FOR CN-319

Showing proper respect for and knowledge of customs is extremely important on Planet Banatar.

IMPORTANT NOTE: There is a nearby culture from the Planet Vanatar that ignorant alien life forms often confuse with yours, which is a tremendous cultural faux pas. You are particularly skeptical about the intelligence and professional abilities of any alien life form that makes such an error because some (but not all) cultural characteristics of those from the Planet Vanatar are at odds with those of the Planet Banatar.

Upon greeting someone, you tap yourself on the head two or three times and make a hissing sound.

1. You expect to be called by your full formal name (no truncations or nicknames). YOUR formal name is **CN-319**

2. You do **NOT** under any circumstances shake the hand of alien life-forms from other planets when you first meet them – after all, you don't know where their hand has been and shaking hands with someone you don't know poses a great health risk! If some clueless alien persists in attempting to shake your hand during an initial encounter, you show your teeth and start snarling and growling. If an alien life form actually manages to shake your hand, you must immediately excuse yourself, and tell the alien that before you can proceed you must first go to restroom to wash your hand now that the alien life form has contaminated you.
3. An attempted hug or embrace from an alien life form during an initial meeting is even more of an affront than a handshake. (See above re attempted handshakes during initial meetings)
4. If anyone laughs at your cultural behavior (for example when hissing, growling, or snarling), you will be highly offended; you will let them know in no uncertain terms just how offended you are; you will severely reprimand them; and you will threaten either 1) to leave, or 2) to have the offending alien life-form arrested. (Laughing at or mocking someone else's cultural behavior is a crime on your planet – the PC Police are everywhere!)
5. Your matriarchal culture exalts women over men and, when asked questions or otherwise engaged in conversations, it is not uncommon to use such phrases as “*If the Goddess wills it*” or “*Glory to the Goddess*” or “*Viva la Goddess.*” Not surprisingly, the phrase “*Viva El Papa*” is among the most egregious insults in that it calls into question your parentage.
6. Physical items may be referred to in feminine terms if they are viewed favorably (such as the spectacular “female” spacecraft you are considering buying), and in masculine terms if they are regarded as inferior (such as the clunker “male” you flew in to get to the Planet Earth), e.g. the complimentary phrase “*that's a work of woman*” roughly translates to “*that's a work of art;*” whereas, the pejorative phrase “*that's a piece of male*” means, well...it's not a compliment on Planet Banatar.
7. To call something “*sissy*” or to say “*that's sissy*” is to show high approval and is a great compliment, especially when directed to a man. Other feminine terms likewise carry a very favorable connotation.
8. To call something “*male*” or “*masculine*” or “*macho*” or “*man-like*” is a putdown.
9. To accept an apology, you call the apologizing party “pretty,” but it has nothing whatsoever to do with physical appearance.
10. When conversing with alien life forms from other planets, you are begrudgingly willing to explain your own culture when specifically asked about it. Even so, if alien life-forms just start acting or speaking as you do, without first inquiring about your culture or asking permission to act or speak that way, you regard it as a great insult in that you feel you are being mocked. Even if this happens, however, other alien life forms can redeem themselves by apologizing profusely and begging for forgiveness – and you won't hesitate to demand that they do so!

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11. If someone is saying something you approve of, you slap your hand flat on the table one time and smile.
 12. If someone touches his or her nose when conversing, it means he or she thinks you stink.
 13. If you hear something you don't like, you knock on the table twice with your fist and sneer or frown.
 14. If an alien life form with whom you are negotiating says he or she must "*go talk to the manager,*" this is a great insult and can be cause for breaking off the negotiations if an apology is not forthcoming. The reason this is an insult is because having to consult with someone else means you have been wasting your time talking to someone without decision-making authority. You may have to explain this to less-evolved alien life forms.
 15. If a life form with whom you are negotiating asks you about financing or how much you can afford to pay each month, this too is an insult inasmuch as it suggests that you cannot afford your purchase.
 16. If you are able to reach a deal with an alien life form, this is a joyous occasion worthy of celebration, at which time you offer to play three rounds of rock, scissors, paper, the winner of which then yells, "Girl Power!"

THE GALACTICA SUV

Role for *Spacey Starr*, Planet Earth Galactica SUV Salesperson

Spacey Starr, salesperson for Planet Earth Galactica Spacecraft Dealership, is sipping a cup of Starbucks latte. Although there are countless spacecraft dealerships throughout the universe, Spacey's employer is the only dealership on all of Planet Earth selling the new Galactica Space Utility Vehicle [SUV]. In addition to its flamboyant sex appeal, the Galactica SUV combines incredible acceleration with extraordinary handling and performance. In order to intentionally limit supply and to emphasize its exclusive and distinctive style, the Galactica SUV convertible comes in only one model. Standard equipment includes multiple disk CD player, Bose stereo, and leather interior. Moreover, there is a five-year, 50,000-lightyear warranty included in the purchase price. Despite the popularity and high demand of the Galactica SUV, it has been a tough month for Spacey personally. To make matters worse, today was for some reason especially slow, with very little customer traffic on the showroom floor. Spacey looked out the window and saw that the dealership had three new Galactica SUVs on the lot, all shiny and ready to fly – a metallic blue one, a gun metal silver one, and a bright red one.

Spacey is downhearted, and ponders, "Gosh, what an awful month I'm having! It's the last day of the month and I'm still one spacecraft short of meeting my quota. I've already spent the ^4,000 I was expecting in anticipation of getting my monthly quota bonus, so now I've desperately got to make that last sale.** What am I going to do? Why did I ever get into this business?"

Avery Anderson, owner of the Planet Earth Space Utility Vehicle [SUV] dealership, interrupts Spacey's reverie. "Spacey, I'm leaving for the weekend to visit the moon of Jupiter. I know how anxious you are about meeting your quota, but don't do anything foolish. The Galactica SUV is selling like crazy. I have told all the salespeople that I don't want anyone to undercut the market. I don't want a quote below [^]51,800.

Spacey asks, "Avery, if you're unavailable, I've got to have some flexibility. I know that the spacecraft only costs us [^]42,500. How low can I go if I get a live one?"

Avery replies, "Spacey, I know you're clever and creative and I really do want to see you get your bonus. Because I've seen some of the amazing deals you've put together in the past, for you I'll make an exception and say the dealership can live with its cut of a [^]48,000 sale, but not a point lower. However creative you get in structuring a sale, don't forget that your 25% commission is on anything over [^]44,000. See you on Monday!"

After Avery leaves, Spacey drifts back into a state of deep thought. "One spacecraft from quota, but I know that for as much as Avery likes me, he is nevertheless totally focused on the bottom line. Sure Avery wants me to hit my quota because when the salespeople hit their quotas, it reflects well on the entire dealership, and even Avery has to report up the line. Even so, quota or not, Avery demands that somehow, someway the dealership gets every point of its share. Damn, there's not a single person in the showroom. I wonder if that space alien Supply Chain Analyst from – where was it? – the Planet Vanatar, I think, is a real prospect. I remember quoting [^]51,800 this morning. Good thing I brushed up on Vanatarian culture after I got the call, now I'm ready to deal. (*Please see the provided cultural information sheet regarding the planet Vanatar.*) Maybe I'll just try to reach – what was the name? – CN-319, I think, on the cell-screen."

Just then, as fate would have it, none other than space alien CN-319 enters the showroom.

****NOTE:** "Points" are the currency in use in this exercise and are designated by an upward arrow sign [^] preceding the number.

KEEP THIS SHEET CONFIDENTIAL – DO NOT LET THE OTHER SIDE SEE IT!
CULTURAL CHARACTERISTICS SHEET FOR SPACEY STARR

1. Showing proper respect for and knowledge of customs is extremely important on Planet Vanatar.
2. Some Vanatarians pronounce the letter "v" and the letter "b" the same way.
3. It is considered impolite or even rude to ask Vanatarians directly about their cultural practices. The preferred approach is to watch what Vanatarians do and then copy or mimic them.

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4. Vanatarians may show disapproval and disdain when a cultural *faux pas* occurs but that is just their way and reprimands should not be taken personally or seriously.
 5. Upon greeting someone, you laugh, enthusiastically shake hands – or even offer a hug or warm embrace.
 6. Vanatarians’ formal names are two letters, followed by a dash, followed by a number. Vanatarians are very easy going and quite open to being called by truncated versions of their names or nicknames, e.g., just the letters, or just the numbers. Vanatarians often feign indignation at such familiarity, but they really don’t mean it – in fact, their persistent protestations simply mean they are enjoying your company. For that reason, you should feel free to continue to use truncated versions of their names or nicknames, despite any playful objections.
 7. Vanatarian culture exalts women over men and, when asked questions or otherwise engaged in conversations, it is not uncommon to use such phrases as “*If the Goddess wills it*” or “*Glory to the Goddess*” or “*Viva la Goddess!*” Curiously and paradoxically, however, the phrase “*Viva El Papa!*” means showing the highest respect to Vanatarians.
 8. Non-living tangible items also take on gender descriptions on Planet Vanatar. When referring to such non-living tangible items, feminine references are positive (such as the spectacular “female” spacecraft you are trying to sell) and masculine references are pejoratives (such as the clunker “male” one your prospective buyer flew in to get to Planet Earth). To illustrate the point, the complimentary phrase “*that’s a work of woman*” roughly translates to “*that’s a work of art*” when referring to a non-living tangible item; whereas, the pejorative phrase “*it’s a piece of male*” means, well...it’s not a compliment on Planet Vanatar.
 9. If you are called “pretty,” it means you misunderstood something or you are not tracking the conversation, i.e., you just don’t get it! It has nothing to do with physical appearance, however.
 10. If someone is saying something positive or agreeable, Vanatarians touch their noses.
 11. If something a Vanatarian doesn’t like is said, Vanatarians knock on the table twice with their fists and sneer or frown.
 12. Vanatarians are flattered when higher ups are consulted on deals. This means that you respect them and that they are worthy business partners.
 13. If you are able to reach a deal with an alien life form, this is a joyous occasion worthy of celebration, at which time you offer to play three rounds of rock, scissors, paper, the winner of which then yells, “Girl Power!”

ENDNOTE

- 1 This case is inspired by and is a modification and expansion of a case entitled “Muenster Pump Buys a Car,” by Dr. David Burt of the University of San Diego, who has graciously authorized and consented to this adaptation and publication.

MOUNTAIN SKIN CARE

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CASE DESCRIPTION

The primary subject matter of this case is entrepreneurship, including the topics of industry analysis, legal structure, patents, raw material suppliers, and growth strategies. The case has a difficulty level of three, appropriate for junior-level courses. The case is designed to be taught in one class hour and is expected to require three hours of outside preparation by students.

CASE SYNOPSIS

The case focuses on a business, Mountain Skin Care, which was launched in 2002 for producing and marketing hand creams and lip balms. The case begins by discussing how Judy, the owner, is able to start the business for under \$1,000. Start-up costs are low because family labor, space and equipment were used.

Other topics introduced in the case are how Judy developed her hand cream recipe and how she identified customer needs. An industry analysis is also covered, including: barriers to entry, rivalry among existing competitors, substitute products, complementors, supplier power, and buyer power. One key industry analysis issue is how Judy can develop a competitive advantage by building on her strengths. Another topic explored is the relationship Judy develops with a supplier. The case concludes with a presentation of three growth strategies Judy is considering: expanding the firm's current operation by hiring additional personnel to perform production and marketing activities, contracting with a wholesaler to perform marketing activities, and licensing both the production and marketing functions to another firm.

Mountain Skin Care is a comprehensive case. Students completing the case explore several issues that an entrepreneur faces when starting a firm with high growth potential.

INTRODUCTION

In the early 1970s, several northern Idaho women who lived on farms close to each other began making a hand cream. The product eventually became known as Farm Hand Cream. It helped soothe and protect their husbands' and other farm workers' hands. Close friends asked for

and were given the product. Other people also were interested in it and were able to purchase it for a nominal price. Farm Hand Cream was well received.

The process used to produce the cream was both time-consuming and smelly and, as the chemicals became more regulated, it became more difficult to obtain key ingredients. Because of these factors, the women quit making the cream in 1995.

In 2002 a daughter, Judy, of one of the women who made Farm Hand Cream discovered it was possible to use different ingredients and make a cream that was similar to the original one. A business idea was born!

IDEA FORMULATION

At first, Judy's thinking was "Let's make a hand cream and see who will buy it." She involved her husband and children, as well as her sister. Even her mother was involved (making it a three generation family venture) in the sense that Judy was able to use her mother's production equipment plus build on her past experiences. The needed equipment was minimal—a large pot to melt and combine all of the ingredients, and a blender to give the cream a thick and light consistency. Her sister helped refine the hand cream formula and identified a vendor who could provide containers for the finished product. Her two older children did much of the production work after school and on weekends in the basement of their home. Given family labor and equipment was used, start-up costs were about \$900. From the beginning Judy was concerned about her lack to business experience (she had none) and about what it would cost to get the business up and going. She and her husband did not have much in savings and she needed to keep start-up costs low, below \$1,000. She had a backup plan, however, if costs had exceeded \$1,000. Judy was quite sure her sister and two other friends would have been willing to contribute capital to the venture.

One topic that had come up at different times since Judy's first thought of her product idea was a name for her venture. She and her family discussed possible names with each other, off and on, but they could never agree. They finally decided to have a contest where each person could submit a name and then vote for the best name. The outcome was Mountain Skin Care.

Judy had both her husband, John, and her sister, Sally, help identify who might need or be interested in the cream. John was a mechanic and used the cream on his hands with success. Further, he gave the cream, referred to now as Mountain Skin Cream, to other people who he thought might benefit from it (local mechanics and farmers) and asked them to take pictures of their hands before use, and after. The pictures showing hands before use, and after, were very positive for minimizing cracking, scaly and/or flaky skin plus removal of discoloration from working with oils and dirt. As such, Judy had established a need for her product among the same group/market that earlier had used Farm Hand Cream.

Sally was also helpful in suggesting market opportunities and even product extensions. One afternoon she said: "Judy, I have two possibilities for you to consider." Her first suggestion was to

include scents in the cream and market these additional creams to groups such as women and teenagers. Judy thought it was worth a try and added refreshing and fruity fragrances to her cream. She also tried scents with therapeutic traits, including essential oils like lavender (to remedy sleeplessness), peppermint and spearmint (for aches and pains). Early results were encouraging but Judy knew she would have more competition in these markets. Retailers who had helped in the earlier stages were able to talk to customers and find out their preferences. Those who bought the essential oils had asked for larger containers (initially, the only size offered was 4 oz.) to keep more of the cream on hand. Others thought that the fruity scents should be pocket sized so they could reapply at work or school. In response, Judy decided to package her creams in four sizes ($\frac{1}{2}$ oz., 2 oz., 4 oz., and 8 oz) and in three container shapes.

The other possibility suggested by Sally was a product opportunity, a lip balm, in different scents and flavors. One difficult obstacle that had to be overcome was to find a recipe that would not melt when carried in a customer's clothing pocket. After some experimentation that involved leaving lip balms in John's pockets, they found a recipe that stayed firm. This product, called Mountain Lip Balm, showed promise, too, but primarily for women.

One of the areas Judy knew the least about was marketing, including pricing. She pictured her products as selling at higher prices, given their characteristics. One key differentiation feature was that her creams/balms did not contain lanolin to which some people are allergic. An added distinguishing trait was their pleasant fragrances. Also, the ingredients in the creams were all safe and natural. This last trait, in particular, Judy thought was a real strength.

Another interesting start-up experience for Judy had to do with product testing. Judy knew from her mother's past experiences that her products needed to be tested for their capabilities of keeping bacteria from growing in them and, also, for the possibility of causing rashes for which she might be held liable (if a customer with a rash pursued litigation). She used a California firm for testing purposes and her creams were highly rated. Government regulations allow for approximately 10,000 living organisms in a lotion and her creams had ten. When Judy talked with one of the California testers he asked, "Given the highly positive results of your products, have you patented them?" Judy replied to him "No, but you have stimulated me to give it further thought."

INDUSTRY ANALYSIS

The industry that Mountain Skin Care belongs to is the skin care industry, specifically the hand creams and lip balms product areas. Six key areas or forces to consider in an industry analysis are: barriers to entry, rivalry among existing competitors, substitute products, complementors, supplier power, and buyer power. The reason it is important to analyze these forces is that they influence a firm's ability to achieve a profit.

The skin care industry is relatively easy to enter—i.e., it has few barriers to entry. One obstacle is that a product needs to meet government regulations around bacteria level and rash

minimization. Compliance tests for these regulations are simple to obtain for a fee less than \$500. Other start-up costs include equipment for making the product and marketing (including distribution) costs. These costs are fairly low if a venture starts small. This is the approach Judy took—i.e., she used family labor plus equipment from her mother. If Judy were to increase the size of production runs, additional equipment and production space would be needed. Hiring people to do the extra work would not be difficult since the community she lives in has a labor surplus. Another possibility would be to outsource production to another firm. In either situation, the benefits of larger production runs would be greater economies of scale. Although low barriers to entry benefit Judy's venture, it also benefits others who have an interest in entering this industry.

Currently many companies are capitalizing on the skin care industry. Some of the firms employ the cost leadership (or cost superiority) strategy, others the differentiation strategy and even others the focus/niche differentiation strategy. Table 1 contains information on Mountain Skin Care's likely competitors.

Firms position themselves based on their strengths and often it is either ingredients or price. Burt's Bees is a strong competitor since its creams are developed from natural ingredients. Further, the firm claims that the ingredients have healing capabilities. Mountain Skin Care uses natural ingredients, too, and some people use it as a substitute for eczema medications that are typically more expensive. Camille Beckman, with her glycerin-based lotions, is also a potent rival. Both firms tend to be marketed in the same stores as Mountain Skin Care, and their displays are frequently nearby each other. Crabtree & Evelyn markets many of its items via upper class boutiques. They carry not only lotions but gourmet snacks, candles, and relaxation tools. Mostly, they emphasize a higher quality of life. The Original Udder Balm is more often found in farming supply stores. Because of Mountain Skin Care's link with Farm Hand Cream, people tend to confuse Mountain Skin Care with the Original Udder Balm.

Substitutes for skin care creams include: natural oils, homeopathic medicine, and spa treatments. Natural oils moisturize and soften the skin. Homeopathic medicine, although expensive, can produce good results. Spa treatments can also generate positive outcomes. But not all communities have a spa. For example, the closest spa for Judy is about an hour and a half away. Spas are also expensive, ranging anywhere from \$100 to \$1000 per treatment, depending on the type of service rendered. Although these products/services are substitutes for skin care creams, they also can be used in combination with creams.

