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# JOURNAL OF THE INTERNATIONAL ACADEMY FOR CASE STUDIES

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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 *JIACS* is a principal vehicle for achieving the objectives of both organizations. The editorial mission of this journal is to publish cases in a wide variety of disciplines which are of educational, pedagogic, and practical value to educators.

The cases contained in this volume have been double blind refereed, and each was required to have a complete teaching note before consideration. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies. The Instructor's Note for each case in this volume will be published in a separate issue of the *JIACS.*

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

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

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

Inge Nickerson, Barry University
Charles Rarick, Barry University

# CASES

# SAVE-A-BUCK GROCERY: INCREASING ITS SALES THROUGH A RAFFLE

**Robert J. Williams, Valdosta State University**
**Allan C. Reddy, Valdosta State University**
**Phyllis G. Holland, Valdosta State University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns a promotion, specifically a raffle, that can be used by any size business to increase its sales. Secondary issues examined include the specifics as to how a raffle might be conducted, and a demonstration of the proper statistical technique needed to assess the effectiveness of the raffle in increasing a firm's sales. The case has a difficulty level of three, appropriate for junior level students. The case is designed to be taught in two class hours, and is expected to require two to three hours of outside preparation by students.*

## CASE SYNOPSIS

*Firms are constantly seeking ways to increase their sales. A raffle involving a cash prize may be an excellent technique for accomplishing this objective. A raffle might be a way to "pay" customers to buy more, and is usually appropriate for any size firm. This case shows how a simple raffle technique can be used to increase sales, and also demonstrates the type of data and the statistical technique needed to examine the effectiveness of a raffle. Students will learn the type of data needed to evaluate the raffle and how the data can be collected and tested. Further, students will be exposed to the types of questions they must ask themselves in order to properly conclude whether a raffle has been cost effective in stimulating firm sales and profits. This case is an excellent teaching tool that is appropriate for an introductory statistics course, an introductory marketing course, a promotions course, a course in marketing strategy, and business policy.*

## HISTORY

Save-A-Buck Grocery was a small, family-owned business located in Capital City, Florida, and was involved in the sale of various types of grocery items. Save-A-Buck had experienced rapid growth in its four years of operation, due primarily to its ability to bring a large volume of discount grocery items at very low prices to a wide range of customers. The owners, John and Myra Williams, stood by the store's slogan, "If you don't shop with us, it costs us both money." The

Williams' credited their early success to the use of effective cost control, selected customer discounts, and the use of a raffle contest that seemed to have stimulated sales and served to promote the store and its low priced products. The Williams wondered if they should "fine tune" the contest to further increase sales.

Save-A-Buck opened in the late summer of 2001. To the owners' delight, sales grew rapidly, and averaged about 18-20% growth per year. By the end of its first year of operations, store sales had reached $233,000. By the second year, sales totaled $280,000, and by the end of the third year the owners reported that sales had reached approximately $329,000. To meet this growth, the store employed three full-time employees and three part-time employees. The hiring of an additional full-time employee within the next three months was being considered. The day-to-day operations of Save-A-Buck were under the direction of Ms. Mary Mason, Myra's sister.

The owners attributed the rapid sales growth to the use of discounts to selected customers, including senior citizens and college students, and the store's delivery service to community retirement centers. Students at the local college and university, who possessed a current student ID, were allowed a 5% discount on their purchases, as were customers who were 62 years or older. Also, a cash contest was begun in the summer of 2002 for regular customers who did not qualify for other discounts. The idea for the contest came from customers who expressed an interest in a cash drawing. One customer expressed it this way; "Students get financial aid and a Save-A-Buck discount, the elderly get social security and their Save-A-Buck discount, what about the rest of us?" So far, students and senior citizens who are regular customers have not complained or seemed offended about not being eligible for the cash prize.

## CUSTOMERS

During an average month, between 2000 and 2500 customers shopped at Save-A-Buck. The owners observed a great deal of diversity in the customer base, particularly with respect to occupational backgrounds and income levels. Mary Mason told the interviewer, "We serve all types of folks including college students, retirees, state employees, upper income, lower income, and no income—the last category applies to folks in local homeless shelters to which we donate quite a bit of food items on a monthly basis." Mason continued, "In fact, we are very proud of the fact that last year alone, we donated over $15,000 worth of food to the Second Harvest Food Bank – as the community supports us, we will support the community."

John wanted to gather some data on the store's customer base, and so, customers who completed and returned a short survey were granted $2 off of their next purchase. An analysis of the data revealed a great deal of diversity among the customers. Nevertheless, a few demographic findings were noteworthy. For example, the survey results indicated that the average customer visits Save-A-Buck 3.2 times per month. The majority of customers surveyed had an average income of $25,000 or less, traveled 3-4 miles to shop at Save-A-Buck, and the majority of customers had 1-2 children or grandchildren living at home. Several survey respondents did support John's contention that many customers tended to buy the majority of their canned and prepackaged grocery items at Save-A-Buck, and then proceed to the larger supermarkets to make additional purchases, especially in dairy and meat items.

## MARKETING STRATEGY

When John and Myra were seeking a store location, they were careful to locate the store in a lower rent district, as cost control was of paramount importance. By and large, these neighborhoods were composed of working class families with medium to lower income levels. While Save-A-Buck's location was within one mile of two large grocery chains, Winn-Dixie and Food Lion, John saw this is an opportunity rather than a threat. Since Save-A-Buck was located on the edge of town, and between the town and the two large grocery chains, John felt that customers would first stop at Save-A-Buck to pick up bargains and then proceed to the larger chain stores. John's strategy hinged upon his ability to locate low-priced suppliers and to keep his store prices 20-30% lower than his competitors. Also, John decided to stress the sale of dry goods and prepackaged meat products, and to limit the sale of dairy items and fresh meats.

Within a year of opening, Save-A-Buck, which had originally sold a limited line of health foods and health and beauty aids, was evolving into a limited line general grocery store. John's marketing vision, which seemed to be working; customers were buying about 75% of their grocery items at Save-A-Buck, and they were proceeding to the large chain stores to purchase dairy and meat items.

## MANAGEMENT AND GROWTH ISSUES

While Save-A-Buck offered far more items than a typical convenience store, it was also fairly small in size, occupying about 2800 square feet. An additional 1250 square feet was available for storage. The storage space was crucial to the store's success, as it allowed John to purchase grocery items in bulk from suppliers in Alabama, Florida, Georgia, and Mississippi. By buying non-perishable grocery items in large quantities, Save-A-Buck maintained low inventory costs. After careful analysis of sales and purchases records, John determined that Save-A-Buck's gross profit margin was about 33% of sales.

John and Myra both realized that the store was too small to allow room for much more sales growth, however, given the low rent area and the excellent location, they were reluctant to move at this time. John's landlord admitted how surprised he was to see such sales volume coming from such a small store. The landlord quipped "It's awesome to watch the people coming in and out of there, especially on a Saturday—it reminds me of holding a carnival in a phone booth." Fearful that Save-A-Buck might seek a more spacious location, the landlord offered John a four year lease with no rent increase during this time. Both John and his landlord seemed happy to continue their business association.

## PROMOTION

The owners had used a number of promotional techniques. Radio ads were placed on local station WBZE ("The Breeze"). Few people reported hearing the ads so they were discontinued early in 2002. Ads were also placed in the *Thrifty Nickel* (a free newspaper containing some news and lots of ads). These were also discontinued in 2002, as the cost ($1,274 per year) did not justify the benefits (few people reported seeing the ad). The only advertising the company did by summer 2002 was to place flyers in the six local Goodwill Stores. The Goodwill stores manager was also a customer of Save-A-Buck. These flyers cost $20 per month and the owners believed these were effective. This method of promoting the store had been used for about two years.

## THE EXPERIMENT

For some time, John had considered ways to increase total store sales by increasing the average customer "basket number", or the amount the average customer buys per trip to the store. John was aware that other stores in the area had used various marketing techniques to boost sales, including double and triple coupon savings, special sales on certain items, and "buy one, get one free" specials. One store even offered extra low prices to customers who bagged their own groceries.

One afternoon, John came up with a simple idea; why not pay people to buy more from Save-A-Buck? With this notion, the idea of a contest was born. John checked other stores, and there seemed to be no stores in the area that gave away cash to a lucky contest winner. John recalled that several customers had asked about such a contest. From this idea, a monthly cash drawing was begun in order to give approximately 1,000 customers, who fail to qualify for store discounts, an opportunity to win cash prizes. By offering a monthly cash prize, John was hopeful the store would be able to increase the size of the average basket, and, therefore, total monthly sales.

The contest rules were simple: for a minimum purchase of $10 a customer received one ticket that was entered into a drawing box. For each additional $10 purchase the customer received an additional ticket. A purchase of $40, for example, entitled a customer to 4 tickets. The larger the purchase, the greater the customer's chance to win. At the end of the month, one winning ticket was drawn, and all non-winning tickets were discarded.

Between summer 2002 and summer 2003, the cash prize was $25 per month. The prize was raised to $100 in the summer of 2003, and the effects on the basket number were statistically examined. Store employees quickly noticed that many customers would purchase an additional item or two if their total purchase was close to the next $10 increment in order to obtain an additional ticket. Also, many customers made an effort to purchase the $10 minimum in order to obtain at least one ticket.

## THE RESULTS

Data for the basket measure and for total monthly sales were obtained from state sales tax records. It was observed that both the average basket and average monthly sales could be determined for 44 weeks before the contest began, for 49 weeks in which the cash prize was $25, and for the past 64 weeks in which the prize was raised to $100. John decided to compare both the average basket size and average monthly sales during the three periods of (1) no contest, (2) $25 prize, and (3) $100 prize. As a business professor with ample statistical training, John felt he would be able to test the effect of the contest on the basket size. Analysis of variance (ANOVA) was used and the results were analyzed.

The basket means and average monthly sales for the three periods are presented in Tables 1 and 2 respectively. The results John obtained from the ANOVA analyses appear in Tables 3 and 4.

**Table 1: Average Basket Purchase per Customer**

| | Contest prize | | |
|---|---|---|---|
| | $0 | $25 | $100 |
| | (n=44) | (n=49) | (n=64) |
| Mean | $10.29 | $10.48 | $11.65 |
| Std. Dev. | 1.27 | 1.18 | .98 |
| Minimum | 8.19 | 8.55 | 10.17 |
| Maximum | 15.16 | 14.37 | 14.06 |

**Table 2: Average Monthly Sales**

| | Contest prize | | |
|---|---|---|---|
| | $0 | $25 | $100 |
| | (n=44) | (n=49) | (n=64) |
| Mean | $9,814 | $11,004 | $11,846 |
| Std. Dev. | 2,128 | 1,681 | 2,349 |
| Minimum | 4,725 | 7,875 | 5,913 |
| Maximum | 15,412 | 15,336 | 18,337 |

| Table 3: ANOVA Results for Average Basket | | | |
|---|---|---|---|
| Dependent Variable: | Basket | | |
| Model | F value | 23.80 | Pr > F .0001 |
| R-square | .24 | | |
| T-tests (LSD) for Variable: Basket | | | |
| | Contest Comparison | Difference Between Means | |
| | 100 – 25 | 1.17*** | |
| | 100 - 0 | 1.36*** | |
| | 25 - 0 | 0.19 | |
| Note – Comparisons significant at the .05 level are indicated by ***. | | | |

| Table 4: ANOVA Results for Average Monthly Sales | | | |
|---|---|---|---|
| Dependent Variable: | Monthly Sales | | |
| Model | F value | 12.23 | Pr > F .0001 |
| R-square | .14 | | |
| T-tests (LSD) for Variable: Monthly Sales | | | |
| | Contest Comparison | Difference Between Means | |
| | 100 – 25 | $ 842*** | |
| | 100 - 0 | 2,032*** | |
| | 25 - 0 | 1,190*** | |
| Note – Comparisons significant at the .05 level are indicated by ***. | | | |

The results seemed to support the conclusion that the addition of the contest has increased both the average basket size and average monthly sales. With no contest, customers bought, on average, $10.29. With a $25 cash prize, the basket increased to $10.48. Once the prize was set at $100, the average basket increased to $11.65, and statistically, this basket size was significantly larger than the other two baskets.

While conducting the experiment, John was careful not to change any other factors that might bias the results. John estimated that most of the increase in basket size was due to the contest.

He conservatively estimated that about two-thirds of the basket increase was due to the increase in the cash prize to $100.

## WHAT NEXT?

John had planned to increase the cash prize in the fall of 2005 in an effort to further increase sales. Both Myra and the store manager, Mary, were worried about giving away too much money and conveyed their concerns to John. In response, John informed them that he would give it further thought, therefore, no decision about whether to increase the prize, and, if so, by what amount, has yet been made.

## QUESTIONS

1. What are the benefits of a raffle over other types of promotion available to Save-A-Buck?

2. Assume that an estimated 1000 customers per month are eligible to participate in the contest and that 2/3 of the increase in the basket size is due to the contest. Also, assume Save-A-Buck's gross profit margin is 33% of sales. Is John right, has Save-A-Buck made money by giving away money?

3. What can you say the effect was on the basket size between offering a $25 prize and offering no prize, i.e., is there statistical evidence that the $25 prize actually increased the basket?

4. If John had increased the store's advertising during the contest period, what impact might this have had on interpretation of the results?

5. Are there any other factors that are not controlled for in this experiment? Any alternate explanation for the increase? Does John take these into account?

6. In Table 1, what does the minimum basket number of $10.17 during the $100 prize period suggest about customer behavior?

7. Did John use the correct statistical technique to test the effectiveness of the contest?

8. In tables 3 and 4, what is meant by the expression "Comparisons between means are significant at the .05 level?"

9. At the end of the case, John is planning to give away more money. Mary and Myra object. Whom do you support and why?

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# CAN WORK REALLY BE THIS MUCH FUN?

**Joseph Kavanaugh, Sam Houston State University**
**Kathy Gilcrease, Sam Houston State University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns the differences between the characteristics of teams and high performance work groups. Secondary issues examined include distinguishing between the two forms of group organization and the appropriate use of each; the necessary components that contribute to a group's success; and learning how to successfully cope with a change in a group's membership.*

## CASE SYNOPSIS

*The case involves a highly performing work group, which displays many characteristics of a high performance team, in the setting of a small office on a university campus. Through displays of their strong interpersonal relationship, one can see why the group is so successful, but the continuing success of the group is in jeopardy when one member announces her retirement. The group is left to ponder the question of how to sustain their team, or were they a team anyway?*

It had certainly been a momentous day at work, what with Ruth's announcement and all. Beatrice had never enjoyed more a group of people she worked with than the group she worked with now. They really were quite special. As she reviewed the day's events she kept returning to the question Dyan had raised in their discussion at the end of the day. How had Dyan put it? "Are we a team, really?

You could tell it was Friday by the office staff discussing their weekend plans and the most important topic, "Where are we going to eat lunch today?" The four ladies of the office of Academic Affairs at Sam Houston State University went to lunch together every Friday. It was a most treasured time for all. This was a time when they openly shared with each other their frustrations regarding office matters -- as well as personal matters --without fear that anything said during this time would be repeated to a soul.

After everyone told each other good morning, they returned to their offices and worked diligently to make sure they completed their assignments so they could leave for lunch on time. The office tasks were divided among the staff with each position having a predetermined set of responsibilities established by the Vice President. The success of the office was determined by the individual success of the office members who had their own performance goals. Dr. Gaines was the

Vice President of Academic Affairs and the sole person in charge of the office. He was a macro manager and allowed office members the freedom to perform their duties according to their own styles. He made all the pertinent decisions that required his expertise and provided the staff with guidance when needed. Furthermore, he made certain the office staff followed procedures to ensure the office achieved the organizational goals of the university. Dr. Richards was the Associate Vice President and assisted the Vice President with numerous tasks. His focus was supervising academic services provided by the office such as undergraduate admissions, registrar, and the correspondence course division, among others.

Dyan and Jamie worked together and dealt with any matters that concerned the budget, curriculum, and faculty issues. Dyan was a very capable employee, who was well liked and respected throughout the entire organization. She had been with the organization thirty years and a member of the office team for ten years. Jamie was the youngest in years and newest member of the office team. In her eighteen-year career, she had spent two years with the organization and one year with this particular office. Dyan and Jamie's working styles were similar; consequently, Dyan often referred to Jamie as a 'mini-me.' Work was very important to both individuals, and they got tremendous satisfaction when they completed a tedious assignment. Both liked to start working on projects as soon as possible to make allowances for unforeseen circumstances that might occur at the last minute. They strove for perfection on each assignment, and their biggest critics were themselves. Their passion was new technology, and they were always searching for ways they could use these techniques and applications in their assignments.

Beatrice took care of any issues that concerned the four colleges within the Division of Academic Affairs. She had a mothering personality with a big heart, and had been with the organization thirty years and the office for twenty years. Her long tenure with the organization provided her with a wealth of information that was invaluable to the office. She had a different working style from Dyan and Jamie. Her theory was if you started on a project too early, you would probably end up making numerous revisions so she waited until the last minute to start any task. Even though she was a procrastinator, the other office members could be assured every task would be completed on time with complete accuracy.

Ruth handled any matters concerning academic services such as capital equipment, academic policies, and scholarships. She was a fine individual with an impeccable reputation. Ruth was the oldest member of the office group and had been in this office her entire career with the organization, which amounted to eighteen years. The other members of the office staff were repeatedly asked by employees from various offices on campus, "Is she really that nice all the time?" The answer to the question was "yes." Ruth was sincerely a nice person that looked for the good in every individual and situation. Dr. Richards good-naturedly referred to her as "Saint Ruth."

Dyan, Jamie, and Beatrice were all born and reared in Huntsville, Texas. They teasingly said that between the three of them, they knew everyone in town. This provided them with a special bond and strong ties to each other. Ruth lived just a short distance from Huntsville in the small town of Trinity. Ruth did not seem to mind the connection between the other three office members and had even stated she enjoyed the other three keeping her abreast of the latest Huntsville news.

The four ladies had a first-class working relationship, which could be attributed to their similar work and personal traits. They were reliable and knew they could depend upon each other to produce quality work. They all had a strong work ethic and took great pride in the accuracy of their work, going above and beyond the call of duty to make sure the office products were top quality. The office members were aware of the high office standards that were required of each staff member and made every effort to perform according to these standards in order to not let the other group members down. And, as one of the senior administrative offices on the campus, they had a reputation to maintain for productivity and positive work relations. Furthermore, they shared personal characteristics that contributed to the unity of the group such as finding humor in any situation, extroverted personalities that are open and honest, and they held similar moral convictions. Their personalities just seemed to mesh, and to anyone's knowledge, there had never been an incident of disagreement that had not been resolved to everyone's satisfaction in the number of years they have worked together.

With a modicum of discomfort, the group was vaguely aware that not everyone shared their positive viewpoint about themselves. On occasion, they had been referred to as a clique by others who worked in adjacent offices. Another office worker nearby had once conveyed to Beatrice that she was envious of the group's sociability, and was curious if there was any way to break into the group. The other worker longed to have the quality of collegiality in her work group that she observed among Beatrice and her colleagues

After about an hour, Beatrice went to make several hundred copies. When she returned to retrieve her copies, she discovered Dyan had reduced the copy size and forgotten to reset the copier. She stormed into the Vice President's office and asked if she could have permission to slap Dyan. Without looking up from his work, Dr. Gaines said, "Ok, but no hair pulling." Everyone burst into laughter. This was a typical situation for the office. Everyone would let each other know when something had occurred that irritated them, but it was done with humor or in a teasing manner, allowing the point to be made without causing friction in the office.

When the commotion ended, everyone settled in again until Beatrice came by each office and explained to everyone that she had a report that needed to be in the mail by noon, and it did not look like she was going to be able to meet her deadline. Even though the office members were individually responsible for their work, everyone jumped up and hurried to the workroom to help Beatrice with her task. Dr. Gaines walked out of his office and since he could not find anyone, thought the staff might have left for lunch early, but then he heard laughter coming from the workroom. He found all four ladies in the back sorting, stapling, and labeling to make sure Beatrice met her deadline.