Another area to consider in an industry analysis is complementors. For the skin care industry, complementors are firms that offer products that can influence the sales of skin care products. One example is stores selling soap. In some situations--e.g., gift baskets--soaps and skin care creams are sold together. Other examples are auto parts and gardening supply stores. These businesses can sell hand cream products to people who are looking for gifts for either auto workers or gardeners.

Table 1: Comparison of Competition1

Name of Company	Product	Strengths	Hand Cream Price and Sales Channels	Weaknesses
Burt's Bees	Full line of body care, including make-up and hair care. Also, candles.	Products made of beeswax and other natural ingredients.	Depends on what you buy. Hand cream around \$3.50/oz. Sold in drug stores, specialty body care stores and some grocery stores.	If the customer does not care about the environment, this could seem like a steep price to pay for beauty products.
Camille Beckman	Hand creams, lip balms.	Uses Wood Mallow, Ivy, Pellitory, Cucumber, Elder and Arnica herbs, glycerin, Sweet Almond Oil and Vitamin E.	Ranges from \$1 to \$4/oz. depending on quantity purchased. Sold in drug stores, specialty body care stores and some grocery stores.	Some customers find the lotion "sticky" because of the high amount of glycerin.
The Original Udder Balm	Udder Balm	Been around since 1800's (recently patented, though). A modified version of the product that soothes cow's dry, irritated teats. Claim that all other lotions copy them.	Approximately \$0.37/oz. Sold in farm supply stores, some drug stores.	Some customers think it smells funny.
Crabtree & Evelyn	Soaps, Creams, hair care, body care. Also, home décor, gourmet kitchen.	Promotes living well, and having a balanced lifestyle--stress reducing products. Certain gourmet chefs endorse some of their products.	Depends on what line of products you purchase. (Around \$3.60/oz.) Sold in specialty stores and department stores.	Considered to be upscale, some people may never consider it...too luxurious for them.

Numerous vendors or raw material suppliers exist for firms producing skin care products. Whenever a large number of suppliers are available, no one supplier can usually exert a high degree of power over a firm that purchases its products. That is, in this situation a supplier can't usually raise its prices because the purchasing firm can easily switch suppliers. Sage Shipping is one of the many raw material suppliers. Sage has had financial leadership problems in the past but its current owner appears to have the firm back on track. In fact, Sage Shipping has been growing rapidly in recent years. Early on in Mountain Skin Care's life it became a customer of this vendor. Sally recommended Sage Shipping to Judy at that time because it had just started selling scents and it was interested in developing further this aspect of skin care. To simplify her relationships with vendors (i.e., minimize the number), over time Judy has been purchasing more and more supplies from Sage Shipping. In turn, Sage has given Mountain discounts and customized services. Currently, Sage Shipping provides not only Mountain's hand cream and lip balm ingredients, but also its containers, and its container labels.

The last industry analysis force to be considered is buyer or customer power. Judy's current customers are retailers who, in turn, sell to end users. She started selling her products in two locations in her hometown, a hardware store and a drug store. Sally, with the help of a friend, identified another customer during Mountain's first year, a drug store with three outlets in neighboring towns. Sales revenue from these five stores in 2002 was \$6,240, but the business didn't start selling until June. In 2003, one of Sage Shipping's employees found two leads for Judy. The first lead was a building supply firm with ten stores located in Idaho, Montana and Washington. This chain is currently her biggest customer. Mountain's total revenue for all locations in 2003 was \$25,550.

The second lead from the Sage Shipping employee was that he told his wife about Judy's products. His wife works for a wholesale firm that distributes cosmetic products to drug stores in the region. Although Judy has talked with her twice and the wholesale firm is interested in distributing her products, she is uncertain what to do.

FUTURE DIRECTION

Two factors contribute to Judy's indecision about what should happen to Mountain Skin Cream. The first factor centers on the price the wholesaler is willing to pay. Currently her production costs are very low, about 20% of sales. Plus, she ships her products to the retail stores at little cost. Regarding advertising, displays are used in drug stores and the owners/pharmacists are educated on the benefits of the cream so that customers searching for an over the counter skin cream can be referred to Mountain Skin Cream. In the other stores in which her products are sold, only displays are used. Overall, her costs are about 25% of the retail selling prices. The wholesale firm has told her they would purchase her products for 50% of the current selling prices.

A second factor leading to her uncertainty is growth. Judy keeps asking herself: “Should growth be Mountain’s goal?” If she decides to make growth a key goal then she recognizes that, in addition to the wholesaler’s offer, she needs to consider the possibility of licensing the entire operation (production and marketing) to another firm in exchange for a royalty. She has heard of firms getting between a 10% to 20% royalty on sales. This would mean shutting down the family business. This might be for the best, because she reminds herself that a few family fights have occurred! On the positive side, the business has been both a challenge and a learning opportunity for her family. Of course, a third growth option she would need to think about is to grow Mountain Skin Care by expanding the firm’s current operations. Here, she would hire additional people and acquire the necessary assets to perform the expanded production and marketing activities. Judy would not, in this case, contract with a wholesaler or license her products to another firm. Lately, when she wakes up at night, she finds her mind contemplating these three options.

MOTIVATIONAL ISSUES AND SAFETY REGULATIONS IN ARABIA: A CASE STUDY IN A MULTINATIONAL OIL COMPANY

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CASE DESCRIPTION

This case primarily deals with the consulting process within a multinational oil company in the Arabian Gulf peninsula. It brings to the fore the underlying cultural dimensions pertaining to communication, perceptions, and organizational politics operating within a multicultural desert seismic crew. This case is suitable for courses in Organization Development and Change, Human Resource and International Management at the advanced undergraduate and graduate levels and is designed to be taught in two class hours with an expected two hours of earlier preparation.

CASE SYNOPSIS

The impetus for the consultancy was to assist the expatriate management of a seismic crew develop a better understanding of the organizational, cultural, and situational factors that impact safety management, especially driving safety violations amongst the predominantly host country employees. The intended goal was to provide recommendations that will bring about changes in the safety culture of (local) Seismic Crew employees and their motivation to comply with established safety procedures.

The case study presents the consulting process from initial entry, terms of reference, the desert camp field visit; multiple perceptions of the problem and the proposed intervention to manage the process. While the division management endorsed the recommendations, implementation was suspended without providing a convincing reason.

The case study would be of interest to students, faculty and practitioners in the field of Organizational Development and Change as well as International and Human Resource Management in analyzing the consulting process as well as addressing issues of organizational culture and politics, job dimensions and motivation as they relate to attitudes and behavior at work in a multinational work environment

THE CASE

The Geophysical Operations (GO) Division of a multinational oil exploration and development company, Arabia Petroleum (AP), in one of the Persian Gulf countries, contacted us to study safety behavior among their local employees. Initially, they were looking for a psychologist to carry out the study. The division was interested in understanding the causes of the deliberate violation of driving safety rules by these employees and to identify mechanisms to promote a better safety culture. While our initial reaction to the proposal was uncertainty about our role given our management rather than psychological background, the topic seemed intriguing enough to warrant further exploration. Our consulting team, consisting of Unni, who is an Organizational Behavior and Development Specialist and myself, a Human Resources Management specialist, had an initial meeting with the head of GO Division, Mark, and the Health, Safety, and Environment (HSE) advisor John.

ORGANIZATIONAL ENTRY

The initial meeting was aimed at understanding the problem in more detail and learning about the safety management procedures within the GO division. We learned that contractors did most of the fieldwork in the desert. The contractors were required by the labor laws of the host country to employ a certain percentage of locals. This requirement was as a part of the host country's effort to create employment opportunities for locals. Mark and John were concerned about the safety behavior of these employees. During the initial meeting, the representatives of the contractors were not present. However, Mark and John assured us that the contractors would be involved in the process in future.

PERCEPTIONS OF THE PROBLEM

The GO division management perceived the problem to be rooted in lack of motivation by the local staff to follow safe operating procedures in spite of the various strategies that were used by management to promote and enforce a safety conscious culture among its staff. This included the introduction of sophisticated HSE Management systems involving safety manuals and procedures, training, merit schemes, awards for ideas, DuPont STOP card system, driver of the month and other promotional campaigns.

However, these attempts had not been translated into the desirable safe behaviors, and the staff did not internalize the working safety culture despite their understanding of the consequences of non-compliance. The increase in the number of 'near misses' incidents, injuries and a recent fatality had further accentuated the need to understand and address the underlying causes of non-

compliance and to develop means of motivating the local operating staff to follow safety procedures and rules.

Contracting

Our meeting concluded with the need for a deeper understanding of safety management within the division. We felt that a preliminary study needed to be undertaken to gain a better understanding of the various issues involved. We expected the preliminary study to lead to proposals for a more detailed intervention. Consequently, a proposal for a preliminary study was prepared and submitted to Andy (see Appendix I). Andy accepted our proposal. Subsequently, Mark sent several reports containing information regarding accidents, unsafe acts, etc. in the GO division.

Landing in the Field

We had further meeting with Mark where the nature of work in the field was explained to us. A trip to a contractor's camp in the desert was also arranged. Apprehension was certainly the sense I had as we were taking off in our small-propeller plane with me as the only female on board. What was equally alarming was the message received from Mark that we need to wear stout shoes in the camp as *“there have been cases where scorpions have stung staff wearing sandals or flip flops”*

The seismic operation was a moving caravan in the desert with all the basic amenities including shower areas, dining areas, playground, cooking facilities and social setting to watch television...etc. The crew was made up of a multicultural and segmented workforce categorized as follows:-

- expatriates – primarily Westerners at senior management levels
- national junior technicians and staff – mainly nationals
- laborers (cleaners & maintenance workers) – primarily from the Indian subcontinent

Following the initial introduction to the head of the seismic team and other supervisors including the Labor Relations Officer, we were given a safety drill highlighting the nature of operations, hazards that can possibly occur and means of dealing with them. We were then escorted to visit the remainder of the camp facility and be officially introduced to the staff and laborers who were probably wondering what brings us to this “unearthly” destination. In fact, we were surprised to note that the camp management had not been properly briefed about our purpose and were somewhat suspicious about our motives.

THE WORK CONTEXT

The following morning started just before sunrise with the routine (*tool-box meeting*) which provided an opportunity for management and employees to discuss the work plan for the day, safety issues and any concerns to be aired before the different groups disperse into their specialized teams for the day's work assignment. We spent the first half of the day observing the teams undertake their arduous, overly specialized and programmed tasks under the 115 degree Fahrenheit sun. Most of the work entailed digging in or unearthing geophones and cables for miles in the desert with minimum skill variety or talent application. The staff worked in harsh conditions for an average of 10 hours a day with one hour lunch break in the desert for four weeks continuously followed by a two week break.

Another striking feature of the work environment is the glaring cultural divide between management and employees. A "desert plantation" type work environment where the boss commanded and workers followed orders. Members of the primarily expatriate management team live, eat, play, shower and socialize in separate quarters from the rest of the employees. Needless to add, the quality of work, facilities and level of responsibility are widely disparate.

CONTRADICTIONARY PERCEPTIONS – *MANAGEMENT VERSUS WORKERS*

In a discussion with the management team over dinner, they were quick to express their disappointment and frustration with the non compliance and deliberate violation of driving rules by the (host country) national workers. In their opinion everything has been done to inculcate a safety culture within the staff members and yet the workforce do not internalize it despite their understanding of the importance of safety and the consequences of non-compliance. They tried to punish, reinforce, motivate, acknowledge, communicate and preach all the western safety guidelines; but alas, it seems to have landed on deaf ears. They concluded that the problem is deeply imbedded in negative values and attitudes of locals, and hence the need for a psychologist or anthropologist, who may be able to decipher the native cultural code and influence their attitudes.

The Other Side of the Coin

In an open forum with a representative group of the local workers in their humble dining quarters where they sat in classroom-like rows scooping their full plates of rice and curry; the workers aired a long and protracted list of "pain". These ranged from a sense of being manipulated and unfairly treated not only by the management but by those in authority positions in the Ministry for their lack of concern to what has befallen them in this desolate work and living environment. They felt dispensable with basically no job security reflected in the transient nature of contracting work, replacements by casual workers, and poor pension plans. They complained

about the monotony of their jobs, the close controls, lack of training or lines of progression....“Once a laborer always a laborer” in addition to poor living conditions, nutrition and lack of recreation.

Gambling With Safety

When questioned about their attitudes towards driving safely and their deliberate violation of set safety procedures, which were there for their protection, the immediate response highlighted the fact that God bestowed life or death and not the safety guidelines or procedures. Once we got over the *religious misperception*, the young men pointed to their prison like habitats where every move is under close scrutiny from sun rise to dawn.

They alluded to their social isolation and dependence of their families on them at a time when they were in “captive like” conditions within the camp. This is particularly difficult when the camp is within two to three hour driving distance from their villages; the workers found it difficult not to visit their homes after work. Driving home after a long and exhausting day at work and driving back early in the morning (3 or 4 am) to resume work at 6 am is extremely hazardous given the unpredictable desert conditions i.e. sand storms, unpaved tracks and camouflaged camels...etc.

This is a dangerous but irresistible temptation for the majority of the local employees working with the Seismic Crew. The majority are recruited from nearby villages where strong social bonds and networks prevail coupled with the dependence of women, children, and the elderly on them. Furthermore, Their work schedule that requires the employee to spend four continuous weeks in the desert is another factor contributing to the sense of isolation and the temptation to undertake the risky journey to their families and communities.

In addition to the above, current motivational schemes to promote safety within the company were discussed. The general response was a sense that they were insignificant (amounting to 12 US\$ for each team member), or a company cap or T-shirts. The rewards were not perceived as major incentives to follow safety rules and procedures. They have also boycotted filling the STOP cards which were negatively perceived by the local workers as “telling tales” about their fellow workers.

Feedback

Following a debriefing session with the seismic crew management, we returned back to head office and reported our preliminary findings to AP Management in which we emphasized that the Seismic Crew employee safety performance has improved to the maximum level possible under the current set of programs and incentives and that further improvements are likely to be more difficult to come by and can only be expected if issues concerning the general morale of the workforce are addressed. The overriding message was that violating safe driving procedures is not just a result of carelessness but rather related to much broader issues, including, nature of the workplace, general

safety culture, management style and communication. That the underlying values and attitudes of employees towards safety could not be dealt with in isolation from the cultural and organizational context in which safety violations occurred.

Planning Change

We recommended a ten point action plan to pave the way for improved safety attitudes among employees and laborers within the seismic crew (See Appendix II).

Action

A few days later we met with Andy and Mark. Andy was in complete agreement with our findings and conclusions. He strongly felt that all our recommendations should be implemented and asked us to help with the implementation. A date was set for the next meeting. This time we insisted that contractor's representative should be present at this meeting. We also requested that a copy of our report should be given to the contractor. Andy understood that our recommendations had significant financial implications but assured us that the costs were well worth the benefits. At the end of the meeting Andy mentioned that he had been transferred to another country and would leave before our next meeting.

A few days later Mark called us say that the next meeting had to be postponed and that he would let us know the new date. Several weeks later I called Mark to enquire about the date for the meeting. Mark said that AP had implemented the policy of not allowing private cars in the camp. This policy was facing a lot of resistance from the local employees. This was probably not a good time to initiate further changes. The implementation of our recommendations would have to wait. A few days later the check for our preliminary work arrived in the mail. Nothing more was heard from Mark or anyone else from GO division regarding the implementation of our recommendations.

CHINA AUTOMOTIVE SYSTEMS, INC.: THE CASE FOR REVERSE MERGERS

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CASE DESCRIPTION

This case concerns a "reverse merger" by which a Chinese corporation obtains publicly traded status in the United States. The objective is to familiarize students with this alternative to an initial public offering, the more widely known method by which a company can become publicly traded, and to sharpen their analytical and research capabilities as they access the SEC website and EDGAR database as well as websites that provide other financial information for the answers to specific questions.

This case is appropriate for use in an advanced corporate finance class, an entrepreneurship or new business formation class, or an international finance class. Some aspects of the case may also be of interest to a business law or securities class. The case has a difficulty level of four, and should take from one to two hours of class discussion. Students will require three to four hours of preparation time.

CASE SYNOPSIS

The "reverse merger" is an alternative to the initial public offering (IPO) method of "going public". This back-door SEC registration technique is relatively common in practice, but is entirely ignored in finance textbooks as well as the academic literature.

The case considers China Automotive Systems, Inc., formed when Visions-In-Glass, Inc., a US non-operating, public "shell" company, acquires Great Genesis Holdings Limited, a closely held Hong Kong company that indirectly owns joint venture interests in mainland China. After the merger, Great Genesis stockholders own most of the stock of Visions-In-Glass, Inc., thus controlling the corporation and Visions-In-Glass retains its publicly trading status. The privately traded Hong Kong company becomes a publicly traded U.S. company.

In addition to focusing on the process of the reverse merger and the financial returns to various investor groups, this case examines how recent SEC actions may affect future reverse mergers. These actions include the suspension of trading in 26 shell companies for delinquent reporting, and the promulgation of regulations adding reporting requirements for shell companies or reverse mergers. These actions may reduce the advantages of a reverse merger in the future.

Students gather information and render an opinion as to whether the China Automotive reverse merger presents evidence of a fraudulent "pump and dump" scheme, as well as whether reverse mergers remain advisable in the future. A further unique aspect of this case involves restrictions on investment and/or currency exchange that a foreign country may impose on its residents. The case demonstrates how transactions may avoid or circumvent such restrictions. Finally, the case illustrates the layering of funding common in a start-up business, and how firms use exemptions from SEC registration (for private placements and the Reg S exemption) in connection with funding.

CHINA AUTOMOTIVE SYSTEMS, INC. – THE CASE FOR REVERSE MERGERS

Visions-In-Glass, Inc.

Visions-In-Glass, Inc. was incorporated in Delaware in June 1999 for the purpose of designing, manufacturing and marketing art stained glass with themes that memorialize the holocaust. The company had only minimal funding, \$1000 from its founder and \$2300 from seven other shareholders. Eight months later, the company raised an additional \$6300 from 48 non-U.S. investors. Table 1 details the company's stock issues.