After what had seemed to be a short morning, punctuated by Beatrice's scramble to make her deadline, Jamie went around the office holding up her purse to the other ladies who were all on the phones. They all smiled because it was the signal to wrap things up because it was time to go to lunch. When they arrived at the restaurant, there was the usual chatter about the latest university news. Then, they started reminiscing about the trip to Kerrville they had made together a few months ago. They started laughing about when they got lost and could not read the map so they started driving toward the setting sun because they knew one thing for sure, they were supposed to be heading west! No one cared about being lost since they were all having such a good time. The weekend had been a real bonding experience for the office group and an unforgettable time for all.

Before they knew it, it was time to head back to campus. When they arrived back in the office, they checked their messages and returned a few calls before heading over to a computer services meeting. When the ladies arrived at the meeting, the speaker announced to the group, “Here come the dames from Academic Affairs.” The group was known around campus as just that, a group. If at all possible, they attended meetings and training sessions together.

A short time after they arrived back in their office, they received the news that Dyan has been selected as the recipient of the university’s Staff Excellence Award. By their reactions you would have thought all four had won the award. They immediately began discussing the pertinent issues regarding the award when Jamie asked, “What are you going to wear at the presentation?” Dyan replied that she had recently bought a new dress that needed to be hemmed, and she did not know how to do it. They immediately began to devise a plan of how they could hem Dyan’s dress in time for the presentation. Jamie volunteered to bring her portable sewing machine, and Ruth volunteered to bring her iron to the office the next day. The strategy was to convert the office into a “tailor shop” after office hours to take care of Dyan’s problem.

As the end of the day approached, each person acknowledged that it had been a good day with everyone accomplishing individual work goals and having fun in the process, but that was all about to change. Ruth gathered the group together and announced the unsettling news that she would be retiring at the end of the month. The group was stunned and for the first time all day, no one had anything to say. However, they were not entirely surprised, as she had tried to retire a year ago but could not bear to do so. She told the group earlier she just could not leave since she enjoyed her work and the people with whom she worked so much, but this time they knew she was serious.

When Ruth had left for the day, the others conferred about their dilemma and discussed how hard it was going to be to find the right person to fill the void. To begin solving their problem, they started listing the qualities of the individual that they thought would fit the bill. Beatrice finally broke the tension by saying, “Do you think Human Resources will allow us to put on the application, ‘slackers and prima donnas need not apply’?” The rest of the group erupted into laughter, but the laughter did not last long. Beatrice said to the others, “Do you think we will find someone who can fit in like Ruth did? Will our team be able to sustain itself?” The group sat in silence and pondered the questions.

Then, Dyan queried, “But, are we a team, really?”

# IS IT TIME TO UNLEASH A SOCIAL ENTERPRISE INTERNET BUSINESS ON THE GLOBAL MULTIBILLION DOLLAR WEDDING INDUSTRY? A CASE STUDY

**Harriet Stephenson, Seattle University**
**Diane Lockwood, Seattle University**

## CASE DESCRIPTION

*The primary subject matter is the potential entry of a business with a social enterprise strategy into a highly competitive industry. It can be used to introduce business social enterprise, triple bottom line, and sustainability strategies and practices. Secondary issues include the use of business plan competitions for testing out an idea, securing initial funding, and developing vital networks. The case has a difficulty level of three to five and works well in the undergraduate policy or strategy capstone class or first-year MBA. The case is designed to be taught in one to two class hours.*

## CASE SYNOPSIS

*This case revisits a business plan that won first place in 1999 in its university's business plan competition. Subsequent to winning the award, the team had concluded the opportunity, as they had explored it, was a "too-little-too-late" Internet startup, and the team members were not in a position to want to pursue an online wedding information site at the height of the dot-com boom. Six years later, Bill, the would-have-been CEO of Wedding Information Site, received an e-mail from his instructor urging him to revise the strategic position of Wedding Information Site and secure an MBA team to enter the business plan competition again. The instructor proposes that a social enterprise component be added to the business strategy that would result in a significant impact for good (i.e., the "triple bottom line" of people, profits, and environment) on the $70 billion a year wedding industry in the United States alone. The key issue is how to position Wedding Information Site's social enterprise strategy and practices to become a competitive force, to secure initial financing, and ultimately to become a desirable buyout from an established competitor or to become a significant competitive force in the multibillion dollar industry. Venture capitalists are not traditionally known for looking first at social return, then financial return. However, this is potentially a very compelling investment opportunity for the right investor.*

*This case is a teaching tool to explore how to use social enterprise and the triple bottom line strategies and practices from the startup as a viable market entry strategy. This model can potentially change an industry and have a significant impact on people, profits, and environment while meeting the needs of various stakeholders, including shareholders. It is arguably the predominate model of the 21st century for doing business.*

## THE CASE STUDY

Bill Shutes was ready for a career change. He had been with Microsoft for 15 years and had a yearning to start his own business. This itch had been festering for some time. He thought he wanted something that could build on his background in computers, website development, and experience at Microsoft, and he wanted to do something that could make a difference with his life. It was at this point he received an e-mail from one of his MBA instructors which follows:

> Bill, how about getting an MBA team to work with you to submit to the annual business plan competition again? You could revise your first place winning Wedding Information Site from 1999. Change its strategy and value proposition to reflect a triple bottom line/social enterprise thrust, like the Starbucks model, Ben & Jerry's, or Newman's Own, and carve out an underserved piece of the \$70–\$100 billion wedding market in the United States. Are you interested?
>
> With average wedding costs of \$22,000 or higher, there are big dollars in the already served middle-class to affluent market. And, in a society with 10% to 20 % of its population at or below poverty level, and globally there is a huge potential market that is not able to participate fully in this currently highly commercialized, glamorized experience which seems to be a precursor to increasing divorce rates. In addition, a sizeable piece of the already served market may want to utilize the engagement/wedding experience as an opportunity to make some contributions or take some actions that would significantly affect the quality of life for themselves and others in the long run, while having a highly memorable and meaningful wedding experience.
>
> From what I can tell, The Knot.com (an established online competitor) is singularly focused on building a brand and being known as "the" place that newlyweds-to-be register and surf for products, services, and information. Its major source of revenue is from service providers paying an advertising listing fee. On The Knot.com's 10K form, they note that net income in third quarter of 2004 was \$1.0 million versus \$202,000 in third quarter of 2003. Cumulative membership served over 5.4 million in 2004 compared with 4.4 million in 2003. Clearly their business is profitable and growing. Nevertheless, they point out that securing good employees could be an issue for them in the near future. Also, the \$1.6 million of operating expenses they incurred in the third quarter to defend themselves against patent infringement claims may turn out to be a costly issue. This might be an opportune time to build an online wedding startup business with a socially conscious strategy. The exit strategy of Wedding Information Site could be to sell out to The Knot or one of the competitors in the wedding information, products, or services space. The Knot does not seem interested at this point in being a triple-bottom-line organization. By the time Wedding Information Site is on the scene, The Knot will have waited too long to take advantage of building a triple bottom line internally. You could be a strategic addition to its offerings, very similar to Unilever's buyout of Ben & Jerry's to jumpstart its whole triple bottom line thrust which became a strategic necessity to restore and enhance the Unilever brand.

Globally there is a huge market which might have some additional possibilities if you secondarily target the bottom of the pyramid (BOP) of lower income and/or budget conscious part of the world population. The BOP can be lucrative when such numbers are involved. The Wedding Information Site's tag line such as, "quality weddings to meet your price and quality of life and planet concerns"--could be operationalized in sourcing decisions to feature products and services which provide jobs/living wages for underemployed, homeless, low-income people in the United States as well as globally. Ecologically sensitive and triple bottom line issues are even more recognized in Europe and emerging as serious issues in China and Japan.

There are indications that the market is ready for a socially conscious, philanthropic approach to weddings. "Good cause weddings" (i.e., giving instead of getting) have been gaining in popularity since 2001, perhaps fueled by the 9/11, Asian tsunami flood tragedies, and Hurricane Katrina. For example, the I Do Foundation (www.idofoundation.org) makes it easy for couples to have a philanthropic spirit be part of their celebration. The site offers options to couples who want to channel money--theirs or their guests into the hands of charities. Similarly, JustGive.org allows wedding couples to set up charitable donation registries. The I Do Foundation has a pool of stores from the likes of Amazon.com, Mikasa, and Target that have agreed to earmark eight percent of the money spent on pots, pans, silk sheets, china plates, and other selected registry items with charities of the couple's choice. MarriedForGood.com, OrganicWeddings.com, and the GlassSlipperProject.org also mix nuptials and charity.

The University's 2006 judging criteria include a new "triple bottom line/sustainability" category which was not present in prior years: http://www.seattleu.edu/asbe/ec/newventure/Executive%20Summary%20Screening%20Round.pdf. In addition, the criteria for the Global Social Venture Competition can be accessed at http://www.socialvc.net/index.cfm?fuseaction=Page.viewPage&pageId=113&parentID=110&grandparentID=58&nodeID=1. That is an opportunity to enter to win startup funds and get access to social investors after you clean up at the University's competition.☺ "This competition is for businesses that plan to be financially profitable or sustainable, whether tax exempt or not, it must be self-sufficient on its earned revenue, and must have a quantifiable social and/or environmental bottom-line impact." (Some social enterprise or social venture competitions are only for nonprofits.)

The Industry looks robust. According to *National Vital Statistics Reports* from the National Center for Health Statistics, there were 2,187,000 marriages in 2003. This information is available at http://www.cdc.gov/nchs/data/nvsr/nvsr52/nvsr52_22.pdf. Fairchild Bridal Group in its American Wedding Study 1990-2002 reports the average wedding in 2002 cost $22,360, including all aspects of the wedding day event from ceremony to reception. The website Sell the Bride provides a link to the report at http://www.sellthebride.com/documents/americanweddingsurvey.pdf. Forty-three percent of couples say they spent more on their wedding than they had planned. The break out costs for weddings are provided in Table 1.

Additional items: The average American engagement lasts 13 months during which time couples buy: $4 billion dollars in furniture, $3 billion in housewares, $400 million in tableware, and $19 billion is spent buying presents. More than 91% of couples register for wedding gifts. Average amount spent on wedding gifts is $70 to $100 per gift. Honeymoons equal an $8 billion per year industry--acquiring, for example, honeymoon travel wardrobe, swimsuit, sunglasses, sunscreen, luggage, and video cameras. The potential to influence for good is huge: You could impact the future through energy efficiency, recycling, environmentally friendly practices, and using wedding industry to help solve other social problems while having a good solid bottom line. Agreements with suppliers could positively influence the manufacturing processes and fair trade practices globally.

| Table 1: Today's Average Wedding Costs Over $22, 000 | |
|---|---|
| Invitations, Announcementts, Thank-yous, etc. | $381 |
| Bouquets and other Flowers | $967 |
| Photography, Videography | $1,814 |
| Wedding Favors | $241 |
| Music | $900 |
| Clergy, Church, Chapel, Synagogue Fee | $297 |
| Limousines | $577 |
| Attendants' Gifts | $510 |
| Printed matches and napkins | $112 |
| Wedding Rings | $1,301 |
| Engagement Ring | $3,576 |
| Rehearsal Dinner | $875 |
| Bride's Wedding Dress | $799 |
| Bride's Headpiece/Veil | $181 |
| Other Bridal Accessories | $186 |
| Day of Wedding Hair and Makeup | $357 |
| Bridal Attendants' Apparel* | $735 |
| Mother of the Bride's Apparel | $236 |
| Grooms' Formalwear (Rented) | $110 |
| Formalwear for Ushers, Best Man (Rented)** | $575 |
| Wedding Reception | $7,630 |

Source: American Wedding Study, 2002.
* Average cost of 5 bridesmaids dresses (including maid of honor).
** Average cost of 5 ushers apparel (including best man).

The article "Ka-ching! Wedding price tag nears $30K" at http://money.cnn.com/2005/05/20/pf/weddings/ refers to a nonscientific survey conducted by the Fairchild Bridal Group. In its "American Weddings" study of more than 1,000 brides, Fairchild Bridal Group has upped the average cost of weddings in 2005 to $26,327. According to their figures, it's a 73% increase during the past 15 years. The bridal industry is now referred to as a life stage including fashion, travel, and home furnishings.

Bill dug out the business plan that he had worked on with three others on a team in his MBA Entrepreneurship class. That plan had gone on to be the grand prize winner in that university's first annual business plan competition in May of 1999. He looked at the Executive Summary, the Mission Statement, the Epilogue, and the SWOT Analysis.

## WEDDING INFORMATION SITE EXECUTIVE SUMMARY (1999)

### INTRODUCTION

In 1995, more than 2,336,000 couples got married in the United States, spending more than $32 million on their weddings. Additionally, Ovum Inc., an independent analyst group, says research indicates that the Internet will support 500 million users worldwide by 2005. At WeddingInfo.com, we believe that bringing engaged couples to the Internet will be a tremendous opportunity for growth and profit over the next several years.

WeddingInfo.com will be the premier website catering to engaged couples who are planning a wedding. It will work as a portal site, acting as a central location where customers can link to a variety of companies' sites based on a chosen geographic region. Couples will be able to plan their wedding virtually--from finding a seamstress, choosing a florist, and finding a pianist--right from their homes. Additionally, our site will include an online bridal registry where companies such as the Bon Marché and Williams Sonoma will have links to their bridal registries. Not only will couples be able to choose the items on their bridal registry right online, but their guests will be able to place orders for the gifts and even have them mailed to the couple, all right from their computer. Finally, our site will offer advice from professional wedding planners on how to choose a caterer, find the best location for a wedding, keep costs down, and other important pieces of advice. A "Wedding of the Month" and "Wedding of the Year" will be featured on the site to show examples of well planned, exciting weddings.

Currently, competitors in this market include www.weddingchannel.com, www.theknot.com, www.weddingnetwork.com, and other startup websites. While these sites offer most everything between them that WeddingInfo.com will offer, none of them offers all of the features on the same website, and none offers an online bridal registry. Additionally, we found in a small sample of market research that only 2% of married couples were even aware that online wedding sites exist. We believe that our competitors have not advertised sufficiently, and that through a large-scale marketing campaign, we will be viewed by customers as the best, and perhaps only, wedding website available.

WeddingInfo.com's management team consists of four MBA trained businesspeople with a variety of experience in sales, marketing, finance, website development, and entrepreneurship. Specifically, Bill Shutes has a solid background in computers and website development with his experience at Microsoft. Silvia Snyder has entrepreneurship experience through starting a business with her husband. Cindy Mitchell has seven years of sales and marketing background with Merck Pharmaceuticals, Biagio, and other retailers, and Sarah Michels has been comprehensively trained in finance and accounting.

As a result of our unique product features, extensive advertising campaign, and solid management team, WeddingInfo.com will show a profit in year 3 (2001). Revenues are projected to hit $3 million in year 5. Growth in the first five years will be tremendous. During the first five years, Net Income will grow at an average rate of 177%. This will level off to an average of 30% in year 5. The average growth rate over the 10-year horizon is estimated to be 76%. WeddingInfo.com is seeking $1,000,000 in equity capital. These will be used to fund operations in the first three years. In return, the investor will receive 40% of the pro-rata outstanding common shares of WeddingInfo.com

## MISSION STATEMENT

The Mission of Wedding Information Web Site is to provide continual improvements in services to our online users. This is the formula for business success at Wedding Information and prosperity for our employees and investors.

## SWOT ANALYSIS

### Strengths

The company's key strength is that the website is a portal site that can change dynamically to the user's selected state. By allowing such customization, customers can be assured that they are dealing with a merchant in their state. This allows a customer to foster a relationship with the merchant and, hopefully, come back to use the site again. The online bridal registry allows customers to purchase gifts for engaged couples from any department store in the United States that is connected to our database. This also allows customers to shop around online for the cheapest price for the gift.

### Weaknesses

The company's website is still in the development stage, while our competition is already online. Our competition has the ability to become the incumbent in the wedding website market. The market rewards companies who are the incumbent while penalizing those who aren't. The company has a monumental task to try to develop relations with department stores and trying to cajole them to join the online bridal registry. It is possible that companies we solicit will reject joining our bridal registry and start their own.

It is possible that we over-estimated the number of potential "hits" we will obtain through search engines. The company is spending a tremendous amount of money on advertising and might not get the expected turnout.

### Threats

The Internet has become such a quick phenomenon, that new businesses go online every day. It appears that there are no barriers to entry when setting up an electronic-commerce website. The problem the company faces is numerous competitors coming in every day. In addition, technology changes so fast, the company needs to keep up on the latest advances and be sure to provide those new services to our customers. There is a possibility that our competition can provide better goods and services to our customers resulting in our website not becoming the incumbent in the market.

### Opportunities

The Internet offers a wide variety of opportunities. Our company's website has the potential to become the juggernaut in the online wedding industry. New companies are coming online every day, and our site can provide links to those companies providing a broad range of merchants from which our customers can choose. This allows the company to generate more revenue. Electronic commerce is becoming an extreme convenience for customers and the online bridal registry provides this. The Internet is still in its infancy, and the company can be in an extremely lucrative market.

## EPILOGUE

After investing a great deal of time and effort into our idea to develop a wedding website with feature strengths in gift registry (the mega-database) and localized links, we came to the conclusion that we could not go forward with this approach.

We came to this realization near the end of the quarter after we received feedback about our plan from our peers and mentors. We thought we could entice many large retailers to use our mega-database that would seamlessly link their database with ours for this website. The feedback we received indicated that this was unlikely, as retailers would have no incentive to do so. They could keep their own database and not pay to have someone else manage it. They would not leave themselves open to competitive pricing and risk their same giftware being purchased elsewhere, and they would not provide this proprietary customer base to another company.

This left us with only one major competitive advantage--localization. We wanted to be a portal site that would instantly localize information for the user. To see if this advantage was still strong, in March we revisited our competitors' websites to see if anything had changed. Not only were our competitors stronger, but we looked at these sites with clearer eyes and dug much deeper.

We found that the weddingchannel.com had vastly increased and improved its local hyperlinks to wedding vendors. We also found a new competitor, ultimatewedding.com, whose strategy mirrored our localization portal-site strategy.

Not only did we see our plan eroding, we saw the lead our competitors had on us.

A more thorough investigation of TheKnot.com revealed many things we overlooked when we thought we had a grand e-commerce scheme. What we discovered was this: The Knot had added maps to its local vendors as well as credit ratings and business profiles that could be purchased. It still did not have extensive hyperlinks, however. But what did amaze us was the strong brand that this site was building. It was doing this because it had deep pockets and great visibility. The Knot had received seed money to start its site from AOL. It had an exclusive wedding site on AOL where it was receiving 6 million page views per month. In addition, it had established agreements with Intuit, and its wedding planning site was tied in with Quicken's pages. It was able to make these moves because of the venture capital provided by Hummer Winblad Venture Partners. The Knot was also building its brand offline. It was publishing wedding planning books through Bantam Doubleday Dell and developing a wedding planning series with a PBS affiliate. It also had numerous alliances with other large retailers and commercial entities.

We realized we had no competitive advantages that we could pursue in the short time left in the quarter. We do believe, however, there is opportunity in this marketplace. If we had to do it again, we would seek a niche market within this arena. A site could be developed and marketed to all wedding websites. Some ideas could be:

- A rating service similar to AAA that would provide couples an expectation of the services provided by a vendor.
- A wedding insurance clearinghouse. This site could pull together various policies from national insurance companies that relate in any way to putting on a wedding or function.
- A localized wedding planner. Make the plans, arrange contracts with vendors, and offer cookie-cutter packages to couples for set prices.