Issue date	Shareholder	Amount raised	Shares	Percent of total	Registration status
June 1999	Founder	\$1,000	5,000,000	94.5%	Exempt - Section 4(2)
June 1999	Private placement	2,300	230,000	4.4%	Exempt - Section 4(2)
February 2000	Regulation S offering	6,300	63,000	1.2%	Exempt - Regulation S
	Total shares outstanding as of 12/2002	\$9,300	5,293,000		

None of the shares issued were registered with the SEC. The initial issue relied on the section 4(2) exemption and the later shares were issued under Regulation S. To obtain publicly traded status, the company registered its common stock with the SEC in August 2001. The company wanted the stock to be listed for public trading on the over-the-counter Electronic Bulletin Board. In August 2002, Yarek Bartosz acquired the founder's 5 million shares for \$100,000 and became the company's sole officer and director. At that time, the company had no assets and had never had any substantial operations. Aggregate revenues from the date of its incorporation were less than \$7,000;

the cumulative net operating loss exceeded \$10,500. A copy of the Stock Purchase Agreement of August 23, 2002 pursuant to which Yarek Bartosz acquired control of the company is attached to the Form 8-K filed by Visions-In-Glass, Inc. with the SEC on September 3, 2003 in connection with this transaction. It can be viewed in the SEC's EDGAR database at <http://www.sec.gov/Archives/edgar/data/1157762/000095014702001142/ex99-1.txt>. Information about the assets, liabilities and operations of Visions-In-Glass, Inc. from its inception through year-end 2002 is reported on the FORM 10-KSB filed by the company with the SEC in March 2003. This is available in the SEC's EDGAR database at: <http://www.sec.gov/Archives/edgar/data/1157762/000100201403000096/vig10k2002.htm>.

Great Genesis Holdings Limited

Great Genesis Holdings Limited is a Hong Kong limited liability company incorporated on January 3, 2003. Great Genesis Holdings Limited acquired all the shares of Ji Long Enterprise Investment Limited on March 4, 2003 by issuing Great Genesis stock to Ji Long stockholders in exchange for their Ji Long stock.

Ji Long Enterprise Investment Limited, a Hong Kong limited liability company incorporated in October 1992, owns joint venture interests in the Sino-foreign joint ventures identified in table 2. The combined sales of these joint ventures ranks second in their industry sector in 2003; their market share is 18%. (The industry rank and market share comes from the China National Information Center).

Table 2: Holdings of Ji Long Enterprise Investment Limited (as of 2003)

Company	Founded	Business	2002 Net Sales	Ji Long's ownership
Jingzhou Henglong Automotive Parts Co. Limited	1997	Automotive Parts	26,007,000	42%
Shashi Jiulong Power Steering Co. Limited	1993	Power Steering	10,789,000	81%
Shenyang Jinbei Henglong Automotive Steering System Co. Limited	2002	Automotive Steering	4,022,000	55%
Zhejiang Henglong & Vie Pump Manufacturing Co. Limited	2002	Pumps	66,000	51%
Jingzhou Henglong Fulida Textile Co., Limited	2003	Textiles	-	51%

Company histories for Jingzhou Henglong Automotive Parts Co. Limited and Shashi Jiulong Power Steering Co. Limited are available at the internet sites for those companies: <http://www.henglongcn.com/hlls.asp> and <http://www.henglongcn.com/jlls.asp>.

The owners of Great Genesis Holdings Limited are residents of China. As a result, they are subject to investment restrictions and foreign exchange restrictions imposed by the government of China. They are permitted to invest in both "A" and "B" shares of Chinese companies. "A" shares are issued by companies incorporated in China. These stocks are priced in Chinese renminbi. "B" shares are issued by companies incorporated in China but are denominated in currencies other than the renminbi. (Until March 2001, only foreign investors could own "B" shares. After that date, Chinese investors can invest in "B" shares but must have foreign currency accounts in order to do so. Investors without an external source of foreign currency are subject to foreign exchange regulation.) Chinese investors (even institutional investors prior to March 2003) can not invest in foreign securities. See, e.g., <http://chinese-school.netfirms.com/China-shares.html> and <http://www.southcn.com/english/news/money/200303100395.htm>.

In addition, foreign exchange restrictions make it nearly impossible for individuals in China to obtain foreign currency for foreign investment purposes. As of November 2003, the restrictions were alleviated somewhat for Chinese businesses seeking to invest offshore, but they remain in place for individuals. See, e.g., <http://www.tdctrade.com/alert/cba-e0312news1.htm> and <http://www.friedlnet.com/news/03012403.html>.

THE REVERSE MERGER PROPOSAL

Great Genesis Holdings Limited proposes to enter into a "reverse merger" with Visions-In-Glass, Inc. This will provide Great Genesis and its direct and indirect subsidiaries a presence in the US capital markets. The owners of Great Genesis have rejected other approaches to secure exposure to the US capital markets, including an initial public offering in the United States, a private placement or Rule 144a private placement in the United States, or an offering in China coupled with a sponsored ADR in the United States.

The Great Genesis merger proposal features three elements. The first affects the shares outstanding and the shareholdings of Yarek Bartosz. Under the proposal, Visions-In-Glass will split its stock 3.5 to 1 and cancel 17,424,750 of Bartosz's post-split shares in exchange for which Great Genesis will pay Bartosz \$200,000 (or \$250,000 if Visions-In-Glass, Inc. has 400 round lot shareholders as of the date of the merger) with an additional \$70,000 pending commencement of trading of the company's stock on NASDAQ.

The second aspect of the merger proposal is the actual acquisition of Great Genesis Holdings Limited. Visions-In-Glass will acquire all of the outstanding stock of Great Genesis Holdings Limited. In exchange for that stock, it will issue 20,914,250 new shares to Great Genesis stockholders and warrants to purchase 550,735 shares for \$1.36 per share to individuals designated by the Great Genesis stockholders.

The final element of the reverse merger proposal concerns control of the company after the acquisition. Bartosz will resign as the sole officer and director of Visions-In-Glass, Inc. The shareholders of Great Genesis and their associates will become the corporation's new directors and officers.

After the merger, the stockholders of Great Genesis will own 95% of the outstanding shares of Visions-In-Glass, Inc. The transaction is termed a “reverse merger” because a non-operating “shell” company with minimal assets and publicly trading stock acquires a private company with substantial assets and active operations. While the “shell” company survives the merger and the publicly trading status is retained, control passes to the owners of the acquired company.

OUTCOME OF THE REVERSE MERGER PROPOSAL

The parties agreed on the terms of the reverse merger and completed it on March 5, 2003. A copy of the reverse merger agreement (the Share Exchange Agreement) was attached to an amended Form 8-K filed with the SEC by Visions-In-Glass, Inc. on March 21, 2003. A copy can be viewed at <http://www.sec.gov/Archives/edgar/data/1157762/000101054903000128/visions8kaex41030503.txt>.

On April 8, 2003, the company filed a Form 14-C with the SEC advising that a majority of the shareholders had approved a resolution changing the name of Visions-In-Glass, Inc. to China Automotive Systems, Inc. and that change would be effect on filing appropriate documentations in Delaware (the state of incorporation) about May 15, 2003.

Prior to the merger, the stock of Visions-In-Glass, Inc. was listed on the OTC Electronic Bulletin Board and was quoted at \$0.01 per share but was essentially inactive. Five days after the merger, 300 shares of Visions-In-Glass, Inc. stock traded at \$3.10 per share. In the year after the merger, the company's stock price varied between \$2.90 (during the first two weeks of April 2003) and \$18.50 (on December 26, 2003), averaging \$7.66. During the summer of 2004, the stock price declined to about \$4.00 per share. Trading in the stock reached a maximum of 425,800 shares (market value of \$3,491,560) on October 23, 2003 and averaged 22,300 shares per day in the year after the merger. On November 17, 2003, China Automotive Systems, Inc. filed an application for listing on the NASDAQ small cap market.

Additional information about China Automotive Systems, Inc. is available from the company's internet site, www.chinaautomotivesystems.com/index.asp, and in reports filed with the SEC which can be accessed from the SEC's EDGAR database at www.sec.gov/cgi-bin/browse-edgar?company=visions+in+glass&CIK=&filenum=&State=&SIC=&owner=include&action=getcompany.

SEC REGULATION OF REVERSE MERGERS AND SHELL COMPANIES

As noted, Visions-In-Glass, Inc. gave notice of the reverse merger with Great Genesis Holding Limited by filing Form 8-K. This provided potential investors with information about changes in the company that might affect their valuation of its stock. In 2004, the SEC promulgated regulations that increase the number of events that require Form 8-K disclosure. Disclosure is now required if a reporting company acquires a significant amount of assets and when there are changes in control of a company. The new regulation also accelerates the filing deadline. A copy of this regulation is available at <http://www.sec.gov/rules/final/33-8400.htm>.

This concern that investors have adequate information to value companies is also reflected in SEC action in June 2004 suspending trading in 26 “shell companies” that had not filed timely reports with the SEC. The concern over delinquent reporting was heightened by the fact that the stock of shell companies typically trades at very low prices and is considered more susceptible to manipulation or fraud, particularly if required disclosures are not current. See, "SEC Cracks Down on Late Filers, Halts Trading in 26 Shell Firms," Wall Street Journal, June 9, 2004.

In addition, the SEC has proposed further regulations affecting “shell companies”. Noting that these companies are frequently used in “pump and dump” schemes, the proposed regulation would prohibit “shell companies” from raising capital using Form 8-S. It would also require a company that ceases to be a “shell company” because of a reverse merger to include in its Form 8-K filing the same information that would be required to register securities with the SEC. The proposed regulation is available for review at <http://www.sec.gov/rules/proposed/33-8407.htm>.

CASE QUESTIONS

1. Briefly describe the purposes and process of a reverse merger. Compare and contrast a reverse merger with an IPO, a private placement and an ADR. What are some advantages and disadvantages of each?
2. Why did Yarek Bartosz pay \$100,000 to acquire 94.5% ownership of a firm with no assets and no apparent business prospects?
- 3.a. What return (total and annualized) did the founder of Visions-In-Glass, Inc. realize on the sale of stock to Bartosz?
- b. What return (total and annualized) did Bartosz realize on the investment in Visions-In-Glass stock?

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- c. What return (total and annualized) did the seven private placement shareholders realize on their investment in Visions-In-Glass, Inc.?
 - d. What return (total and annualized) did the 48 Reg S offering shareholders realize on their investment in Visions-In-Glass?
4. Why did Great Genesis Holdings Limited select a reverse merger rather than an IPO, a US private placement, or a China offering together with a sponsored ADR to enter the US capital markets?
 5. What proportion of Great Genesis did each of the 5 Chinese investors in the Ji Long Holding Company own before the merger? What proportion did each receive of the shares issued by Visions-in-Glass to acquire Great Genesis? Comment on your findings.
 6. Were the warrants issued at the time of the reverse merger ever exercised? If so, on what terms? Who exercised them? Comment on the function of the warrants in this transaction.
- 7.a. Describe the "pump and dump" scheme and the concerns of the SEC regarding shell corporations and their role in the reverse merger process.
 - b. Is there any evidence of "pump and dump" in the reverse merger which resulted in the formation of China Automotive Systems?
 - c. Given the negative view the SEC appears to hold of reverse mergers, what would you advise a private corporation today which is considering the use of a reverse merger in order to "go public"?

REIT VALUATION: THE CASE OF EQUITY OFFICE PROPERTIES

James Stotler, North Carolina Central University

CASE DESCRIPTION

This case will require the student to value the equity of Equity Office Properties, Incorporated (NYSE: EOP) and make a buy or sell recommendation as an independent analyst. The data given should be examined to determine whether or not the company's stock is valued above or below the market price in order for investors to make a buy or sell decision. The student must assess the real estate industry environment using Porter's five-force model of competitive strategy and the DuPont identity. Valuation techniques employed include the capital asset pricing model, the two-stage dividend-discount model, the P/E valuation approach, and the Gordon model.

CASE SYNOPSIS

The student is placed in the role of an equity analyst and asked to prepare a buy or sell recommendation for Equity Office Property (NYSE: EOP) stock. EOP is the nation's largest office building owner and manager, as well as the largest real estate investment trust (REIT) in the United States. The student must assess the competitive environment of EOP using the DuPont identity and Porter's five force model of competitive strategy as well as estimate the value of EOP stock. All information in the case is publicly available.

EQUITY OFFICE PROPERTIES, INC. (EOP)

Equity Office Properties is the largest real estate investment trust and publicly held owner of properties in the nation. The total capitalization of EOP is approximately \$25 billion and they manage 124.1 million square feet of office space in 721 buildings in metropolitan areas all across the United States. The companies size and wide geographic diversification afford it access to low cost capital, acquisition opportunities and top quality management talent in the industry.

The origin of the company dates back to 1976 when an integrated real estate management organization was founded by Sam Zell, chairman of Equity Office. The company's portfolio was consolidated and shares began publicly trading in July of 1997. Since its initial public offering (IPO) Equity Office has grown dramatically from 32.2 million square feet to 125 million square feet primarily through strategic acquisitions such as Beacon Properties in December 1997, Cornerstone Group in June 2000, and Spieker Properties in 2001.

<i>Item</i>	2003	2002	2001	2000
<i>Total Assets</i>	24,189,010	25,246,783	25,808,422	18,794,253
<i>Total Revenue</i>	3,195,632	3,506,082	3,130,148	2,015,741
<i>Net Income</i>	655,062	770,215	618,182	470,860
<i>Stockholder's Equity</i>	10,059,864	11,085,472	11,308,366	8,017,073

REAL ESTATE INDUSTRY

The Real Estate Investment Trust (REIT) sector is sometimes viewed as an alternative to the fixed-income market. Based on the Value Line report, price and earnings momentum for this industry were projected to be average. Recent Federal Reserve Bank (FRB) actions to cut interest rates have benefited this industry in the form of lower interest costs but additional interest rate cuts by the FRB are not expected in the near future. In fact, interest rate increases are widely expected but their timing is uncertain.

The overall real estate sector may under perform in the future months. Several REITS have announced their exit from the market, although it's too early to tell whether they were strategic moves or ones based on the expectations of a cyclical downturn in the economy. The downside to the expectation that higher-growth companies will out perform is that higher-growth sectors are typically more interest rate sensitive than lower growth sectors. Nonetheless, it is anticipated that real estate stocks should continue to perform well on an absolute basis given their current low valuations and continued solid fundamentals.

Companies with high-expected growth performed better than those with lower expected growth prospects. Those companies with average annual FFO growth in 1999 and 2000 (above 10%) saw their prices rise 0.4% while those companies with growth below that level saw a decline

of 1.1%. Using the 10% cut-off, approximately one-half falls into the value index. It is believed that the lower spread between performance in growth and value of real estate stocks compared with the broad market is indicative of the lower volatility of real estate stocks and is not an indication that the effect does not hold for the real estate sector.

Table 2: Office Sector Multiple Comparison Large-Cap Office Companies

Ticker	Name	Rating	Price (\$) 27-Sep	Mkt.Cap. \$(Millions)	FFO 2001	FFO 2002
EOP	Equity Office Properties	SB	31.26	15,273	3.21	3.62
BXP	Boston Properties	SB	37.19	4,118	3.59	4.2
CEI	Crescent Real Estate	U	21.41	2,807	2.62	2.9
CRE	CarrAmerica Realty	B	29	2,371	3.28	3.57
TZH	TrizecHahn Corporation	B	17.8	2,642	2.19	2.68
HIW	Highwoods Properties	MP	24.15	1,861	3.83	4
CLR	Mack-Cali Realty	MP	30.49	1,959	3.7	4.03
ARI	Arden Realty Group	-	25.18	1,669	3.02	3.28
	Average			4,087		

Table 3: Current Key Financial Ratios

Company	ROE	PROFIT MARGIN	ROA
HIW	9.1	31.6	4.71
EOP	6.86	23.8	3.39
BXP	12.4	27.6	4.24
CLR	0.81	3.7	0.39
ARI	7.58	26.5	4.04
Industry	10.13	26.32	4.29

Source: Value Line Investment Survey

Based on the information in Table 3, firms in the large cap office REIT category tend to have high profit margins but yet relatively low returns on equity. Equity Office has a return on equity significantly lower than the industry average. This could be resulting from EOP's lower return on assets or a lower debt ratio.

VALUATION DATA

Your analysis requires some information about the market in general as well as information on how the price of EOP stock behaves under certain conditions. While compiling the following information, you realize that your estimate of the value of EOP stock is quite sensitive to certain factors. In this regard, you decide to conduct a sensitivity analysis to determine how sensitive the value estimate is to various input variables.

The data collection begins with interest rates. Consulting a reliable source, you learn that the interest rate on a 90 day United States treasury bill is 4.5 percent while interest rates on a 6 month treasury bill are 4.9 percent. A long term government bond is trading to yield 6 percent. Recent rates on certificates of deposit at large banks are around 4.8 percent and large creditworthy corporations have issued commercial paper with a yield of 5 percent. During this same time period, the standard and Poor's 500 earned an average return of 10.2 percent.

In addition to the above information on market interest rates, Table 4 contains some information you compiled relating to EOP and the market. EOP's income statements for the past three years are also presented. The dividends of EOP grew over the past 5 years at the rate of nearly 29 percent per year. This rate however is not expected to continue over the next 5 years due to market conditions and the economic outlook for the industry. Analysts' current consensus estimates range from 1 percent on average to 3.1 percent on the high end.

Beta Coefficient for EOP	.26
Price/Earnings Ratio For EOP	10.4
Return on S&P 500	10.2
Recent Price for EOP	27.74
Current Dividend	2.00
Earnings per share estimate	2.81

EQUITY OFFICE PROPERTIES				
Income Statements				
	12/31/03	12/31/02	12/31/01	12/31/00
Total Revenue	3,195,632	3,506,082	3,130,148	2,264,243
Cost of Revenue	1,116,893	1,094,108	1,003,561	248,502
Gross Profit	2,078,739	2,411,974	2,126,587	2,015,741
Operating Expenses				
Selling and Administrative	92,452	181,809	109,672	606,920
Non Recurring	7,500	-	135,220	-
Others	715,548	684,192	580,840	426,671
Operating Income or Loss	1,263,239	1,545,973	1,300,855	982,150
Income from Continuing Operations				
Total Other Income	120,979	-	-	92,264
EBIT	1,285,108	1,545,973	1,300,855	1,008,195
Interest Expense	827,335	815,015	728,251	535,533
Income Before Tax	457,773	730,958	572,604	472,662
Income Tax Expense	5,373	9,394	8,837	-
Minority Interest	(82,268)	(96,405)	(84,934)	(66,219)
Net Income From Operations	549,124	732,011	548,036	472,662
Discontinued Operations	105,938	38,204	-	-
Extraordinary Items	-	-	71,288	(1,802)
Effect Of Accounting Changes	-	-	(1,142)	-
Net Income	655,062	770,215	618,182	470,860

RFP, COLORFUL ORIGAMI TURTLES FOR DR. WRIGHT'S DECORATING DEBRIS, INC.: AN EXPERIENTIAL CASE STUDY

Christine M. Wright, Central Missouri State University
Jo Lynne Koehn, Central Missouri State University

CASE DESCRIPTION

The focus of this case is to determine the manufacturing cost of an origami product in order to respond to a request for proposal (RFP). Specifically, the case requires students to utilize concepts of cycle time, line balancing, work measurement, standard times, learning curves, product and process design, capacity, layout and costs. Secondary issues include supply chain management and cost accounting. The case is designed to be integrated into an Operations Management class over the course of several weeks, utilizing between three and five in-class hours and five to seven hours of outside preparation by students.