Bill was rather intrigued. He had wanted a career change, and he wanted to do something that would make a difference. He had not previously considered that a triple bottom line Wedding Information Site might be an answer.

## AUTHORS' NOTE

The Wedding Information Site was the winning business plan in Seattle University's 1999 first annual business plan competition. Thank you to the team of Mary Noel-Meade, Bruce D. Katis, Michelle Sayles, and Sarah Kenefick for use of the Executive Summary, Mission Statement, SWOT Analysis, and Epilogue from original case. Additional materials for this case study are fictional.

## SUGGESTED DISCUSSION QUESTIONS

1. Are "social enterprises," "triple bottom lines," "sustainable businesses," and "social return on investment" just academic discussions in the competitive world of bottom-line focused U.S. businesses? Didn't the social responsibility and ethics era cover it all? Note to students, for definitions, the "Social Enterprise Lexicon" is useful: http://se-alliance.org/resources_lexicon.cfm.

2. Bill's instructor says to follow the Starbucks model of stating triple-bottom-line concepts in the mission statement. What values are reflected in Starbucks mission statement? How do they translate these values into specific business practices? On Starbucks' website, the *Corporate Social Responsibility 2004 Annual Report* "describes our social, environmental and economic impacts on the communities in which we do business."

3. An effective assignment has been to request the students to write a report to the CEO of The Wedding Information Site. He has hired you to develop a new Wedding Information Site mission statement. Use the Starbucks' model as a guide and keep in mind the criteria for University's business plan competition (http://www.seattleu.edu/asbe/ec/newventure/Executive%20Summary%20Screening%20Round.pdf). He has also asked you to give examples of programs, practices, policies, and services that would reflect the triple bottom line mission and strategic positioning. This is a particularly useful assignment to help clarify that individual students understand and can operationalize the concept. This assignment can be for individuals or teams. We prefer it as an individual assignment even though the class is teamed.
   Or
   Assign this as in-class assignment. Allow one hour to work on assignment. Work is to be done by teams with a report given at the end of class.
   Or
   Assign mission statement for homework. Each student brings five copies of mission statement to class. Break out in class into teams. Each team picks one mission statement. Teams then brainstorm practices, policies, services … identify 10. Then conduct a round robin with whole class, getting one suggestion from each team until all suggestions have been put up on blackboard or transparency or PowerPoint. This has been run successfully several times at graduate- and undergraduate- level. It clarifies if students understand what it is and how it can be operationalized.

4. What would be a SWOT for the new Wedding Site?

5. Debate: Assign half of class to one side of argument and the other half to other side of argument. Bill should enter the University business plan competition again and the Global Social Venture Competition.

6. The Global Social Venture Competition Judging Criteria (http://www.socialvc.net/index.cfm?fuseaction=Page.viewPage&pageId=113&parentID=110&grandparentID=58&nodeID=1) require a social impact assessment and calculating an SROI--social return on investment. What would be some of the venture's potential social impacts both quantitative and qualitative?

# MONOCHROMATIC PERSONNEL SCANNING AT TECHMARK

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

## CASE DESCRIPTION

*The primary subject matter of this case concerns sexual discrimination. Secondary issues examined include appraising employees and management ineffectiveness. The case has a difficulty level of four, appropriate for senior level courses. The case is designed to be taught in two class hours and is expected to require two hours of outside preparation by students.*

## CASE SYNOPSIS

*This field-based case provides a powerful example of how changing market forces and changes at the top of an organization can uncover core operational problems, which corporate growth and profitability have been allowed to fester. It is also a cautionary tale. A company may espouse equality, empowerment and management, but failure to train, execute and enforce these policies may have substantial repercussions.*

*This is a case with misdirection and a twist ending; a grievance based upon racial discrimination. It is not evident from the case what the ethnic origins of the people involved are in the case although perhaps the students might hazard a guess as to Katherine's national origin given the mention of Mexico and Latin America.*

*Moreover, the case seems to focus more on Pat's maintaining her "old girls network" and indoctrinating new employees into that network. Katherine seems to be a maverick, someone always bucking the system, and therefore is not allowed to join Pat's "tea party." Katherine is ostracized by most of the workers in her unit and even Gloria, the top performer in the group, does not go out of her way to challenge the way Pat manages the group. The group dynamics of the participants in the case seem to hold the students' attention therefore creating the "smoke and mirrors" for the astonishing finale.*

## INTRODUCTION

“Mike, I need you and Pat to come to my office immediately,” said Jim Taylor, Senior Director of Employee Relations and EEOC, over the phone to Mike Arend, Senior Director of the Telesales Group of TechMark. “We have a serious problem regarding possible discrimination in your group.”

## BACKGROUND AND HISTORY OF TECHMARK

TechMark was a global, integrated provider of mobile computing, wireless networking and barcode scanning products sold to an array of customers in several core markets. TechMark’s products were used to amass, access and distribute information throughout an organization, thereby increasing efficiency and minimizing human error.

TechMark was headquartered in the New York Metropolitan area and employed 4500 people globally. In addition, it had a network of 3000 partners across geographic areas to ensure that the demands of the marketplace for its products were adequately served. In 2003 sales were approximately $1.320 billion.

The company was founded in 1973, in the garage of current Chairman and Chief Scientist Richard Johnson. Johnson was a former physics professor who began with a simple idea, which was to ensure the quality and readability of barcodes. After creating a verifier that ensured that printed codes could be accurately read by the large, expensive and poorly functioning scanners of the day, Johnson would go on to revolutionize an industry. By harnessing laser technology and with advancements in miniaturization, Johnson, with a handful of early employees, invented a barcode scanner that was accurate, inexpensive and could be held in the palm of one’s hand.

This advancement led to the proliferation of the barcode, spreading from retail to manufacturing, to warehousing and healthcare. This rapid success served as impetus to further innovation as TechMark moved to combine scanning with the nascent computing industry and invented the portable data terminal. Now, instead of bringing the barcode to the scanner, the worker could move freely about, capturing and storing information with ease.

TechMark’s technology progressed further, and by 1990 it had released a wireless network infrastructure to the marketplace. “Spectrum One” portended another revolution. Now, users of TechMark’s data terminals could not only *collect* data at the point of activity, but *transmit* it as well.

As the tech bubble of the late 90s began to inflate, TechMark was growing sales at 25-50% per year. Profits were accumulating at an even more rapid rate. Every Internet company that opened a warehouse, every manufacturer that was adding capacity, every shipper that was adding more trucks was calling TechMark for the infrastructure to manage their supply chain. TechMark was expanding its scope of activity - consumer scanning, web based business concepts, personal shopping, new wireless and voice products - at a rapid rate. Head count was added, and more partners were signed on.

Unfortunately, leadership was unprepared for the swift and brutal downturn – first in technology and then the economy as a whole –beginning in March of 2000. CEO Tom Randazzo, repeatedly and passionately testified to employees, customers, analysts and shareholders that nothing had changed: TechMark would defy the industry and continue to grow and take market share. Indeed, for several quarters, Randazzo seemed to be proven correct as sales and profits continued to rise, albeit at a somewhat diminished rate. Unfortunately, on both Wall Street and within TechMark's halls, rumors about questionable accounting and sales practices began to surface. Adding to the tension were TechMark's first major headcount reductions in its history. Manufacturing was moved offshore. Sales and support ranks were aggressively reduced. Morale and optimism plummeted.

By early 2002 a new fiscal reality suddenly surfaced. The final quarter of 2001 was a disaster. Sales dropped nearly 30% from the previous quarter. Profits became losses. Analysts rushed to downgrade the stock, shocked by how poor TechMark's guidance had been. Years of credibility were lost.

The next several months were a whirlwind. Nearly all top-level executives in finance and sales were purged. SEC and IRS investigations into TechMark's accounting and financial reporting were launched. Several shareholder lawsuits were initiated. Randazzo and Fred Blair, former VP of Sales, as well as several key finance managers were reportedly under investigation for illegal sales practices.

Rich Johnson stepped back in as CEO, joined by Dave Gable, one of TechMark's first employees, as President and COO. Damage control was their imperative. Though layoffs continued and morale sagged, change was in the wind.

By June of 2002 employees were shocked to learn that Bill Naughton, a Vice President at Chance Systems, a staunch competitor, was to join TechMark as its new President and COO. Johnson was back in his role as Chief Scientist; Gable would take the CEO spot.

Following Naughton came a host of top Chance people: Al Tracy became VP of Worldwide Sales, John Biondo the Chief Information Officer and head of strategic business development. Finance and Operations received new leadership from former Chance executives as well. (See Appendix A)

## GROWTH THROUGH CHANNELING: PARTNERSHIPS

As TechMark's sales and scope, both geographically and technically, continued to expand throughout the 1980s and early 1990s, it became clear that the company needed partnerships to adequately address the marketplace.

While servicing large retail and government clients on a direct basis had always been the core business, TechMark did not have the headcount, software development, integration skills, or the geographic reach to penetrate new markets and develop new applications on its own. TechMark simply could not expand quickly or effectively enough to meet demand.

Hence, as in the rest of the Information Technology (IT) business, a "Channel" was developed. TechMark's Value Added Resellers (VARs) would buy its products, integrate them with software and/or other computer hardware and provide a solution for their customer. This symbiotic relationship offered tangible benefits to all involved. TechMark cultivated what was, in effect, an outsourced sales force. VARs accrued margin dollars on TechMark hardware, received access to new products and services and gained affiliation with a well-known and well-respected manufacturer in key market segments.

Perhaps the most critical benefit of being a loyal TechMark partner was the receipt of the "golden nugget," i.e. a sales lead. Potential customers who contacted TechMark for a product or solution to a business problem (route accounting, inventory management, access control, etc) were directed to a partner for fulfillment.

In the early days of the channel, these partner relationships were rather loosely defined and managed; lead-distribution and tracking was haphazard at best. However, by the mid-90s it was clear that this "indirect" part of TechMark's business was the fastest growing and might benefit greatly by increased investment.

## THE TELESALES GROUP

In 1999 this investment in partner relationships was realized through the large expansion of the Telesales Group. The group was formed in 1994 by Mike Arend, with the assistance of Pat Hagen. Telesales was a polyglot, performing both customer service and marketing activities.

Most of the staff was comprised of older women who had risen through TechMark's ranks, often coming off of the manufacturing floor. In many ways their job was administrative: answering calls, sending out product literature and calling prospects culled from tradeshows, direct mailings and other corporate marketing efforts. To assist in this effort, a third-party call-center (ETI) was employed and did much of the outbound calling.

The group tracked its performance by "sales closed against leads" that they delivered to TechMark partners. In 1994 the annual quota was 4 million dollars. By 1999 it had grown to nearly $40 million and the workload, or growth expectations, showed no signs of diminishing.

In response to this success, the company funded a "College New Hire" program to grow the Telesales group. New grads would be positioned as "Team Leaders," each responsible for managing partner relationships and small to mid-market sales opportunities within a given geographic area. Any solid sales leads that developed out of the efforts of ETI or the in-house telesales team would be distributed to partners and tracked by a Team Leader until a sale was completed.

The job was promoted to new applicants as an early opportunity to learn TechMark's business while having line responsibility and performing a junior management role. The job was seen as a stepping-stone to a field position or grooming for a mid-level management job within another TechMark division. (See Appendix B)

## THE NEW HIRE

Katherine Anderson was quite pleased. Though she had done exceedingly well in school and the economy seemed to be besting the most optimistic forecasts, she never expected to land such a desirable position so quickly. Not only was TechMark a technology company, but it was local, sparing her the commute to Manhattan that her classmates were enduring.

The job, as it was positioned to her by her recruiter, allowed her to learn many aspects of TechMark's business, played a key role in directing sales activity, and prepared her to take an official management position within a two-year time frame. The job was phone-intensive, but Katherine was very sociable and thought that speaking with customers was interesting, if not fun.

She acclimated quickly and was soon appointed "Team Leader" of the Western Territory. While not officially managing staff, she directed the flow of leads produced by a call center staff of 10 people, as well as 8 in-house reps. Though it made her somewhat uncomfortable to be leading a team of older women, some of whom had been working for TechMark for a decade or more, she quickly adapted.

Initially, she spent much of her time learning about the skills and capabilities of partners in the Western Territory to better match sales leads with the companies best able to fulfill their customers' requirements. Nevertheless, as the incoming volume of calls was often very heavy, she readily helped the others by answering the general line. This often produced some uncomfortable conversations, as she found herself unable to answer seemingly basic questions about TechMark's products and services.

When Katherine went to Pat with questions about her job or TechMark's products, she was always referred to Gloria or one of the other older women for answers. As the other new hires - Tara, Rob, and Rhonda - joined the team, they were instructed to do the same.

## PRODUCT TRAINING QUESTIONS

When Katherine asked Kerri how she managed to deflect calls requiring product knowledge she simply shrugged:

"I tell them that it's not my job to know, but that I can get them help. I either transfer them to tech support or get a partner to talk to them…"

Katherine replied, “I thought that tech support was only for customers who already purchased equipment, not presales….and aren’t we supposed to send qualified prospects to business partners, and not people just fishing for information?”

Kerri shrugged, “I haven’t gotten too many complaints yet…..”

Unsatisfied, Katherine approached Pat.

Katherine: “Pat, I wanted to talk to you about something that keeps coming up – and the rest of the new hires are experiencing it too.”

Pat: “What is it Katherine?”

Katherine: “I was wondering about getting some formal product training for us. Quarterly sales training is coming up for the field sales force. I was wondering if we could attend.”

Pat: “Well, Telesales never has before…Besides, we need to have people on the phones…”

Katherine: “But the customers are asking questions that we don’t know the answers to. Sometimes I feel stupid that I can’t answer questions about our own products.”

Pat replied, “How you feel is your concern. We all know that you are not stupid. In your job, we find it is counterproductive to know too much about product…*we diagnose, we don’t prescribe*….”

Pat continued, “If we direct a caller to a specific product and then refer that prospect to a partner for purchase and the partner thinks that an alternative product is a better fit, then we just caused confusion for the customer and complicated things for our business partner… Besides we have so many products, it can get very confusing…believe me, it’s easier this way.”

Later, Katherine pulled Gloria aside.

Katherine: “Gloria, you know a lot about TechMark equipment. How did you learn?”

Gloria smiled; she took pride in her reputation as a resource. “Some of it comes from the days on the shop floor, some of it from calling the product managers; the rest from sneaking a peak at the sales kits when they are sent out.”

Katherine: “So, you never went to any training classes?”

Gloria: “Oh no, Pat doesn’t like that…. She says we don’t need it, but I think it’s because it is too much trouble to set up, coordinate schedules and everything. Besides, Pat thinks training is boring.”

Katherine: “But isn’t that a manager’s job? I mean, what exactly does Pat do?”

To which Gloria laughed and shrugged. “The girls and I have wondered about that for years! On the other hand, it’s very nice to have a boss that just lets you do your job and doesn’t interfere…you’ll learn…”

Soon, however, tech support was sending callers back to Telesales, as they were being told not to spend their time on pre-sales inquiries. One afternoon, after a particularly frustrating call, Katherine popped her head into Mike’s office.

Katherine: “Mike, sorry to bother you…do you have a minute?”

Mike: “Sure, Katherine. When the door is open I am always available. You look concerned…is there a problem?

Katherine: “Well, the group and I feel that some product training will really help us do our jobs better. Callers are asking us questions about our products all the time, and we don’t know how to answer them. Tech support is refusing to take any more presales calls and my partners are complaining about being used as a help desk.”

Mike asked: “Product knowledge has never been that important before…has something changed?”

Katherine: “I think it’s always been important, only that the women in the group have tried to get bits and pieces on their own…besides, in the four months I’ve been here, the levels of inquiries keeps increasing….buyers are getting smarter….”

Mike: “Does Pat know about this?”

Katherine: “I talked to her twice but she doesn’t think it’s a problem.”

Mike: “I’ll see what I can do.”

The next week, a manager from the Mobile Computing Systems Group came up to do an overview on the product line. During the 2-hour session Katherine could swear that she saw Pat - seated between Kerri and Tara - glaring at her from across the room.

Over the next several months, training would continue to be a casually implemented, somewhat haphazard affair. As such, it would remain a point of contention.

## TELESALES INTERACTIONS

Through the remainder of 2000 Katherine continued to do well. She had consistently made her quota and received bonus pay at the end of each quarter. The group had continued to grow, with two new graduates joining the Telesales group. Though the NASDAQ had swooned, TechMark seemed secure in its core markets and all the talk in the hallways centered on expansion, growth and new opportunities.

Though generally content in her position, Katherine found herself somewhat troubled. The cohesiveness and excitement shared by the new hires started to wane and factions started to form. Though she was still close to Gloria, most of the older women in the group stayed to themselves. Gloria acknowledged to Katherine that there was some resentment toward the rapid ascendancy of the college grads. They were finding themselves more and more as workhorses and less as valued members of the team.

As for the new grads, Kerri and Tara were fast friends. Where the group used to dine together, Katherine found herself uninvited most days. More disturbing was the fact that Pat seemed to be her replacement, often disappearing with Kerri and Tara for lunches that extended well past the allocated hour. Occasionally an invitation would be made, but this was more the exception than the rule. As she was accustomed to being a favorite of past professors and employers, this worried

Katherine. She did not exactly feel that she was out of a favored circle, but she knew she was no longer an active participant.

The phones were an area of concern. Though the older women did their best to answer the incoming calls, at times the volume was simply too heavy. While Rob, Katherine and Cathy regularly picked up the general line, Tara and Rhonda did so quite infrequently, Kerri only rarely.

The lack of oversight and clear direction was perhaps the most disturbing element to Katherine. Mike was traveling or in Directors' meetings most of the time and Pat's active involvement seemed to be limited to social planning. Her only interest in the daily functioning of the group was to see that all quarterly sales figures were entered into the system in a timely fashion, as her bonus pay was tied to this number.

Though required by HR, no formal performance reviews were done at year's end. When she asked Gloria about this, Katherine was told: "Pat doesn't like doing those too much. In a couple of months HR may notice that no forms were filed…then Pat may have you do your own and she will sign them."

Katherine: "That's the way she does it every year?"

"Yup" chirped Gladys.

## THE COMPUTER DISCOUNT WAREHOUSE SCARE

In early 2001 Katherine uncovered a problem in the marketplace. Her partners - mainly smaller companies that had invested money in creating software, providing on site support and professional service - were increasingly faced with a new competitor. Computer Discount Warehouse (aka: CDW), the largest of several Internet based direct marketers, had begun to broadly sell TechMark's product line. The company offered no technical support, no integration capability and no software development. Its business model was simple: offer buyers the lowest possible price on all technology gear, put it in a box and ship it to them. CDW used the tremendous sales volume to get rebates and marketing funds from vendors to make up for their slim margins. The result was that customers would often use partners for technical information and advice, perhaps a site visit, and then purchase the hardware from CDW.

While a TechMark partner might still be able to sell their value added services, CDW and its ilk were putting such pressure on hardware margins that formerly loyal partners were losing all incentive to lead with TechMark products.

After watching two deals that she worked on come "unhooked" by CDW, Katherine raised her concerns to Pat.

Pat: "Oh, don't worry about it." I've been working with partners for 10 years, and they always blame it on somebody when they lose a deal."

Katherine: "But this is different. CDW is selling at prices below what our partners can buy it for. This is a problem that isn't going away; it's going to get worse!"

Pat: “I’ve never heard of CDW, but if management wants to let them sell our product, it must be okay.”

With that, Pat turned her back to Katherine and resumed her activities. Katherine fumed when she saw that Pat had Amazon.com on her computer.

Katherine stayed late that night and produced a report for Mike on the situation and emailed it to him the next morning. Later that afternoon Mike circulated Katherine’s report to the entire Telesales group.

“Has anyone else encountered this?” he queried by email.

It turned out that the group had seen several similar instances, prompting Mike to elevate the situation to senior management. Within a year, TechMark had constructed a special program to both focus and restrain CDW’s activity in the marketplace, allowing for significant growth while limiting damage to the VAR community.