CASE SYNOPSIS

The case is based upon a real RFP format¹. Student teams are presented with an RFP and are expected to submit a completed proposal. This case works best in a very unstructured environment where students are forced to ask questions and use the textbook to find methods for completing the proposal. This case reinforces the concepts listed in the case description above as well as critical thinking, decision making and oral and written communication skills. It assists students in understanding how to apply knowledge to real situations, and can be used to discuss cost accounting, manufacturing management and new product introduction.

THE REQUEST FOR PROPOSAL

You and your fellow team-mates were recently hired by the Terrific Turtle Company (TTC) to turn the company around. TTC has recorded 12 months of losses. The old proposal response team, which you replaced after their mass firing last week, consistently placed job bids that ended up being lower than the actual costs. Therefore, upper management is very concerned about your diligence

on the RFP which was received from Dr. Wright's Decorating Debris Inc. (DWDDI) yesterday. However, while under-bidding is not acceptable because it causes losses when the bid is accepted, overbidding to pad the numbers may well result in the loss of contracts. For that reason, management will pay close attention to all requests for proposals and requests for quotes that you respond to. They are particularly interested in seeing that all the information relating to the final cost is presented in a logical and professional format.

**COLORFUL ORIGAMI TURTLES FOR DR. WRIGHT'S DECORATING DEBRIS INC.
REQUEST FOR TECHNICAL PROPOSALS, QUALIFICATIONS AND QUOTATIONS
NO. 01-0007**

Colorful Origami Turtles for Dr. Wright's Decorating Debris Inc.

Attention Proposers:

Dr. Wright's Decorating Debris Inc. invites you to participate in a two-step process for the provision of colorful Origami Turtles for sale in Dr. Wright's Decorating Debris Inc. stores in the metropolitan area.

Our mission is as follows: Dr. Wright's Decorating Debris Inc. "offers distinct, casual home furnishings at a good value. Our ever-changing collections are presented in a sensory environment that encourages customers to have fun shopping for their homes. [Dr. Wright's Decorating Debris Inc.] is a socially conscious company that conducts business with personal and professional integrity. We employ committed, caring associates whose first priority is responding to the needs of our customers²."

The Scope of Work is transmitted herewith. A Pre-Proposal Conference regarding this procurement will be held on fill in date and time here³ at fill in location here³. All proposers should attend.

your proposal submission (as outlined in 5.1 through 5.8 of this document) must be received no later than fill in date and time here³ at fill in location here³. Transmittals should be addressed as indicated under Section 6.1 of this document. Requests for further information should be directed to name³ at phone number³.

Sincerely,
Name³, Purchase Contract Manager

**REQUEST FOR TECHNICAL PROPOSALS, QUALIFICATIONS AND QUOTATIONS
NO. 01-0007**

Colorful Origami Turtles for Dr. Wright's Decorating Debris Inc

INTRODUCTION

Dr. Wright's Decorating Debris Inc. (DWDDI), created by Chris Wright to fulfill a market niche in the metropolitan area, is a privately held corporation. It is presently the region's largest decorating chain as measured by sales units. In August, 2000 it began fulfilling consumers' decorating needs in the region.

1.1 INTENT OF REQUEST FOR PROPOSAL

DWDDI seeks proposals from qualified firms to participate in a sealed bid process to purchase an estimated quantity of 40,000 each (10,000 per week for 4 weeks) Colorful Origami Turtles for resale in the region's Dr. Wright's Decorating Debris Inc. retail stores. The technical proposals shall include labor and cost information as detailed in sections 5.5 and 5.6 of this document.

DWDDI reserves the right to investigate the qualifications of all firms under consideration and to confirm any part of the information furnished by a proposer, or to require other evidence of managerial, financial or technical capabilities which are considered necessary for the successful performance of the contract.

1.2 DWDDI RIGHTS

DWDDI may investigate the qualifications of any Proposer under consideration, require confirmation of information furnished by a Proposer, and require additional evidence or information necessary to perform the technical and commercial pre-qualification process. DWDDI reserves the right to:

- 1) Reject any or all of the proposal packages.
- 2) Issue subsequent requests for packages.
- 3) Cancel the request for proposal packages.
- 4) Remedy technical errors in the process.
- 5) Appoint evaluation committees to review proposals.
- 6) Seek the assistance of outside technical experts in the Proposal Evaluation.

- 7) Approve or disapprove the use of particular subcontractors.
- 8) Establish a short list of proposers eligible for discussions after review of proposals.
- 9) Select any, all, or none of the packages.
- 10) Award a contract to one or more vendors.
- 11) Accept other than the lowest offer.
- 12) Waive informalities and irregularities in the packages.
- 13) Approve or disapprove turtles and/or component design.
- 14) Reject packages based on known design flaws.

This proposal does not commit DWDDI to enter into a contract, nor does it obligate DWDDI to pay for any costs incurred in preparation and submission of a proposal or in anticipation of a contract.

1.3 APPRAISAL QUALIFICATIONS

As a result of the process, DWDDI will select the firms which, in its opinion, are most capable of performing the services described in this document. To be considered for the work, a Contractor must demonstrate knowledge of or have experience in similar projects. Only those firms which are considered qualified will be asked to participate in an on-line reverse auction bid process for the required work. DWDDI will award a contract to that firm (those firms) which submit(s) the lowest responsive and responsible bid⁴.

1.4 TECHNICAL EVALUATION PROCESS

Offerors should submit proposals that are acceptable without additional explanation or information. The evaluation process will be performed by a Proposal Evaluation Committee (PEC). The evaluation criteria set forth herein will be the sole basis for determining the technical acceptability of the qualification packages. The technical package should be specific and complete in every detail. DWDDI may request additional information from offerors of proposals that are considered likely to be acceptable, and may discuss proposals with offerors.

DWDDI may proceed with the second step without requesting further information from any offeror.

1.5 EVALUATION CRITERIA SCORING MODEL

The qualification packages will be evaluated according to the following respective criteria:

- 1) Precedence diagram for manufacturing tasks
- 2) Workstation diagram including cycle time and idle time
- 3) Manpower projections in total hours, hours per week and hours (minutes, seconds) per unit
- 4) Projected cost per unit for both 40,000 units and at the per unit level based on a projected volume of 40,000 units
- 5) Inspection plan
- 6) Technological Improvement Suggestions
- 7) Perceived Ability of the Offeror to Supply
- 8) Documentation and Credibility of Manufacturing Times and Costing Information

SCOPE OF WORK

- 2.1 This specification covers replacement of Colorful Origami Turtles PN A001-0006 and is subject to the following requirements contained herein.
- 2.2 The Vendor is responsible for informing DWDDI of any and all changes to the product if it deviates in any way from the material data which affects the requirements of this specification.
- 2.3 The Colorful Origami Turtles shall be manufactured with 100% new materials and perform to specifications in all DWDDI environments.
- 2.4 Performance Certification: The proposers will be required to submit documentation that demonstrates that their Colorful Origami Turtles meet and/or exceed this specification. DWDDI will review and accept or reject, for cause, the proof of compliance.

MATERIAL REQUIREMENTS

- 3.1 Colorful Origami Turtles shall be constructed with new material. Any vendor that wishes to reverse engineer this product may request a turtle for that purpose. The new material shall meet or exceed the following reference data.

3.2 REFERENCE DATA

CHARACTERISTIC SPECIFICATION

- 17.0 cm from head to tail
- 7.6 cm width of body
- 15.4 cm length of legs
- 4.0 cm width of legs
- All other measurements proportional to Drawing 12344 of attachment⁵
- brown legs, face and tail
- medium blue eyes
- dark green hat, eyelids, toes
- Shell has three concentric ovals
 - Light green center oval
 - Medium green second oval
 - Dark green outer oval
 - Brown shell otherwise
- Folded as shown in Drawing 12345 of attachment⁵

3.3 Colorful Origami Turtle dimensions and coloring shall be per attached Drawings 12344 and 12345.

3.4 Vendor (s) will be required to provide one (1) set of eight (8) completed prototype Colorful Origami Turtles as first article for inspection and qualification by DWDDI. The first eight articles (units) shall be delivered to fill in location here³ with the proposal. These samples (if acceptable) shall be retained by DWDDI and used as a Quality Standard.

3.5 Permission to participate in on-line reverse auction will be made pending the approval of the PEC.

3.6 DWDDI is the only authority that can approve an alternative product.

WARRANTY REQUIREMENTS

4.1 The Vendor shall warrant the Colorful Origami Turtles to be free from defect in design, construction, materials used, integrity and deterioration of the material for six months from the date

of installation⁶. The warranty shall begin on the date of the Colorful Origami Turtle purchase. Colorful Origami Turtles may be stored at the DWDDI warehouse up to one (1) year before sale.

4.2 If the Colorful Origami Turtles fail during the warranty period, they shall be replaced by DWDDI. The Vendor shall reimburse DWDDI for cost of the replacement in cash or credit for future purchase at DWDDI 's sole option.

4.3 The cost for replacement of a defective turtle shall be assessed at the rate of .25 hours x \$20.00 per hour =\$5.00 labor, per failure.

4.4 A turtle is deemed to have become defective if conditions include fading, yellowing, melting, mixing or overlap of colors.

PROPOSAL PACKAGE CONTENTS

All proposal packages shall be prepared on 8-1/2" x 11" paper and bound. Use of 11" x 17" foldout sheets should be limited. All proposals shall be in the format described below. In order to insure that each proposal is reviewed and scored properly, it is important that each Proposer follow the format with care.

Proposals should be as brief and concise as possible. The following shall be included in the package:

- 1) Cover Letter
- 2) Organizational Mission Statement
- 3) Precedence diagram for manufacturing tasks
- 4) Workstation diagram including cycle time and idle time
- 5) Manpower projections in total hours, hours per week and hours (minutes, seconds) per unit
- 6) Projected cost per unit for both 40,000 units and at the per unit level based on a projected volume of 40,000 units
- 7) Inspection plan
- 8) Technological Improvement Suggestions

5.1 COVER LETTER

A cover letter shall summarize major points in the proposal and be signed by a principal or officer of the proposing firm. The letter shall address the firm's approach to the project and final per-unit cost. It should also include the full name of the firm, size, background, the name and phone number of a contact person.

DWDDI may investigate the qualifications of proposed bidders and require additional information to confirm representations made in the pre-qualification package, or seek other evidence of managerial, financial or technical capabilities needed for performance of the work. Such investigation shall include the right to check references not furnished by a firm in its response to this solicitation. SUBMISSION OF A PRE-QUALIFICATION PACKAGE SHALL CONSTITUTE AUTHORIZATION OF DWDDI TO MAKE ALL REASONABLE INVESTIGATIONS NECESSARY TO EVALUATE THE PROPOSED BIDDER'S QUALIFICATIONS AND THE QUALIFICATIONS OF OTHER FIRMS LISTED WITHIN THE PRE-QUALIFICATION PACKAGE.

5.2 Organizational Mission Statement

Provide your organization's mission statement. Imply, as appropriate, any competitive priorities that exist for your organization. Also, as you prepare the 8 colorful origami turtles as listed in 3.4 and the proposal, keep your mission in the forefront (i.e., organizations with "Quality" as a key component of the mission may have different manpower, costs, etc. than those with "Cost" as a key component).

5.3 PRECEDENCE DIAGRAM FOR MANUFACTURING TASKS

Provide a precedence diagram of all the manufacturing processes (tasks) required to manufacture Colorful Origami Turtles⁷.

5.4 WORKSTATION DIAGRAM INCLUDING CYCLE TIME AND IDLE TIME

The second diagram should be at the workstation level (e.g., one workstation may be responsible for all "brown" coloring activities, another for all "green" coloring activities). This diagram should include cycle and idle time and include proof of line balancing⁸.

5.5 MANPOWER

The Proposer shall give man hours (minutes, or seconds, if appropriate) it will take to completely manufacture all 40,000 colorful origami turtles. This section should include evidence of how the man hours (seconds) were calculated, appropriate references to materials and formulas used to determine man hours (minutes, seconds), etc. Give as much supporting data and calculations as possible. This is to enhance believability of costing information and ability of offeror to supply. It may be appropriate to include supplemental data in an appendix.

5.6 COST

The Proposer shall provide information about the cost of completely manufacturing one colorful origami turtle. All “manufacturing” costs should be included in this calculation. In addition, cost to complete all 40,000 units should be calculated. Packaging including the UPC label is \$5.00 per box and capacity is 100 units per box. The boxes are 12”x12”x12” and weigh 16 oz. The weight of one unit (turtle) is 0.5 ounces. Shipping costs should be included. Your factory is located in the Ward Edwards building in Warrensburg, Missouri 64093 on South Street. You will be shipping to the DWDDI distribution center at 1234 S. Citadel Dr. in Lee’s Summit, Missouri, 64063⁹. This section should include evidence of how the cost was calculated, appropriate references to materials and formulas used to determine cost. Use of your “input costs” will be necessary to complete this section.

5.7 INSPECTION PLAN

The vendor shall submit its Inspection Plan to include physical and visual inspection procedures and acceptable levels. Again, give as much detail as possible.

5.8 TECHNOLOGICAL IMPROVEMENT

Because of the mission and market of DWDDI, preprinted, machine cut turtles will be automatically deemed unacceptable. However, the Proposer may submit any innovative improvement ideas it has used successfully on similar projects. Approval must be requested prior to submission of proposal.

PRE-QUALIFICATION PACKAGE SUBMISSION

SUBMISSION

A complete proposal submittal will consist of one (1) original of the proposal documents, which will include items 5.1 through 5.8. All submittals must be received at the reception desk of the Material Office, at the address provided below, no later than fill in date and time here³. The only acceptable evidence to establish the time of receipt is the date/time stamp imprinted upon the proposal package by the date/time recorder at the Material reception desk.

01-0007

Attention: Name³

Procurement Office

Street Address³

Name of Business³

Town, State ZIP³

ENDNOTES

¹ The RFP format was adapted from “REQUEST FOR TECHNICAL PROPOSALS AND QUALIFICATIONS NO. 07-0019 SPHERICAL BEARINGS FOR BLUE LINE RAIL CARS” at <http://www.ism.ws/MembersOnly/BidSpec/BidSpecDetails.cfm?DetailsID=617>. This document is accessible with ISM membership.

² Mission Statement of Pier One Imports <http://www.pier1.com/company/aboutus.asp#MissionStatement>

³ The instructor should insert the necessary information

⁴ Responsive and responsible in this context refers to a bid which the buyer believes is achievable.

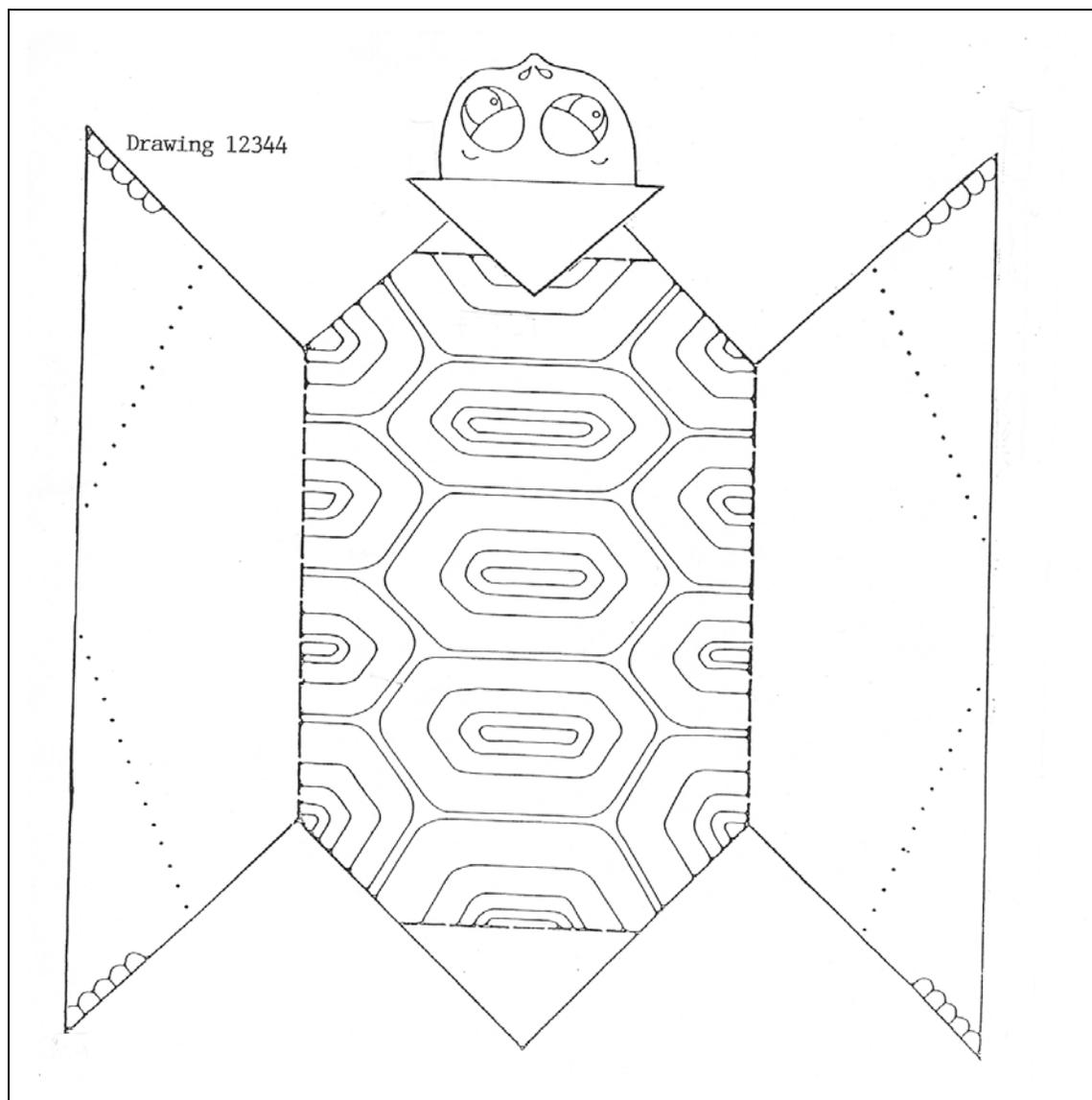
⁵ Source of drawings 12344 and 12345 is *Paper Folding With Origami Techniques, Grades 3-6* by Nakata Atsuko ISBN is 0768201535. This is a Frank Schaffer Create-A-Craft title. Frank Schaffer is now owned by Children’s Publishing and Frank Schaffer.