When Mike congratulated Katherine for the thoroughness of her work at a team meeting, she tried not to notice Pat’s angry stare.

## AN INTERNATIONAL OPPORTUNITY FOR KATHERINE

Shortly after, Katherine was asked to take on responsibility for Mexico and Latin America, while transitioning her existing territory to the other team leaders.

“It’s going to be a lot of work, but Pat and I think that you are up to it, “Mike commented. “I think this is going to be an area of tremendous growth and we want you there to help drive it.”

Though it involved enhanced language classes at night and occasional travel to Brazil and Mexico, Katherine took up the challenge. She expected that a raise or promotion would be forthcoming but the subject was never broached.

Soon after, TechMark – and the Telesales group – would be rocked to its very foundation. The implosion of the tech bubble finally engulfed the company, exposing its most senior executives to charges of incompetence at best, criminal fraud at worst. Profit targets and growth estimates became losses and contingency plans. Layoffs came swiftly, the first substantial headcount reductions in company history. Manufacturing was moved off shore. Executive management began leaving – or was forced out - in droves. Shareholder lawsuits and Federal investigations into accounting and sales practices started to make headlines.

The Telesales group, a beneficiary of two years of investment, was among the hardest hit divisions. Two of the new hires and some veterans were let go. The budget for the call center was slashed by more than half and most calls now went directly to TechMark headquarters.

Though quotas were reduced, the need to generate revenue was pronounced. While this was happening, an internal audit was performed questioning the accuracy of all sales reporting. The pressure was palpable.

Pat’s advice to the group: “Have plan B ready for yourself.”

In this charged atmosphere, all of the early seeds of conflict burst into full bloom. As there was no longer any "first line," team leaders were now essentially teams of one. Though the call volume dropped with the economy, headcount had fallen faster. The group was left with a heavy workload and it soon became evident that certain group members were not sharing the burden equally.

Katherine and Cathy stayed late nearly every evening for several weeks to handle the backlog. Rob and Tara worked diligently during the day as well, though they, like Pat and Kerri, were out the door by five.

Cathy sent several emails to Pat asking her to make sure that everyone was shouldering an equal share of the workload. Pat sent out a single missive asking that everybody pitch in. The situation improved temporarily but soon deteriorated. After returning from an unannounced and unscheduled 30-minute coffee break, Kerri found herself the target of Cathy's frustration. A shouting match ensued.

Upon hearing of the disturbance, Pat pulled Cathy aside and chastised her for her outburst in the workplace. When pressed about the personal phone calls, long lunches and unscheduled breaks taken by "certain members of the team," Pat's response: "Work it out."

Afterwards, Katherine approached Pat with words of support for Cathy – who was clearly distraught.

"Pat, while I don't agree with how Cathy said what she said, I think she does have a valid point. Some of us are doing a lot more than others, and it doesn't seem very fair."

"Life is not fair," snapped Pat as she walked away.

## INITIAL DISCUSSION WITH HUMAN RESOURCES

From that point on, Katherine was certain that there was a definite undercurrent of hostility directed toward her. Uncertain as to its cause, she began to talk with Jim Taylor, in charge of employee relations and EEOC issues at TechMark. She did not want to lodge a formal complaint; she was simply looking for some advice and support. There were few black associates at TechMark and she started to feel quite isolated.

Jim listened closely as Katherine described her past year at TechMark. He agreed that there was not enough evidence to actually lodge a complaint but encouraged her to document treatment or incidents that demonstrated preferential treatment or discriminatory behavior on the part of management. "A feeling is not enough for me to take action on," stated Taylor. Though somewhat uncomfortable with this, Katherine agreed.

Over the next several months Katherine would find much cause. Among the incidents she noted: Others, generally Kerri, Tara and Pat, took extended lunches and coffee breaks. Katherine was cited the one time she returned 15 minutes late in the afternoon.

While others regularly had friends from other parts of the company sit in their cubes and chat, Katherine received an email from Pat informing her that she was not to be visited during the work day. On two occasions Katherine walked over to Tech Support or Product Management to ask a product question and was cited for leaving her desk without letting the other group members know where she was going. Pat would often pull Kerri and Tara into unscheduled meetings at the last minute with no explanation, rationale or advanced notice. This was perhaps most painful of all, as Katherine distinctly felt like an outsider, unable to contribute to the group or participate in steering its direction.

At Jim's urging Katherine scheduled a meeting to sit down and talk with Mike to solicit some feedback. She heard nothing but positives. When Katherine conveyed her impression that Pat did not like her, Mike told her to dismiss the notion out of hand.

"She thinks the world of you," Mike commented.

Later that week Pat pulled Katherine aside and complimented her on the work she was doing. "Is there anything I should be doing differently?" asked Katherine. "Nothing at all" Pat replied.

Yet the ill feelings seemed to linger and Katherine repeatedly documented instances of what she deemed unequal treatment and expectations. As her morale was fading, TechMark was going deeper into a tailspin. Executive management was being purged and the organization seemed directionless and drifting. With Mike on the road all the time and Pat effectively absent, Telesales seemed rudderless. Instead of feeling like a young manager Katherine was feeling more and more like an administrator – forced to handle unanswered customer service calls and send out marketing literature. The fact that others in the group were doing far less made her feel more and more resentful. She accessed a manager's report from the calling system that TechMark used. It showed that she had taken 3300 calls in the first reporting period of 2002; Kerri had scarcely taken 800.

Soon Katherine found herself soliciting Tony Sassone for a position reporting directly for him. While Tony was too mindful of corporate politics to actively poach her from Mike, he let her know that he was open to the change when "the time was right."

## FEEDBACK TO THE TOP

As new management swept into power, a series of "all-hands meetings" was held. Their purpose was to introduce the new executives, address questions of strategic direction and, importantly, raise employee morale. TechMark Associates were once again encouraged to "take risks, challenge the status quo, and commit to personal and professional growth."

"Tell us how we are doing," CEO Gable exhorted, "and how we can do it better."

Katherine took his words to heart and sent emails directly to Gable; they also found their way to Bill Naughton and Al Tracy. In her missive she introduced herself, the Telesales Group, and made several suggestions for needed improvements. She neglected to copy Pat or Mike on any of her letters.

Surprisingly enough, Gable responded and asked Katherine to schedule a meeting to discuss Telesales. Surprised and pleased with the response, Katherine sent the CEO's reply to Mike. Pat was never copied. Later that day Pat was in Katherine's cubicle with a printed copy of the email thread.

Pat snapped. "What are you trying to do?"

"Nothing at all. Gable asked for feedback and I thought I might have something to say that could really help out," Katherine replied, somewhat taken aback by the forcefulness of Pat's approach. "I thought this was a good thing."

Pat: "Now he wants a meeting! What do you plan to tell him?!?"

Katherine: "I just wanted to talk about what this group does and how we could do our jobs a little better – perhaps with a dedicated tech support resource to answer customer's presales questions."

Pat: "We've been doing just fine for all these years. What makes you think that you need to change it?"

Pat walked away, shaking her head "you're going to get us all fired…."

Katherine's private meeting soon would include both Pat and Mike who insisted on crafting the agenda. Katherine did not openly object but was distraught and sought Gloria's council.

Katherine: "Why does this keep happening to me? Why does Pat hate me so much?

Gloria: "Hate you? She's terrified of you…."

## THE LAST STRAW

Soon morale was on the rise, both within the company as a whole and inside the Telesales group in particular. Senior management seemed to be matching words with actions and investing in growth. Mike's job in distribution development was given to a new hire, and he was tasked with turning Telesales into a focused Inside Sales team. (See Appendix C) He would be given the resources to hire 20 new employees. Clearly, Katherine had every reason to believe that nearly three years of unflinching service would finally be rewarded.

To her dismay, when applicants for the new jobs were being brought in, Pat, Rob, Kerri and Tara were doing all of the interviews. She was not asked to do a single one. Disturbed, she approached Pat.

Katherine: "Pat, I could not help but notice that I was not being asked to interview any of the job applicants. Should I be worried?"

Pat: "Not at all" was the warm and reassuring reply. "You are our Latin American champion… These applicants are not bilingual."

Somewhat reassured, Katherine tried not to think about events at headquarters as she flew down to Brazil for a week long tour of territory operations.

Coming back, she was shocked to learn that there would be no promotion. While Kerri, Tara and Rob had been promoted to supervisory status, she was still frozen in the same pay "zone." Where the three would be directly reporting to Mike, she was still under Pat.

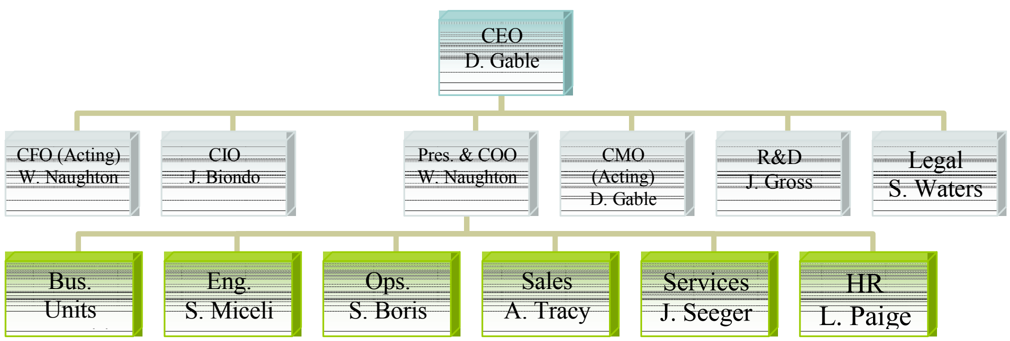
Though she tried to bear up, she found herself so distraught that she had difficulty functioning. Getting no satisfaction from Pat and no audience with Mike, Katherine finally picked up the phone:

"Jim, I think we need to talk. Can I come down and see you?"