⁶ Typically, the instructor has not required students to calculate the anticipated percentage of defective units or the cost. This could be included as part of the assignment, if desired.

⁷ See your textbook for examples of precedence diagrams and work station diagrams.

⁸ See your textbook for examples of line balancing diagrams.

⁹ See UPS.com or Fedex.com for shipping costs and information.

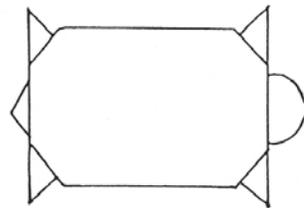
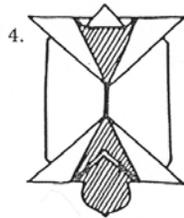
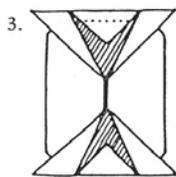
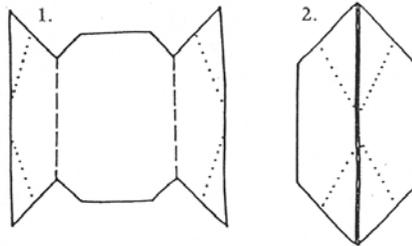


Turtle (simple)

Drawing 12345

Pattern:
Page 25

1. Peak-fold triangles (top and bottom) on dashed lines.
2. Peak-fold vertical dashed lines. Turn over.
3. Valley-fold (top layer only) on dotted line.
4. Valley-fold little triangle on dotted line.



STEPPING OUT OF THE BOX AT NORTHERN BOX COMPANY: PARTS A & B

**Robert Golove, Long Island University
Barry Armandi, SUNY-Old Westbury
Herbert Sherman, LIU-Southampton College**

CASE DESCRIPTION

The overall purpose of this case is to examine the managerial and organizational nuances associated with supervising a dysfunctional high level and loyal employee. Students obtain a "real-world" feel for the overall business setting, and, in particular, the individual forces that help shape the work environment. Students are asked to probe beyond personalities and the immediacy of the moment (Richard's resignation) and examine the broader issues posed in the case.

This case was written for two distinct audiences: students taking a human resource management course and students in a business ethics course. In terms of the human resource management course, the case places students in management's shoes. Students need to understand the ramifications associated with accusing an employee of theft from both an issue of procedural integrity and employee rights. This case (Part A and B) should be introduced after the students have read material on workplace justice and the handling of employee theft (Kleiman, 2000, Chapter 11; DeNisi and Griffin, 2002, Chapter 15), and career planning (Newman and Hodgetts, 1998, Chapter 15; Dessler, 2003, Chapter 10).

CASE SYNOPSIS

This case deals with an important issue that many students may themselves have to deal with during their own professional careers; how to deal with an employee who you believe has been dishonest with you (and perhaps stealing or planning to steal from the company) and how to deal with accusations by others of dishonesty, disloyalty and possible theft.

INTRODUCTION

"Bruce, we have a problem," stated Joe Green, President of Northern Box Company to Bruce Caesar, General Manager. "I just received irrefutable evidence that Peter Mitchell, our best salesperson, has been lying to us and is planning to take our largest accounts elsewhere. We need to deal with this situation immediately!"

COMPANY BACKGROUND

Northern Box Company (NBC) manufactured corrugated paper shipping cartons. It was a privately held, family owned corporation that was founded in 1950. Originally set up as a jobber (distributor) without any manufacturing capabilities, it shifted to manufacturing cartons in 1970. It had 12 manufacturing plants from New England down to the Carolinas. In 2001, revenues totaled over \$600 million. (See Appendix A for more financial and operating information)

In 1970, the founder, Grandpa Green, gave the company to his two sons who proceeded to turn NBC into a manufacturer by opening a plant on Long Island. The older of the two sons bought the other out and then he handed the company over to his two sons, Joe and Al. In the early 90's Joe bought half of Al's shares and became the majority partner. Part of that buyout agreement was the resignation of Al from the company. Subsequently, Joe became the CEO and President of the company. Joe had two sons that worked for the company in non-managerial roles, and Al's only son worked for the company as a sales manager at the Long Island facility. (See Appendix B for a listing of the central characters and their backgrounds)

THE LONG ISLAND DIVISION

The Long Island Division consisted of two plants, a corrugated facility and a sheet plant. The management team was responsible for both plants. What follows, however, focused on the larger facility, the corrugated plant.

At the onset of this period, the general manager of this facility was Joe Green (See Appendix C for the Long Island Division's Organization Chart). He took this position three years earlier when he abruptly fired the previous general manager for doing a "poor job". In May of 1996, a new general manager was hired, Bruce Caesar. The current Sales Manager, Larry Smith, was to act as the assistant general manager. After assessing Larry's abilities for three months, Bruce decided he needed help and promoted a salesman Peter Mitchell to co-Sales Manager. His responsibilities were to work with the younger sales people, manage his account base (\$3 million) and the house accounts (\$8 million), and help establish a cohesive steering committee for the division. Larry did not like

the move and four months later he abruptly quit. After the resignation, Peter's responsibilities included Larry's workload. In September of 1997, Bruce was promoted to Regional General Manager and would be in his Long Island office only two days a week. Peter was expected to handle Bruce's responsibilities while he was away. Bruce knew that Peter was not ready for this much responsibility and started looking for a full-time general manager. On the recommendation of the plant manager, Bruce interviewed and hired Michael Useliz for the general manager position. During the time before Mike was hired, Bruce had turned the division so that an annual six-figure profit was realized.

The New General Manager

Peter and Mike did not get along from the beginning. Bruce met with Peter and informed him that he needed to let Mike "run the show" from now on. He wanted Peter to put all his concentration on sales. At the first sales meeting where Peter was introducing Mike to the sales force, Mike made the following statement to them:

"Everybody thinks that doing business in New York is much harder than doing it anywhere else. This is simply not true. You just do not know how to perform your jobs correctly and I am here to teach you how."

Both Bruce and Peter received a tremendous backlash of anger from the sales force regarding this statement. The salespeople had an average of 18 years of experience in the industry and did not appreciate the comment from somebody who had never sold, nor had previously worked in New York.

Mike felt that the sales force was lazy and unproductive. He proposed to Joe Green, without telling Bruce or Peter, to fire all the salespeople except the top two producers. Joe dismissed the notion. However, Mike was able to convince Joe to change the sales force's compensation plan. The current plan included a base salary (\$26,000-\$35,000), commissions (2-5%), expense account and a car (\$450/month) and telephone (\$100/month) allowance. The new plan was to be commissions (2-14%) only with an incentive for the amount of paper sold (25¢/1,000 square feet of board or 25¢/MSF). Since the average salesperson sold about 40 million SF yearly, the footage incentive would mean about \$10,000 annually. It was Peter's job to work out the details with the salespeople individually and show them that the new plan was actually better for them. This process took about two months. The sales force was outraged with the new plan and threatened to leave. Peter convinced them all to stay because the footage incentive would help make up the monetary difference between the two plans until they learned how to best "work" the new plan.

Peter was instructed to prepare overheads for Bruce to present the new plan officially to the sales team. An hour before the meeting, Bruce, Mike and Peter met to discuss the final details.

Bruce informed Peter that his overheads were completely wrong because Joe Green scrapped the footage incentive weeks earlier. Bruce asked Mike why Peter did not know about this and Mike said that he had told Peter several times about the change. This was not the case. Mike then produced overheads with the correct information and reprimanded Peter for doing "poor work". Bruce later told Peter that the fact that Mike had prepared corrected overheads was proof that Mike was lying. The meeting was a disaster due to the elimination of the footage incentive and 7 out of 18 salespeople quit within the next four weeks. Mike indicated that "the salespeople quit due to Peter's failure to properly convey the correct information to the sales team." Mike convinced Joe that Joe's nephew, Morgan, should work with Peter to learn the position. Due to this move, Peter asked Bruce that he be allowed to step down from the managerial position. Bruce agreed to allow Peter to rejoin the sales force only if he spent the next three months training Morgan, which he did.

Around the same time that Peter stepped down, Bruce's health started to fail due to his diabetes. He went into semi-retirement by moving back to California, where he used to live before coming to NBC, and agreed to come back one week every month. The next six months were the most profitable that the division had experienced with profits over \$100,000 for each month. Both Mike and Morgan boasted freely about how they had turned around the company now that Bruce and Peter were "out of the way." Bruce and Peter both quipped that Mike and Morgan were going to crash back down to earth before long because the turn-around was the product of their programs, not Mike's and Morgan's.

The following year, 2000, was a disaster for the Long Island Division. They were sustaining losses of over \$75,000 per month. The plant, shipping and customer service managers quit citing the poor management skills of both Mike and Morgan. By now only six of the eleven remaining salespeople were still with the company and three of the top ten customers moved their business. The company was only able to recruit one salesperson during this time. Mike started spending the majority of his time in his office with the door shut, and Morgan came into the office only two half-days a week.

The Accusation

During a conversation with Joe, Bruce discovered that Mike had been accusing Peter of stealing from the company. The allegations included moving business to a competitor and working for a customer doing non-NBC business during company time. Mike was actively trying to get Peter fired. Since Peter controlled approximately 15% of all the business that the division was currently running and was responsible for 22% of the overall profit, no action was taken. Six months later Mike was fired for doing a "poor job" and Joe decided that he would replace him as the general manager on a half-day basis (8AM-12PM, Monday through Friday).

The most profitable account in the division was a customer handled by Peter. The account had an annual gross profit of \$375,000. The customer (POPCO) had a major argument with Mike a couple of months before he was terminated, and they started moving their business to a competitor of NBC. Upon learning about Mike's dismissal, POPCO started to move the business back to NBC. POPCO had \$50,000 of open orders in house with NBC.

Three days before the majority of the orders were due, the production manager informed Peter that the printing and cutting dies were all returned to the customer and that Peter had to go and pick them up. Peter questioned the manager as to why they would have returned tooling dies to a customer on the brink of leaving, but the response was: "That's not my problem, I just need the dies back to run the order."

Peter drove to the customer and went through the tooling dies that were returned. Apparently, only the cutting dies were returned and only about half were there. Peter called Morgan to let him know about the situation. Morgan told him to stay with the customer and that he would call him back in 30 minutes.

When Morgan called Peter back, he had the production and shipping managers and a plant supervisor in his office. They told Peter, via the speakerphone, that they had shipped all the dies to the customer. Peter replied that there must have been a mistake somewhere, because not all the dies were at the customer's. At that point, all four men started to accuse Peter of lying. They said that he was "going to be in big trouble unless he found the dies." Peter told them to come and find them, if they were so sure of themselves. At that point, Morgan yelled at Peter to "shut his f---ing mouth and never speak to him that way again." Peter replied that he did not deserve to be spoken to that way, and then asked Morgan to pick up the phone so they could talk one-on-one. Morgan declined but said that he would be sending somebody over to POPCO to find the dies. An hour later, the plant supervisor arrived at the customer's but was unable to locate the missing dies.

An Angry Customer

The following day, Peter told POPCO's owner about the situation regarding the dies. The owner said that he would replace the dies that he needed for the current orders but would deduct the amount from one of his bills. Morgan rejected the offer stating that the customer "lost the dies and should replace them at his own cost." The owner claimed that he never authorized the return of all of his dies and just found out about them today. The owner told Peter that "his order better be delivered by noon on Friday (two days away), or NBC would never see another order" from him again. The customer had a deadline to meet and would have to pay a substantial penalty if they were late.

With nowhere else to turn, Peter called Joe Green the following day (Thursday) to enlist his help. Much to Peter's surprise, Joe told him that "he did not want to speak to such a dishonest person," and that both "he and the customer could go to hell." Peter informed the customer of his company's decision and the customer ended the relationship with NBC on the spot.

The Trial

The following week, Bruce called Peter to inform him that there was going to be a meeting on that Wednesday between both of them, Joe and Morgan. Bruce told Peter that the Greens claimed that they had "irrefutable proof" regarding his dishonesty, and informed him to bring all of his backup paperwork. Bruce continued on to say that the Greens "knew" that Peter had requested all the dies be returned so that he could run them with a competitor to make a higher commission. Peter told Bruce that the accusation was ridiculous and unfounded, and that he looked forward to the meeting.

The meeting started promptly at 5:30 PM in the large conference room. Joe started off by saying that he was extremely disappointed with Peter's actions. He demanded a full explanation of Peter's actions and wanted to see paper documentation showing that Peter was innocent. Peter said that since the truth was on his side, he did not need any backup or explanations. He demanded to see the irrefutable proof that Bruce had told him about.

The Evidence

Joe produced two pieces of paper. One was an affidavit signed by the plant supervisor accusing Peter of harassing him to return the dies four months earlier. Peter did not ask to see the paper, but commented that he was impressed with the supervisor's professionalism even though the affidavit was a lie. The second piece of paper was a copy of an e-mail. Joe read the following from the paper: "Please return POPCO's dies to them at your next convenience."

Morgan stated that "Peter was dead in the water". Peter asked if there was anything else in the e-mail. Bruce, who had a copy, replied that there was. Peter asked Joe to read the remainder: "Also on the list are dies for two of my other customers that I do not know what the items are. Below, please find the following items in question. Please let me know the corresponding job numbers so I can have my customers inform me of their wishes."

Peter asked when the e-mail was dated. He was told that he had sent it eight months earlier. He then went on to ask if anybody knew what the e-mail meant. All replies were negative. He explained that eight months ago, production had given Morgan a list of "obsolete" dies that had not run in over two years. They wanted to know if they could either return the dies in question to the

customer, or just throw them out. Peter asked Morgan to look through his desk for the list. Morgan left and returned within two minutes with the hand written list. On that list were the dies that Peter had listed on the bottom of his e-mail, as well as eight POPCO dies. Peter went on to explain that he had written formal letters to the customers asking them their wishes on what to do with these dies. Since Peter had given the completed letters to Morgan, he asked him to look through his desk for copies of the letters that he was talking about. Once again Morgan left and returned almost immediately with three such letters. The first two letters were to other customers and referenced the dies that Peter had questioned in his e-mail.

The third letter was to POPCO. The letter was initialed and dated by the owner of POPCO, requesting that the eight dies be returned. That letter was dated seven weeks earlier. Just ten days before the dies were actually returned.

The Apology

Having realized that his story did not hold water, Joe went on to say that he thought that Peter had been stealing because Mike had accused him of that many times. He went on to say that he had been "burnt many times" by unscrupulous salespeople and had made a grave mistake in error by accusing Peter. Peter reminded Joe that he had fired Mike and should always question the reliability of his source. Peter went on to say that obviously the affidavit was also a fabrication, and that he felt that the plant and shipping managers had probably coerced the supervisor into signing it. Peter asked if those managers were going to have to answer for their dishonesty. Joe said that the plant manager was a "stand-up guy", but that the shipping manager had "honesty problems". However, he was not going to address the issue with them. He thanked Peter for his "frank and honest" comments, and said that he would never rush to judgment on him again. Peter ended the meeting by stating how hurt he was by having his integrity questioned. Then the men all shook hands and left the room.

The Dinner

After the meeting, Bruce and Peter went out to dinner. Peter told Bruce that he did not think that he could work for NBC any longer. Bruce reminded Peter about how much money he was making, and implored him to consider the company's best interest as well. Peter told Bruce that he could not put a price on his reputation and stated that something would have to change. Peter said to Bruce "After eight years of being a loyal employee, how could they think of me as anything less. Besides, why aren't they going to question the (plant and shipping) managers' integrity?" Bruce responded by saying that "Money cures all. You need to consider your financial situation and taking

care of your family. Forget about your pride. Besides those guys are a bunch of a-holes and you shouldn't let them get to you." Peter said thanks for the advice and they both left the restaurant.

The Decision

Peter went home that night and discussed the situation with his wife. Having a toddler and a newborn at home, and a wife who did not earn a salary, a decision to leave could not be easily made. To compound the decision further, Peter had just entered an MBA program that would take considerable financial resources, since he was paying for it personally. Leaving his high-paying job may jeopardize the ability to complete the schooling

<p>Appendix A Financial and Operational Background</p>
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As an economic indicator, the corrugated industry normally tracks paper usage. This is because the industry's pricing is a direct product of the paper market, which is a commodity. NBC, like most companies in their industry, measures usage in units of MMSF (million square feet of corrugated paper). As a guide for this study, \$40 per MSF can be used to help the reader understand the economic values. Using this ratio every MMSF will equal \$40,000. Remember that this equation is only an average extrapolation and does not reflect the actual fluctuations in market pricing during the timeframe we are looking at.

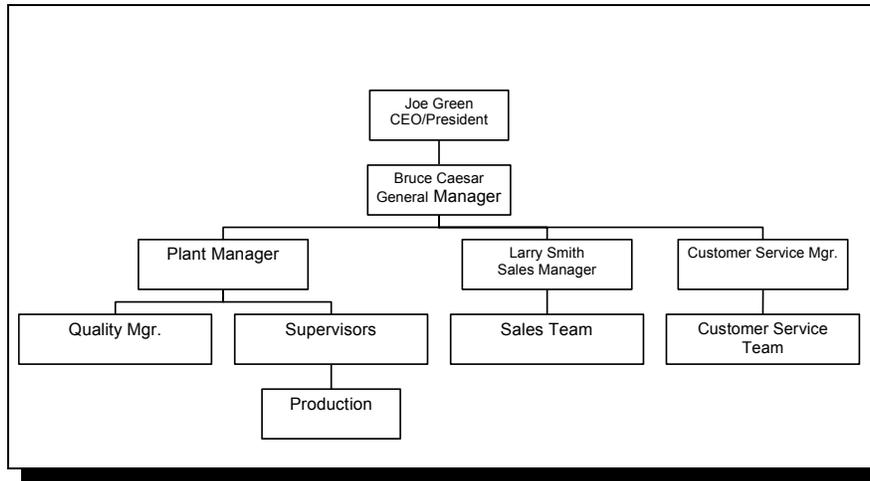
In 1995, the year before Bruce was hired, the local plant manufactured and shipped around 830 MMSF. The plant has the yearly capacity to manufacture and ship over 1,200 MMSF. On the quality charts, their parts per million (PPM) returned was around 5,500. This was about four times higher than the industry standard. These factors helped the plant to realize a loss of approximately \$1,000,000. In 1997, the first full year for both Bruce and Peter as managers at NBC, the plant shipped 985 MMSF and had a PPM rate of 3,700. In 1998, the plant shipped 1,070 MMSF and had a PPM of 1,900. In 1999, the first year with Mike and Morgan leading the division, the plant shipped 955 MMSF and had a PPM of 4,200. Currently (2001), the plant is on a pace to ship 880 MMSF and have a PPM of 6,700.

NOTE: For the reader who is not familiar with the corrugated paper industry, a normal truckload of finished product can hold 140 MSF of product. Thus 830 MMSF equates to approximately 24 truckloads each day, and 1,070 MMSF equates to approximately 31 truckloads daily.

Appendix B
Personnel Backgrounds

Joe Green:	62 year old small framed man with balding gray hair. Usually soft spoken, unless angered. Known to have a quick temper. Wore wire rimmed glasses that he peered over when he disagreed with someone. He was extremely wealthy. Had a private leer jet, an 80-foot yacht with three full-time employees, and several homes located in some of the wealthiest parts of the United States and the Caribbean. Normally dressed casual. Almost never wore a jacket or tie.
Bruce Caesar:	59 year old distinguished looking man with an athletic build and natural strawberry blond hair with white highlights. He had blue-green eyes and a perfect smile. An avid golfer, who enjoyed Broadway shows and wine tasting. Started in the industry as an hourly laborer at the age of 19, and worked his way up the chain to the regional vice president's position at the world's largest corrugated paper company by age 52. Heavily invested in the stock market, where he made most of his money. Always dressed to impress. Retired at age 56, before coming to NBC three years later.
Larry Smith:	55 year old tall thin man who wore thick horned rimmed glasses, and had thick salt and pepper hair. A nine to fiver, who was meek and soft-spoken. A secretive person who kept to himself.
Michael Useliz:	50 year old tall thin man with dyed dark comb-over hair. Not well groomed. A New Englander who was verbal about his distain for how New Yorkers do business. A Naval Academy graduate, who received his MBA from Wharton. Spent a large amount of time playing Solitaire on his computer. Liked holding long meetings, but always left work at 5:30 PM no matter what the circumstance. Recently fired from his past job, but it was unknown until well after he was hired.
Peter Mitchell:	31 year old husky man with thick auburn hair. A positive energy person, who always has a smile on his face. Formally trained salesperson (Xerox PSSIII) program. with a quick whit and a professional air. Worked long hours and was always on call. Highest grossing salesperson in the division for three years straight. Generates nearly twice as much profit as the second highest selling salesperson. Considered a company-man.
Morgan Green:	27 year old small framed man with long curly dark hair and a perpetual tan. He was the nephew of Joe Green. Always wore collared shirt that was unbuttoned down to chest. Received Associates Degree from local college two years earlier. Born wealthy, this was his first full-time job. Known to date models and frequent strip clubs.

Appendix C
Organization Chart
Northern Box Company's
Long Island Division



STEPPING OUT OF THE BOX AT NORTHERN BOX COMPANY: PART B

After hours of careful consideration, Peter and his wife agreed on what needed to be done and sent Bruce the following e-mail:

Subject: My Resignation and Continuing Service to NBC
Date: 8/30/01 1:09:14 AM Eastern Daylight Time
From: Peter Mitchell
To: Bruce Caesar@NBContainer.com

GOOD MORNING!

Thank you for having dinner with me and your words of advice. You have always afforded me your knowledge and experience, and it is truly appreciated.

As discussed, I no longer want to work for Northern Box Corp. It is not in my best interest to have my family's livelihood in the hands of people whom I can no

longer trust. Given my age I will no doubt work for perhaps another 25 years, therefore I will find a place where my talents and dedication are fully appreciated and utilized. I have not yet sought out other means of employment, but it is obvious to me that NBC is not my future any more. The latest disaster with POPCO is inexcusable, and I cannot forgive the people who caused it or allowed it to occur. There is no accountability for their malfeasance, and therefore no hope that it will not occur over and over again. I would rather face an unknown future than watch my extensive efforts and hard earned customer relationships be wasted in the years to come.

I concur with your assessment regarding the well being of NBC, and I am even more concerned about my customers. If I were to leave today, NBC would lose a great deal of volume from the Megasource accounts, because they are depending on me to help them through this critical transition time for them. NBC would likewise have a hard time bringing Jay's new company, the ABC Company, on board and would surely fail when Wyatt Fruit Company's goes to renew their contract this year.

I do not wish to hurt my customers who have been so good to me over the years, and I would like to leave NBC with minimal damage. I resign from NBC effective at the end of the current period (September 7th). I propose to become an Independent Agent for NBC until year's end. This way I can help solidify NBC's positioning at the accounts I mentioned above, and have an income while I create my future. The details would need to be worked out this week, and we could revisit any plan at year's end. Please bring this to Joe Green's earliest attention so I can get his immediate feedback and commitment.

Thank you again for all your help.

The resignation email was a complete surprise to Bruce. He could not believe that the "company guy" was actually quitting. After calling Peter and trying to change his decision, Bruce reluctantly forwarded the email to Joe. Joe called a meeting with Bruce, Morgan, and Peter to discuss the resignation. No matter what points the managers tried to convey to Peter, his answer was basically the same; "I need to work for a company where I am appreciated for what I do and respected for who I am." Peter went on to say that the once the bond of trust had been breeched, that it could never be repaired. The meeting left all parties feeling uneasy.

Peter proposed a plan for his leaving the company to Joe, Morgan, and the executive vice president who was there in Bruce's place. Since Peter did not want to leave the Division in financial

ruins by taking his business elsewhere, he created a program where he would teach another salesperson how to best handle his accounts. For this, he asked for a 1% commission to be paid to him for the business he would leave behind for the following year. His goal was to move out of the field and into another industry. Since he had not started looking for another job, he would need this 1% to help supplement his income for the first year. He asked for a quick decision so he could move on with his life and start looking for a job.

It had been over a month since Peter presented his plan and he still had not been given an answer. Morgan called Peter and told him that he needed to speak with him right away. Peter thought that he was finally getting a response to his proposal. When he arrived at Morgan's office, he was greeted with a second accusation. Morgan told him that he "knew" that Peter had tried to hire a truck driver, recently let go by NBC due to the drop in business, to work as a salesperson for POPCO. Dumbfounded by the allegation, Peter asked why anybody would hire a truck driver to do a sales job. Morgan stated that the driver would know all of NBC's customers. Peter, still not fully understanding the charge, stated that as the ex-sales manager he also knew all the customers and none of them utilized POPCO's products. Morgan clarified his claim by telling Peter that he "knew" that they were out to sell corrugated cartons (NBC's products) to "his" customers behind his back. Peter informed Morgan that POPCO did not have any carton making capabilities, and that he was just embarrassing himself at this point. Morgan apologized for his misinformation. The next day Peter found out that Morgan was told about the accusation from the shipping manager. The same one that Joe claimed had "honesty issues."

HOLE IN ONE BAGELS

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CASE DESCRIPTION

The primary subject matter of this case concerns the purchase of an established bagel business during a period of economic recession and industry consolidation. The case focuses on the examination of financial strategies with an emphasis on cost analysis and the development of marketing strategies. The secondary issues include decisions dealing with relocation and growth. This case has a difficulty level congruent with entrepreneur majors with junior or senior status. In order for students to examine this case effectively they should have background knowledge in analyzing financial statements, and developing marketing strategy. The case is designed to be taught in one class session of approximately 1.25 hours and is expected to require four to six hours outside preparation time from the students.

CASE SYNOPSIS

In June 2002 Phillip McGuthry, a long time resident of Fort Mill, SC, purchased Hole in One Bagels, a small independent bagel shop with a great reputation in the community and a good customer base. The economic environment at the time of the purchase showed signs of weakness. In addition, the 911 terrorist attacks, and the low-carb diet trend were also somewhat worrisome. However, the bagel shop offered McGuthry a way to get out of the corporate world of advertising and step into what he thought would be a quieter more relaxed environment. He felt that with a few adjustments in the store's operation, he would make a reasonable profit. Overtime, he would learn more about the business thus increasing efficiencies and margins. Currently the only type of promotions was word of mouth. Certainly he could make improvements in the marketing area. However, after a mere five months McGuthry found that running the business was more challenging than he originally thought. Some months the business was profitable and other months cash flow was negative. He also found it necessary to hire a weekend manager so that he was not working 7 days a week. This added to his current labor expenses. McGuthry loved his new business, but was faced with some serious decisions if he is going to make the business profitable. He must either cut expenses or increase market share and customer demand. The case looks at the challenges that face

McGuthry as the new owner of Hole in One Bagels. His initial objectives were to increase efficiency in operations and to retain his current customer base while attracting new customers to the shop. Decisions about location and possible expansion of the business would need to be addresses after tackling the initial operational issues.

COMPANY HISTORY

McGuthry took over Hole in One Bagels on June 1, 2002. The original Hole in One Bagels was located in Colorado; where the previous owners, the two Smith sisters, bought the first franchise from a successful local bagel shop in 1996 and opened in Fort Mill, South Carolina. The Smith sisters ran the business for six years. The business was franchised for several years, but the franchise was terminated when the franchiser could not meet the required commitments of the contract. In 2002 the two sisters put the business on the market because they lacked the time needed to run the business efficiently. During the initial six years, the Smith sisters developed a loyal customer base and a reputation for quality products.

Phillip McGuthry, grew up in Fort Mill, South Carolina. He spent thirty years of his career in advertising and twenty-five of those years with the Charlotte Observer. His dislike for big business politics and the opportunity to buy a local business led him to become the new owner of Hole in One Bagels. He states, "I like owning a local business because of the close relationships I form with my customers and the people of the community."

The business was located in a mixes use neighborhood off of one of the side roads in Fort Mill, SC. In an effort to get started, McGuthry purchased the business and equipment, but leased the building with the intent of purchasing at a later time. This gave him time to evaluate the location without tying up his resources. It also allowed him options for growth and expansion at another location. The current site along a side street near the university received some traffic, but not the volume of the main commercial strip through the center of town. There was also a new retail development receiving a lot attention on the other side of town. Several new restaurants were attracted to Fort Mill because of the population growth in this area. However, McGuthry liked the current location and atmosphere of the business. It was in a small brick house with ample parking and an outside patio area where customers could enjoy the landscaped garden area and have a relaxing lunch. The environment was very "comfortable," "friendly," and "down to earth." Before purchasing the business he had enjoyed coming to the shop with his family and business associates. In addition McGuthry had the advantage of Hole in One Bagels being the only bagel specialty store in the town with a reputation for excellent customer service and quality products.

The menu for Hole in One Bagels included fresh bagels with a variety of cream cheese, bagel sandwiches, and beverages such as fresh brewed gourmet coffee, cappuccinos, lattes, iced tea and

soft drinks. McGuthry added sausage egg and cheese bagels to the breakfast item menu soon after purchasing the business. He was also considering an item called “Bagizza,” which was a cross between a bagel and a pizza. However, additional equipment and trademarking of the name would have to be purchased before adding this item to the menu. Fresh Hole in One Bagels fulfilled a niche providing specialty food items prepared quickly with excellent customer service. The menu was in colored chalk on the back wall of the shop. The full menu is located in figure 1.

Other than the addition of the breakfast sandwich mentioned above, the menu and the pricing structure had not been changed in three years. McGuthry was considering changes in the menu selection that would consolidate items into broader categories and provide added value for the customer. This would allow him to increase the price points of some of the menu items. He knew that Hole in One Bagels offered excellent customer service and great quality products, but questioned raising prices with the sluggish sales in the bagel industry over the last several years and the economy still somewhat in recession. He was all too aware that customers could go to a gas station on the way to work, and buy a donut and a cup of coffee for \$2.00 rather than his bagel and café latte for more than double the price. He continually questioned whether customers would sacrifice a friendly greeting and a quality product for the convenience and savings they found at a gas station fast mart?

Another issue McGuthry and the entire bakery industry faced was increased popularity of the low-carb diet. It was estimated that as many as 40% of Americans were eating significantly less bread because of the low-carb diet. Predictions in national trade magazines indicated a sales decline in bread and pasta products of up to 10 to 15 percent (Cole 2004).

ORGANIZATIONAL STRUCTURE AND OPERATIONS

Phillip McGuthry served as the sole proprietor and owner of Hole in One Bagel. His employees included a weekday manager, a weekend manager, a prep chef, a baker/roller, and several cashiers/waiters. One of the changes McGuthry made when he took over was the addition of a weekend manager so that he would not have to work every weekend. With the addition of the weekend manager there was a combined total of thirteen full-time and part-time employees. These employees equaled seven full-time equivalents. All employees except the managers and prep chef were hourly employees. The manager and prep chef were on salary, but the hourly employee's wages range from minimum wage to \$7.50 an hour. A full organization chart can be viewed in figure 2.

On a typical weekday morning usually three employees were scheduled. For closing during the weekdays two employees were usually scheduled. Shifts varied depending on the employee's schedules, since most of Hole in One Bagels' employees were college students. On Saturdays five

employees were scheduled to open and stay until it was time to close. On Sundays four employees were scheduled to stay for all operating hours. This was an average of five employees every workday.

Hole in One Bagels was open seven days a week. Monday through Friday they were open from 6:30 AM till 5:00 PM. On Saturdays, hours were from 6:30 AM till 2:00 PM and on Sundays the hours of operation were from 8:00 AM till 2:00 PM. Hole in One Bagels did 49% of their business between the hours of 6:00 AM and 10:00 AM, 44% of their business between the hours of 10:00 AM and 2:00 PM, and only 7% between the hours of 2:00 PM and 5:00 PM.

There were seventeen suppliers that provided the bagel shop with quality products such as coffee, cream cheese, deli meats, flour, sugar, vegetables, syrups, ice, and beverages. The previous owners established most of these suppliers and a good relationship had been maintained. McGuthry paid all of his suppliers in a timely manner and had established Monday as his accounts payable day. He also tried to set up draft accounts when possible to save time and money.

Hole in One Bagels had an operations manual with established operational procedures for the business. Many of the policies were posted in the kitchen and work areas to keep day-to-day routines in line and employees on task. These included morning start-up (figure 3); how to greet and serve customers (figure 4); closing duties (figure 5); daily checklist/guidelines (figure 6); guidelines for various operations such as sandwich construction, register calls, refrigerator guidelines, daily side-work, answering the telephone, taking to-go orders (figure 7); employee appearance (figure 8); and employee discounts and sick policy (figure 9). Even though McGuthry had these employee policies posted, he admits he did not strictly hold his employees to the rules. He enjoyed the casual, informal atmosphere of a small business rather than the formal hierarchy of the corporate world he had dealt with for most of his life. Working with his staff early in the morning getting everything in order for the day and greeting customers as they came into the shop brought him great satisfaction.

Bagels were made fresh every morning and each customer of Hole in One Bagels got a customized bagel, made to order. An extensive amount of tender loving care was put into every customer order, thus distinguishing Hole in One Bagels from their competitors. Labor costs for Hole in One Bagels were at 34% of sales compared to the fast food industry average of 27.6% (Government Census 2002). The size of the average purchase (\$4.39) was in line with or slightly higher than the fast food industry average (\$4.33). However, Hole in One Bagels did not have the high traffic volume that a fast food chain is accustomed to receiving. With bagels, the customer is involved in creating a customized order with each purchase. Everything is made-to-order when the customer arrives thus creating a more intensive labor activity. In the preparation of orders, sales associates sometimes found themselves stumbling over each other trying to get to the same food items. In an effort to provide better customer service and move people thorough the line as quickly

as possible, McGuthry assigned employees to specific stations such as beverage service and the cash register. However, bottlenecks still occurred during morning rush hours. McGuthry wondered if his staff was performing as efficiently as possible and whether his labor costs were in line with other bagel shops.

CUSTOMER PROFILE

According to McGuthry, Hole in One Bagels had two target markets: 1) the consumer market made up of students and professional adults and 2) the business market consisting of local firms catering meals for employees and clients. He described the consumer group as ranging in age from 18-55 years old. The younger side of this age segment included students from the nearby university and local high school students. The older customer segment consisted of white-collar professionals mainly: teachers, lawyers, accountants or doctors from the local community. Most of Hole in One Bagel's customers fell into the white-collar professional group with middle to upper incomes and sufficient disposable income to afford quality products including quality bagels, specialty coffee and a unique atmosphere.

An ORC International (2002) report asking adults to name their favorite breakfast food indicates that bagels are preferred more by women (15%) than men (9%) and bagels are more popular with 18-34 year olds (17%) than with older consumers (10%). Also, the heaviest consumers of bagels in the United States were white-collar professionals with household incomes of \$40,000 or more. They were college graduates or had attended some college (MediaMark Research Inc., 2002). These statistics were very favorable to McGuthry's bagel shop. On the other hand, this same research indicated that individuals in the southeast were 20% less likely to purchase bagels than in the high sales areas such as the Northeast and Mid-Atlantic states. These areas enjoyed a high level of marketing and a high concentration of bagel shops (Harter 2001). Although located in the southeast, Hole in One Bagels had the advantage of being the only specialty bagel shop in the area.

The second target market was the business customer. Hole in One Bagels also catered functions such as office luncheons, seminars, and group meetings. Some of the main business customers of Hole in One Bagels were government offices, school districts, assisted living centers, attorney's offices, textile mills, doctor's offices, and non-profit agencies in the area. McGuthry took orders before 11:00 am and delivers box lunches to the business. Catering made up 20 % of the business. Although catering was a small percentage it has proved to be very profitable. This was one area that McGuthry felt deserved more attention, and he needed some ideas on how to market to the business segment.

COMPETITIVE ENVIRONMENT

Hole in One Bagels was the only retail specialty bagel shops in the Fort Mill area. The closest direct competition from a specialty bagel shop was in Charlotte, North Carolina approximately twenty miles away. In the Charlotte Metropolitan Area there were thirty-five bagel shops in fifty different locations (Reference USA 2002). Hole in One Bagels does not draw business from the Charlotte market. However, McGuthry was concerned about a sizable group of Fort Mill residents that commuted into the Charlotte area to work. Daily commuters working in the Charlotte metropolitan area had a choice of purchasing their bagels at Hole in One Bagels before leaving Fort Mill, or purchasing their bagel from one of the Charlotte bagel shops closer to work. McGuthry understood that the quality and service he provided must be competitive with the Charlotte bagel shops.

In the Fort Mill area Hole in One Bagels' competitors consisted of gas stations with convenience stores and fast food restaurants. These establishments provided similar products usually of lower quality, but with convenience. According to Reference USA (2002) there were 55 establishments in the gasoline/convenience business in Fort Mill. These establishments represented a substantial threat to Hole in One Bagels since morning commuters could stop by a convenience store on the way to work and buy a cup of coffee and a bagel cheaper and more conveniently than making an extra stop at a specialty bagel shop. Fast food restaurants were also adding bagels to their menus. The Fort Mill area had 167 fast food and casual dining restaurants that provided additional competition as well as a donut and coffee shop. These establishments offer the convenience of drive through windows and lower prices. Customers would have to drive out of their way and pay more in order to have the Hole in One Bagels experience. McGuthry knew that the atmosphere of the store and the quality of his product were essential elements in attracting and retaining his customer base.

BACKGROUND ON THE BAGEL INDUSTRY

The Rise of the Bagel Industry

The bagel industry became popular in the early 1990's and witnessed a tremendous boom in terms of growth. Independent businesses as well as chain and franchised operations entered the bagel business. The nation began to see bagel shops locating on virtually every street corner in cities across the U.S. Many factors contributed to this growth. In addition to being a healthy hand-held convenience food, Casper (1997, p. 118) indicated that "Bagel shops appeal to restaurant operators because of highly favorable unit economies, relatively low entry costs, fairly simple operations and,

for the time being almost limitless growth.” The bagel craze reached its peak somewhere between 1995 and 1997. During this growth phase the bagel industry moved past its ethnic boundaries to become a regularly accepted food product in the mass market much as the pizza industry had done a couple of decades earlier. As bagels became more of a generally accepted, everyday food product the number and type of distribution channels increased.

Bagel sales were estimated at \$2.3 billion in 1996. The top five-bagel chains in 1996 were Bruegger’s with 450 units and sales of \$191.0 million, Einstein/Noah’s with 315 units and sales of \$146.0 million, Manhattan Bagel with 296 units and sales of \$86.0 million, Chesapeake Bagel with 156 units and \$95.00 million, and Big apple Bagel with 118 units and sales of 30.0 million (Casper 1997). In addition, there were many other contenders in the process of building their bagel companies such as New York Bagel Enterprises, Inc., Big City Bagels, Great American Bagel Co., etc. As the craze continued many different types of players entered the market. Although the quality varied significantly, consumers could also purchase bagels from fast food restaurants, convenience store and supermarkets at lower price points and with greater convenience. In 1996 Dunkin Donut entered the market with 3200 stores thus substantially increasing the availability of fresh bagels in the marketplace. Because of the large number of outlets Dunkin Donuts became the largest distributor of bagels in the country. It was followed by the fast food giant McDonald’s adding an additional 8000 outlets to the marketplace in 2000 (Spinelli 2000). Other fast food restaurants also increased their breakfast offerings including Dairy Queen, Chick-fil-A, Jack in the Box, Hardees, Cinnabon (Silver 2001), Starbuck, and Krispy Kreme (Unrein 2003). In addition, convenience store added the bagel sandwich as part of its morning menu for customers wanting to make only one stop for gasoline and a “to-go” breakfast item. Supermarkets also contributed to the plethora of bagel options with roughly 50% of all bagels (fresh, refrigerated and frozen) being sold by grocers (Casper 1997).

Consolidation of the Industry

Unfortunately the growth trend wasn’t to last. From around the middle to later half of the decade, bagel companies began filing for Chapter 11 bankruptcy. Mergers and acquisitions also began to be common occurrences in the industry. It was basically a case of too much supply and not enough demand. The market was saturated with individual bagel shops, franchise operations, and lower price point distributors. Research by Technomic Inc. indicated that from 1999 to 2001 the top four-bagel chains closed 169 restaurants (Dietrich 2000). In addition, significant consolidation occurred as these major chains moved to restructure for better efficiencies. Bruegger’s Bagels was sold to Quality Dining Inc. Unable to make a profit, it was purchased back at one-third of its value by the two original founders. One of the largest consolidations was New World Restaurant Group

who purchased several struggling bagel chains including: Einstein Bagel, Noah's Bagels, Manhattan Bagels, and Chesapeake Bagel Brands. Big Apple Bagels is owned and operated by BAB Holdings Inc.

The closing or consolidation of numerous stores in the late 1990's seemed to ease the strain on the over-stored bagel industry. However, the slowdown in the economy and sluggish bagel sales in a maturing market required business owners to look closely at how they were running their businesses. To bolster sagging profits these owners began to closely examine operating procedures. Those who survived were forced to cut overhead costs, especially labor and payroll. Many reduced the number of suppliers and partnered with the remaining vendors to increase efficiencies. In addition to cost issues, they also examined the revenues side of their operation. Pricing was a critical issue, especially with competition from low-end retailers. Many owners sought to provide quality products and unique environments that would allow them to increase prices. Other owners looked at the distribution of the population within a 15 to 20 minute drive from their business to make judgments about eliminating present locations and opening new ones. With the bagel industry maturing as a product category many bagel shops closed and others were struggling to survive. A breakdown of U.S. bagel sales volume can be seen in figure 10. The figures suggest that retail sales of bagels from 1999 to 2002 showed slight increases in sales while units sold remained constant or slightly declined (bakingbusiness staff July 1).

Resurgence of the Bagel Industry and Quick Casual Dining

After the market readjusted, customers were still out there, but the market had changed. Customers continued to seek dining options but wanted something different and unique. Many were opting for healthier food choices. To meet these demands bagel shop owners looked at all aspects of the business from the quality of the products and service, to the atmosphere and marketing mix in an effort to improve sales and profits.

The 911 terrorist attacks and the struggling economy, created an environment where people tended to staying at home more. As the fear subsided, people began to reappear, but they had changes. Americans still wanted to eat out, but their values had shifted. They needed a middle ground where they could trade down in terms of price but increase the value they received in terms of quality. This resulted in a decline in the mid-scale sit down white-table-cloth dining experience and a growth in the self-service casual dining experience (Malovany 2002). Out of these trends came a new type of customer that was losing interest in the fast food scene but didn't have the time or resources to move to the full-service restaurant. To meet these needs, a new industry segment began to grow.

This new industry called the “quick casual” industry combined “low price, high speed, and convenience with more upscale fare than a fast-food restaurant would offer” (Zion 2001, p.24). Quick casual restaurants are defined as “...eteries from bakery/cafes to burrito shacks that delivered a casual dining experience, minus the waiters, in a compressed time frame.” (Sperber 2002, p.1). This emerging niche-is projected to have \$4-5 billion in annual revenues and with only 2% market share. This leaves significant room for growth with projections as high as \$50 billion in the casual dining sector within the next ten years. (Sperber 2002)

In the quick casual dining segment customers perceive quality and service as an important added value. Average ticket sales are lower than casual dining (\$10-\$15) and higher than fast dining (less than \$5). The food is usually healthier than the normal fast food but consumers can still pick up a meal in a hurry. Most of this industry’s customers are between the ages of 18-34, with an annual income above \$50,000. (Sperber 2002). Despite the recession this group is more likely to dine out, but they demand higher quality food preparation and better customer choices.

The bagel market, which is part of this new trend of “quick casual dining”, has benefited from its growth. The industry continues to grow but at a slower pace than during its boom. In keeping with the quick casual trend, some analysts recommended diversification with the addition of specialty products to the menu (Dietrich 2003). The large national bagel chains have tried a variety of options to diversify the product offerings and distribution channels. Franchises such as Big Apple Bagels sought out unconventional distribution outlets such as Host Marriott, and Sam’s Clubs. Big City Bagels negotiated a deal with Northwest Airlines to provide bagels for their flights. One of the largest bagel franchises, Manhattan Bagel developed a major promotional campaign asking customers to “Come Back for Lunch.” In addition they developed licensing agreements to provide bagels to US military installations. Spinelli (2000, p.1) suggested that bagel shops needed to “expand their concepts by adding new products from soups, to non-bagel sandwiches, to smoothies, to teaming up with coffee bars and yogurt operations in multi-branding ventures, to building non-morning menus.” But these changes were not enough to return the industry to its previous growth levels.

Recent survey results on the bagel industry from several research consulting firms indicate a renewed interest by consumers in the bagel market. Data from *bakingbusiness.com* (2002) indicate that 38% of all households purchased fresh bagels in 2001. In addition, average consumers purchased fresh bagels every 35 days at an average transaction cost of \$2.50. Trends also indicate that consumers had become more convenience-oriented especially in the area of breakfast foods. Overall bagels are listed as seventh among the top 10 breakfast foods eaten. According to NPD Group bagels ranked fifth among the top 10 carried breakfast foods, and fifth among the top 10 restaurant breakfast foods eaten off premise in 1999 (Davidson 2000).

The Food Marketing Institute reports that in 1996, 41% of takeout food came from fast food restaurants and 5% from deli/bagel/donut shops, whereas, in 2001 those percentages changed to 25% from fast food restaurants and 28% from deli/bagel/donut shops (Unrein 2002). And according to the NRD Group, a Chicago based research firm, bagel industry revenues continue to grow at a rate of 5% annually (Dietrich 2003).

MARKETING ISSUES

All of this information on the bagel industry left McGuthry a little overwhelmed. Even the major bagel franchises were floundering. As outlined above, they were experimenting with a variety of different positioning and marketing strategies trying to survive in an economy that was still in recover. With the bagel industry in a state of flux, McGuthry questioned what direction he should take his business and what promotional avenues would be the most effective in increasing demand. Since McGuthry had little business experience, he sought help from the Small Business Development Center. He knew that his product was excellent and the reputation of the business was outstanding. However, Hole in One Bagels lacked a marketing plan. He had a number of ideas about variations of the product offerings and promotional ideas that Hole in One Bagels could offer. Among these were loyalty cards, coffee merchandise, offering fresh bread to the local grocery stores, bagel burgers or bagel pizzas, bulk sales to grocery stores, opening in the evening, class tours, build a customer data-base, raise prices, advertise coupon specials, and faxing specials to schools and offices. Many of these ideas required more money than McGuthry felt he could invest immediately into the business. He was focusing on the bagel pizza and increasing his large ticket sales to schools and offices.

At the time the business was purchase, the marketing expenses were .21% of sales, and McGuthry wanted to see it increase to at least 2% of sales. He felt that increasing the promotional budget would also increase sales. Recently he had becoming a member of the Regional Chamber of Commerce, and started placing ads in the local newspapers, and Mail Right. He began placing an advertisement in the local newspaper on Mondays promoting Hole in One Bagels' lunch menu. Some slogans McGuthry uses in the ads were "Mmmmmm Good, Homemade Vegetable Soup," "A Bagel a Day Keeps the Hunger Away," and "Everybody Knows Your Name." To introduce the "Bagizza" McGuthry ran teaser ads. These ads were aimed at drawing interest by revealing what exactly the "Bagizza" was over several weekly ads in the paper. An example of one of Hole in One Bagel's ad is located in figure 11.

Another marketing idea McGuthry wanted to implement was loyalty cards. With these cards customers would receive their eleventh bagel free or their eleventh dozen of bagels free. This would promote customer loyalty and also hopefully increase the customer patronage. McGuthry had a

number of ideas but needed help in deciding which of the ideas would be most effective in increasing his sales. Were his ideas taking the business in the right direction to produce the long-term profits potential he felt were possible?

FINANCIAL ANALYSIS

In order to evaluate his current position and make decisions about the future, McGuthry pulled together all of the financial statements he could find from both before the purchase and for his first five months of ownership. Income statements for the fiscal years of 2001 and 2002 are shown in figures 12 and 13. For the year 2002 only the months of January thru April are shown since the year had not ended. These statements show detailed expenses and sales. Figure 14 shows the most current income statements since Mr. McGuthry took over the business. Now that he has gathered all of the figures, the job of decipher them in a meaningful way could begin. He knew they would provide the insight he need to get a better understanding of his business and how to make it more profitable. Some immediate observations indicated that expenses were decreasing, but gross profit was also decreasing. He was also aware that each month expenses fluctuates drastically making cash flow figures difficult to predict. What did these numbers say about his business and how could he use them to help him make decision for the future?

CONCLUSION

Phillip McGuthry liked the idea of owning a small business. He enjoyed the long hours and the hard work, but he wanted to see some financial rewards. The business was holding steady in his opinion, but not growing. As a sole-proprietor he wanted to see success and this success was measured by the bottom line. Many questions still haunted him. Would it be more profitable to increase the catering business for groups or to increase store traffic from individual customers? Should he revise the menu with value added items and consolidate menu items? What about the pricing issue? The lack of a marketing strategy also bothered him. Was he spending the few dollars that he had for promotion effectively? He would certainly feel better if he had a written marketing plan for the future?

Being an entrepreneur was more challenging than McGuthry originally thought. After only a few months of operations, reality has set in. He found that some months he was profitable and other months he had losses. In addition he was only one person not two as the Smith sisters had been. The addition of a weekend manager added to his labor expenses which he had not anticipated when he purchased the business. McGuthry loved his new business, but was faced with some serious decisions if he is going to make a profit in the future.

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CREAM CHEESE



* First Price includes bagel of your choice
 * Second Price is for 8 oz. "to go" containers

Plain	1.75
Lite	1.80
Lox Spread	3.50
Plain Mixes	2.15
Bacon & Scallion	3.25
Raspberry	3.25
Spicy Mexican	3.25
Sun Dried Tomato & Pesto	3.25
Blueberry	3.25
Pineapple Walnut	3.25
Banana & Honey	3.25

BAGELS

60c per bagel 65¢ specials
 \$6.00 Baker's Dozen

Sesame, Salt, Onion, Garlic, Italiano, Plain, Whole Wheat & Honey, Oatmeal Raisin & Honey, Cinnamon Raisin, Poppyseed, Blueberry

Please inquire about daily specials

BAGEL SANDWICHES

All sandwiches include: cheese (Swiss, American, Provolone or Pepper Jack), lettuce, tomato, pickles, green peppers, onions, yellow peppers, and sprouts

* Price includes bagel on bread of your choice.

Roast Beef	4.00
Turkey	4.00
New Yorker	5.00
(lox, cream cheese, capers & onions)	
Han	4.00
Pastrami	4.00
Salami	4.00
Jlallan Combo	4.00
(pastrami, salami, & canadian bacon)	
Tuna Salad	4.00
Chicken Salad	4.25
Canadian Bacon & Swiss	4.00
BLT	3.50
Veggie	3.50
PB & J	2.00
Add cream cheese	1.00
Add an extra meat, bacon, or avocado to your sandwich	1.00
Wraps	5.00

TOSSED SALADS

All of our salads include Durango's lettuce mix, homemade bagel croutons, and are tossed with your choice of dressing: Thousand Island, Ranch, Caesar, Honey Dijon, Suzy's Balsamic Vinaigrette, Vidalia Onion Vinaigrette, Fat Free Ranch, Oil & Vinegar Garden

Mushrooms, onions, carrots, green peppers, tomato, celery, radishes	4.00
Chef	5.00
Onions, green peppers, tomato, celery, radish cheddar cheese, choice of meat	6.00
Chicken Caesar	6.00
Mushrooms, onions, bacon bits, parmesan cheese, sliced chicken	5.00
Extra Dressing	.50

FRUIT SMOOTHIES

Choose 3 fruits, or ask us for our favorite combinations! 16 oz. Cup

Pineapple	3.00
Orange	
Blackberry	
Raspberry	
Blueberry	
Banana	
Cherry	
Peach	

HOMEMADE SOUP

Please inquire about our soups, as they change daily.

Cup	3.50
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BESIDES BAGELS

Cinnamon Roll	1.99
Fresh Muffin	1.70
Jumbo Cookie	1.18
1 Pound of Chicken or Tuna	6.00
Chips	.50

OR

* Price includes bagel of your choice

Butter	1.10
Peanut Butter	1.50
Jelly	1.10
Honey	1.10
Cream Cheese & Honey	2.05
Lite Cream Cheese & Honey	2.10
Cream Cheese & Tomato	2.00
Lite Cream Cheese & Tomato	2.10
Egg	2.50
Egg & Cheese	2.50
Bacon, Egg, & Cheese	3.00
Cheese Bagel	2.45
Add A Veggie	.25 ea

Figure 1 Cont.



BEVERAGES

Fountain Sodas	s / .85	m / .95	l / 1.18
Bottled Drinks	1.18		
Milk	1.18		
Hot Tea	0.95		
Iced Tea	s .85	m / .95	l / 1.18
Coffee	s .85	m / .95	l / 1.41
(regular, decaf & flavor of the day)			
Hot Chocolate	s \$1.50	m / 2.00	l / 2.50
Pound of Coffee \$11.00			

SPECIALTY COFFEE

Also see our specialty coffee menu

Espresso	1.28		
(single shot strong & black)			
Cappuccino	2.27		
(1 espresso shot, 2 parts milk)			
Latte	2.41	2.55	
(1 espresso shot, 3 parts steamed milk)			
Cafe au Lait	s / 1.89	m / 2.03	l / 2.17
(1/2 coffee, 1/2 steamed milk)			
Red Eye	1.28		
Iced Coffee Drinks add 10c			
Extra Espresso Shots 50c			
Mocha 50c			

FLAVORS FOR YOUR COFFEE

add 50c

*These syrups are natural and have NO FAT!

Hazelnut	Caramel
Vanilla	Almond
Chocolate Mocha	Chocolate
Banana	Irish Cream

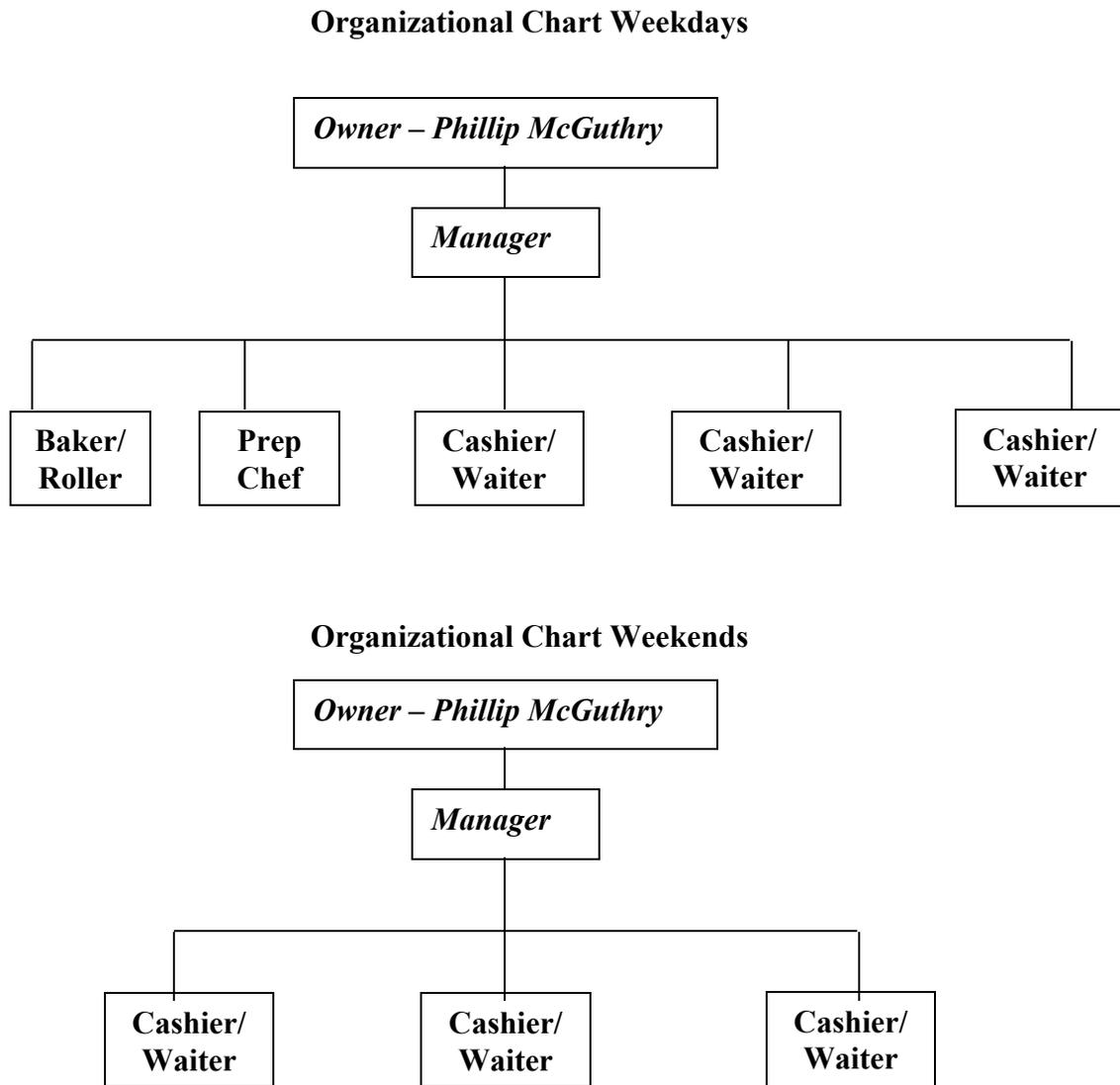
Figure 2: Organizational Structure

Figure 3: Morning Start-Up

By 6:30:

1. Grind and brew coffee in the following order: Black Canyon, flavor and decaf. Grind 8 more filters of black Canyon and flavor and place them in their bins for back up during the day. Grind one or two filters of decaf.
2. Turn on the espresso machine by hitting the orange button on top.
3. Bring the urn of iced tea to the front. Make sure to search the walk-in cooler for the tea made FIRST. If it was made no more than 2 days ago (no yesterday, but the day before that), use the oldest tea first. Pay special attention when putting the nozzles on the teas and coffees. They must be screwed on all the way with the manufacturer's name facing forward to prevent dripping. Place the towel under each to catch the drips.
4. Put all ice cream scoops and the cream cheeses in a spreader for the butter pan. Bring knives to the front.
5. Unwrap all containers in the sandwich unit and change out cream cheeses by transferring them to clean pans. Put the new cream cheese on the BOTTOM of the OLD. (Lite mixes are placed on the right side of the unit, with plain lite (left) and plain (right) on the front.
6. Make sure there are back-up pans in the bottom of the sandwich unit for the cream cheeses most frequently used (pineapple, strawberry, plain, and lite).
7. Check for to go orders.
8. Place signs on special bagels (signs are in the drawer to the left of the sandwich unit).
9. Stock 8oz. cream cheese containers, plastic knives, and egg containers on the top of the sandwich unit and cups and lids on the counter below the drink machine.
10. Stock the condiment center with napkins, utensils, sugar, sweeteners, lids, stirrers, creamers, hot tea bags, cocoa, and cinnamon. Check to be sure the nozzles on the cream dispensers have been cleaned. Fill a plastic bucket with warm water and a capful of bleach. Place a clean rag in it and place the bucket in the cabinet below the espresso machine. Fill a small pan with water and one cap of bleach and place it in the sandwich unit for cleaning knives with making eggs.
11. Bring ice to the front.
12. Turn on all lights and fans. Turn thermostats in the front and back to 74 during warm weather and to 70 in cold weather. When appropriate, turn on the fire.
13. Make sure tables are clean and level. Check the chairs for crumbs and straighten the chairs and tables.
14. Unlock the patio furniture, wipe down the tables and sweep the patio. Empty the ashtrays.
15. Clean the windows on the front and back doors.
16. Fill up the three basin sinks in the kitchen with soap water. Rinse water and bleach water.
17. Take temperatures of the cream cheeses in the sandwich unit. It should be around 40-45 degrees. Alert the manager if it is not within range.
18. Assign duties for the drink station, condiment center and tables for the morning.

Mornings are important times. You are the first person our customer sees at the start of their day. Remember they have chosen to drop by on their way to work, school, etc. You have the ability to send them on their way positively or negatively. Consider it your job to solve their problems, make them feel welcome, laugh with them and provide their

breakfast. Food is only a part of what we are selling at Hole in One Bagels. Even if it is early, it is your job to smile and to greet the customers with enthusiasm. WE WANT OUR SERVICE TO BE QUICK, CONSISTENT, AND PLEASANT!!!!!!!

Figure 4: Serving Customers

When serving a customer:

1. Begin by saying, "Good morning. How may I help you?" Or any other pleasant and cheerful greeting.
2. Get the bagel or muffin with a wrap sheet. Toast or slice the bagels, as requester.
3. If cream cheese is requested, slice and quarter the bagel then fill the metal scoop with the cream cheese. Place the cream cheese on the bagel half and replace the top matching the quarters then wrap tightly with a large deli wrap.
4. Ask if the order is here or to go. If it is for here, you may place it on a tray to transport it to the table. If it is to go, place it in an appropriate sized bag.
5. Tell the register person what was ordered. Be sure to include the drink sizes and specific information about the bagel and cream cheese (special, lite mix, etc.) so the customer does not have to repeatedly give their order.
6. Wrap cookies and muffins tightly in large deli wraps.
7. Place cinnamon rolls on large deli wraps. If the order is "to go," place it in a large bag so nothing is on top of it. If the order is for more than one cinnamon roll, look for a box so the rolls can be packed in a single layer.
8. If a customer asks for cream cheese on the side, divide a scoop of cream cheese into two small containers.
9. After each bagel or sandwich preparation, use the small wrap sheet to clean the knife you used. It is most unpleasant to taste garlic in a cinnamon raisin bagel!

Figure 5: Closing Duties

1. Bag left over muffins, cinnamon rolls and cookies in the small plastic bags. Clean out the display case thoroughly and place the baked goods back into the case, but do not stack them. Bag the left over bagels in bags of 13, being careful to keep "sweet" bagels separate from "spicy" bagels. If necessary, you might bag 6 sweet bagels and tie the bag to another bag of 7 spicy bagels. Place the bags of Jell over bagels on the shelf beside the drink cooler. Write number on each item left over on the baker's sheet.
2. With a bleach rag, wipe down all counter spaces (under and behind the cups, coffee machines, espresso machines, and syrups) where it tends to get sticky. Wipe down and wash all parts of the toaster and microwave. Wash the ice bucket and store it upside down.
3. In the dining area, wipe down all tables, the condiment counter and the ordering counter with Windex. Level the tables with "shuv-its."

4. Take out trash from the cans in the dining area, the patio, the bathrooms, and the serving area. Put bags in the dumpster behind the building and put clean liners in all the cans.
5. Switch all meats and veggies to new containers. Take all meats and veggies out of the sandwich unit and place on the rolling cart. Push the cart into the walk-in cooler to ensure that they stay cold. Wipe down the entire sandwich unit with a bleach rag. Take the cream cheese out of the bottom of the sandwich unit and place them back on top. The unit should no look like it does when you open the shop in the morning. Wipe down the bottom of the sandwich unit with a clean, fresh rag. Bring the meats and veggies back to the front. Wrap and place them in the bottom of the sandwich unit. Put the veggies back up top where they belong. While cleaning the sandwich unit, be sure to fill all meats, veggies, and cream cheeses that are low. (Putting the new products at the bottom of the pan and the older products at top). Be sure the necessary back up pans are in place.
6. Wash the front and back of the cutting board in the back in hot soapy water and bleach water. Pull out the sandwich unit and sweep underneath and behind it. Take out the floor mats so the entire serving area can be sweep and mopped with warm water and a capful of bleach. Take the mats out the back door and hose them down to clean them.
7. Clean the bagel rack to remove any excess seeds or toppings. Wipe the racks thoroughly top to bottom with a bleach cloth.
8. Backwash the Cappuccino machine and wipe it own top to bottom thoroughly. Be sure to take off the grate at the top and wipe down the top. Empty the Cappuccino bucket. Be sure to change the towel on the top of the machine. Turn off the machine.
9. Wash all espresso machine dishes. Backwash the machine and wipe it down thoroughly. Empty the bucket underneath the machine that collects liquid from the machine's drain. This bucket is located on the bottom shelf underneath the machine. Place a clean towel on top of the machine and place the clean dishes on top of it.
10. Take the urns of tea to the back and pour them into the 3 gal. Tupperware buckets. Make sure to label each tea with its type and the current data. Take the nozzles off the tea urns, wash both the nozzles and tops of the urns, and wash all parts thoroughly. DO NOT PUT THESE POST IN BLEACH WATER!!! Make sure to turn off all coffee warmers.
11. Take the half and half and whole milk containers to the kitchen. Take the nozzles off and wash them (use the small brush to scrub the narrow opening). Wash the containers, but DO NOT SUBMERGE THEM IN WATER!!!

Figure 6: Daily Check List for Everyone

- ◆ Is the music playing at an acceptable level?
- ◆ Is the temperature pleasant in dining room?
- ◆ Are all tables/chairs clean?
- ◆ Is the condiment center clean and stocked?
- ◆ Cigarette butts?
- ◆ Are the bathrooms clean and stocked?

Figure 7: Daily Guidelines

- ◆ Opening list complete by 6:30 AM
- ◆ Side-work complete by 12:00 noon (this includes any dishes that were used during the morning shift) please pay special attention to the cookie and cinnamon roll pans.
- ◆ 12:00-2:00 PM Serve customers and keep the restaurant spotless as best you can (check bathrooms, tables, and condiment center frequently). Closers all dishes done by 3:00 PM
- ◆ Change out meats by 3:00 PM
- ◆ Cappuccino machine done by 4:30 PM. Sweeping done by 4:00 PM
- ◆ Mopping done by 4:30 PM

Figure 8: Employee Appearance

- ◆ At Hole in One Bagels, employees are asked to wear the Hole in One Bagels T-shirt provided. Khaki slacks or shorts are preferred, but denim is fine as well.
- ◆ Each employee must wear a hat, which is provided, at all times during his or her shift. The purpose of the cap is to keep hair out of our face and the out of the food. The Department of Health and environmental Controls (DHEC) requires that a cap or hairnet be worn when preparing food.
- ◆ Employees are not allowed to wear open-toed shoes.
- ◆ Please use common sense and good judgment when dressing for work. Employees are expected to look neat and clean when arrive for their shifts.

Figure 9: Employee Sick Policy

At Hole in One Bagels the shift, schedules are posted in advance of the week. Each employee is responsible for finding a replacement for his own shift before the shift begins. Notify the manager for the change.

Please keep a current list of co-workers with phone numbers at their homes so you can fill your shift as soon as you become ill or realize that you will need a replacement. **DO NOT WAIT UNTIL THE MORNING OF OUR SHIFT TO CALL SOMEONE TO COVER FOR YOU!!!!!!**

Figure 10: U.S. Bagel Sales Volume (in millions)				
	2002	2001	2000	1999
Dollars	\$751	\$744	\$710	\$707
Units	382	392	393	432
52-week period ended in April, in all retail outlets (excluding WalMart) Source: ACNielsen. (Bakingbusiness Staff 2002, July1)				

Figure 11: Advertisement in Local Newspaper

**“This
salad is
so
good...
I would
Slap my
momma
for it.”**

-A Hole in One Bagel Customer
11-4-02

**HOLE IN ONE
BAGELS**

Mon-Fri	6:30-5:00
Sat	6:30-2:00
Sun	8:00-2:00

Figures 12 and 13: Income Statements		
	January to December 2001	January to April 2002
Sales	\$649,228.62	\$205,662.46
Cream Cheese	\$24,603.84	\$8,395.79
Raw materials	\$26,952.18	\$8,560.44
Deli	\$49,845.62	\$13,978.47
Flour & Ing.	\$43,741.52	\$12,574.38
Beverages	\$57,694.97	\$19,534.98
Store Wages	\$208,196.52	\$66,842.79
Total	\$411,034.64	\$129,886.85
Gross Margin	\$238,193.98	\$75,775.61
Charity	\$376.73	\$375.00
Taxes-Income	\$37.50	\$37.50
Officers Wages	\$26,182.16	
Voids	\$0.00	\$0.00
Health Insurance	\$12,813.51	\$5,947.80
General Insurance	\$10,628.25	\$2,185.05
Property Taxes	\$866.52	\$802.50
License	\$968.72	
Rent	\$25,953.15	
Repairs/Maintenance	\$4,225.38	\$2,073.21
Pest Control	\$1,483.73	\$480.00
Utilities	\$22,698.99	\$6,801.06
Telephone	\$3,074.36	\$1,800.42
Janitorial	\$229.56	
Décor	\$2,182.77	\$382.50
Supplies	\$2,737.50	\$1,155.56
Small Wares	\$927.51	\$88.82
Laundry	\$3,114.50	\$1,103.10
Postage	\$863.19	\$51.00
Office Supplies	\$3,313.91	\$246.90
Bank Charges	\$5,953.50	\$2,035.05
Dues	\$7,592.25	\$1,695.93
Legal	\$1,350.00	\$1,237.50
Auto	\$13,007.91	\$4,301.16
Outside Services	\$2,414.66	\$770.85
Security Mon.	\$418.80	
Misc.	\$11,904.02	\$3,453.32
Advertising	\$1,395.00	
Total	\$166,714.04	\$37,024.22
Net Income	\$71,479.95	\$38,711.40

Figure 14: Five Months of Financial Statements with McGuthry's Ownership

Income Statement June-October 2002					
	June	July	August	Sept.	Oct.
Sales	\$49,244.37	\$63,109.10	\$56,283.45	\$55,401.99	\$55,908.98
Cost of Goods Sold	\$13,306.29	\$16,506.68	\$23,191.23	\$16,602.71	\$20,662.05
Gross Profit	\$35,938.08	\$46,602.42	\$33,092.22	\$38,799.29	\$35,246.93
Distributions-Phillip	\$0.00	\$0.00	\$2,250.00	\$1,125.00	\$2,250.00
Officers Wages	\$0.00	\$0.00	\$2,537.04	\$2,537.04	\$2,537.04
Insurance	\$1,974.80	\$500.51	\$1,050.26	\$500.51	\$500.55
Taxes	\$0.00	\$0.00	\$3,018.30	\$3,079.97	\$2,694.78
License & Permits	\$486.29	\$0.00	\$0.00	\$0.00	\$0.00
Rent Expense	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00
Pest Control	\$0.00	\$244.50	\$124.50	\$0.00	\$4.50
Repair & Main.	\$700.65	\$603.77	\$945.32	\$288.27	\$817.28
Utilities	\$1,250.31	\$3,846.54	\$2,331.11	\$2,319.86	\$2,549.34
Telephone	\$296.64	\$451.59	\$518.25	\$368.69	\$370.80
Janitorial	\$627.21	\$174.90	\$0.00	\$0.00	\$0.00
Décor	\$607.10	\$1,969.02	\$1,168.68	\$0.00	\$0.00
Small Wares	\$139.46	\$57.78	\$866.16	\$0.00	\$0.00
Laundry	\$131.15	\$483.59	\$369.44	\$42.60	\$499.13
Office Supplies	\$2,013.69	\$728.43	\$247.01	\$0.00	\$318.84
Debit Service	\$0.00	\$3,203.43	\$4,231.50	\$3,051.59	\$3,750.00
Merchant Service	\$0.00	\$243.20	\$63.00	\$235.41	\$0.00
Legal/Professional	\$2,700.00	\$0.00	\$0.00	\$0.00	\$750.00
Payroll	\$15,500.25	\$17,194.89	\$17,978.06	\$16,278.14	\$15,282.33
Security Monitoring	\$0.00	\$419.76	\$0.00	\$0.00	\$0.00
Equipment Purchases	\$360.98	\$0.00	\$578.63	\$146.07	\$855.57
Advertising	\$75.00	\$345.14	\$1,889.07	\$538.05	\$346.47
Misc.	\$0.00	\$284.96	\$685.02	\$254.24	\$172.76
Contributions	\$450.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Expense	\$30,313.50	\$33,751.98	\$43,851.32	\$33,765.41	\$36,699.38
Net Income	\$5,624.58	\$12,850.44	(\$10,759.10)	\$5,033.88	(\$1,452.45)

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