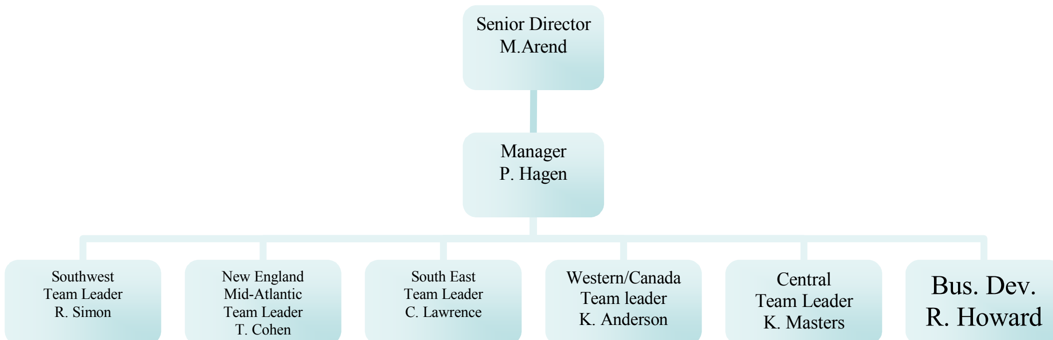
Later that afternoon, Mike was shocked to learn that both he and Pat had been implicated in a formal racial discrimination claim (discrimination against an African-American). Pat knew immediately who filed it.

**All events are true. Names have been changed for confidentiality.*

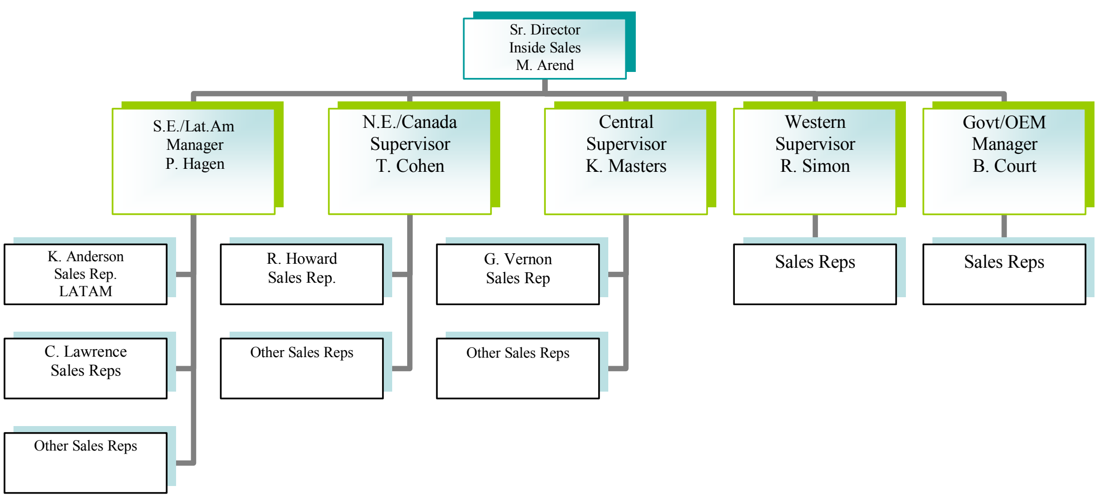
**Appendix A**
**TechMark, Inc.**
**Organization Chart**
**2003**



**Appendix B**
**Telesales Organization Chart**
**2000**




**Appendix C**
**Inside Sales Organization**
**2003**



# DILEMMA IN THE DELTA

**Carl Stark, Henderson State University**
**Jennifer Holbrook, Henderson State University**
**Margaret Hoskins, Henderson State University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns a capital budgeting decision for a small business. The case is couched in a family farm operation, but the dilemma could easily relate to any small business. It involves a decision to invest in a major piece of equipment – a decision that each and every owner or manager of a small business is likely to face. The case involves management, economic and accounting issues. It 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 two hours of outside preparation by students.*

## CASE SYNOPSIS

*In only five years and counting the days, John Jones will retire from a life-long career of farming. His combine, the largest and most expensive piece of equipment he owns, has reached the point of high maintenance costs or replacement. John and his wife are contemplating four options: 1) keep the current combine, 2) rent a combine when needed, 3) hire a custom cutter to harvest the crops, or 4) buy a new combine.*

*Each option includes several factors to consider. Comparisons must be made between old and new equipment repair and maintenance costs, tax benefits of depreciation, resale values, and crop quantity and quality yields. Renting or hiring custom work will require consideration of associated costs and timeliness of availability.*

*The cost effectiveness and efficiency of the four options over the next five years presents the "Dilemma in the Delta."*

## INTRODUCTION

John and Mary Jones sat at their kitchen table discussing the much anticipated day of John's retirement. After a life-long career in farming that had always tied their plans to the land, seasons, and weather, they were ready to travel. In just five more years they would be able to uproot and come and go as they pleased.

Mary is a homemaker and has directed her energy toward raising their children and tending to the home. Now that the children are grown, she spends the extra time working in her garden and performing volunteer work for her community and church.

Although John handles all the farm work, including the demanding business decisions, he likes to consult Mary when a major expenditure is involved. He has spent the past week gathering information on options available for his latest dilemma. The combine, his largest and most expensive piece of machinery, was the subject of his concern. The machine is five years old and beginning to show signs of age. A new demonstration model on the John Deere lot has caught John's eye. One of the biggest factors in his decision is that he plans to farm for only five more years.

The information John had gathered was spread on the table. After combing through it, he and Mary agreed that they have four options: 1) keep the current combine, 2) rent a combine when needed for the remaining five years, 3) contract the harvesting out to someone else, or 4) buy the new combine.

## BACKGROUND

With the exception of the four years he spent earning a college degree, John has farmed all of his life. He owns most of the 900 acres he farms in rural northwest Mississippi; the remainder of the land is leased. His land and equipment are worth about $500,000 and, through good management, hard work, and the grace of God, John has earned a comfortable living and achieved a strong financial standing. His current year income statement is shown in Table 1.

**Table 1: Income Statement**

| | |
|---|---|
| Sales | $260,000 |
| Cost of Product | 64,000 |
| Gross Profit | $196,000 |
| Operating Expenses: | |
| Machine Repair, Fuel and Maintenance | $ 26,000 |
| Machine Depreciation27 | 27,500 |
| Labor | 18,500 |
| Irrigation | 12,000 |
| Overhead | 9,500 |
| Taxes | 12,500 |
| Total Operating Expenses | 106,000 |
| Operating Income | $ 90,000 |

Of the 900 acres John farms, soybeans are raised on about two-thirds and rice on the other one-third. In the off season, he will grow about 180 acres of wheat. John owns one combine, three tractors, three large trucks for hauling, various attachments for the combine and tractors, and two buildings full of tools for repairing equipment. John's major piece of equipment is his combine, a type of threshing machine with a harvesting apparatus attached. The harvester's header chops off the heads of the grain and feeds it into the heart of the combine. There, a large steel cylinder rubs against a concave plate to free the grain from the chaff and moves it into the separator module where the heavier grain drops to a cleansing area while the lighter straw is blown out the back of the combine onto the field. In the cleansing area the grain filters through a chaffer and sieve with debris again being blown out.

Since combining is crucial to the successful harvest of his crops, John performs all combine operations himself. Field and crop conditions can change from field to field and even within a single field. Years of experience have taught John the best techniques for combining a particular area, and he prefers to make those decisions himself as he moves from one field to another.

The new John Deere Cylinder Tine Separator (CTS) Combine that John is considering is far superior to his old one (John Deere). It is almost 14 feet tall, over 12 feet wide and weighs over 28,000 pounds not including the header. It uses a larger 26-inch diameter cylinder allowing a slower speed without reducing capacity. This results in a more thorough, gentle handling of the crop for fewer milled and broken grains and better grades.

The new John Deere CTS combine uses the Dynaflow II Cleaning System that separates the grain more easily than his current combine does, resulting in higher yield, faster harvesting, less grain damage, and less grain loss (John Deere). Due to this new handling method, more grain can be harvested per acre, and the crop can be cut earlier in the day and later in the evening as dew begins to form. Still another advantage of the new combine is that it has a 21-foot header (as opposed to the old 16-foot header) allowing an extra 5 feet of pickup with each pass. Combined, the advantages of the new combine increase productivity considerably.

Since rice is John's major revenue-producing crop, he gathered information about the differences in the amount of rice harvested with his old combine versus the new one he is considering. Table 2 shows the differences in rice productivity for the old and new combine and the average commodity price of rice. The price shown is based on the March 2004 average price for rice of $8.45 per hundred-weight (Farm Decision Outreach Central). Since there are 45 pounds per bushel, the average price per bushel is $3.80 [($8.45 / 100) x 45] (U.S. Rice Producers Association). John doesn't know the exact price he will receive since it will be based on the quality of his harvest. He does know that the new combine will result in higher quality rice, but the amount John will receive for difference in quality is difficult to predict.

Now that the advantages of the new combine have been described, the next step is to review the implications of each of John's four options.

| Table 2: Production Comparison of Old Combine v. New Combine (Rice Harvest) | | | |
|---|---|---|---|
| Combine | Use | Yield | Quality |
| Old | 6 acres per hour | 2,000 bushels per 8-hour day | Average |
| New | 9 acres per hour | 5,000 bushels per 10-hour day | High |
| (Average Commodity Price for Rice is $3.80 per bushel) | | | |

## OPTION ONE: (KEEP CURRENT COMBINE)

John's current combine is five years old with 1,500 hours of use. Although some combines will last longer in certain conditions, a good machine with excellent care will last 5,000 hours of use on his type of farm. There are no loans against John's combine, and it has been well maintained. As with any piece of equipment, however, repairs have become very expensive.

In the first 500 hours of a combine's life, maintenance and repair expense should be nominal. The next 1,000 hours could cost approximately $500 for every 100 hours, barring any major failures. An annual checkup after 1,500 hours costs approximately $2,500 to $3,500. If a major part, such as a transmission, fails, the repair could easily cost $5,000 or more. If a complete overhaul is needed, it would cost about $10,000.

If John keeps the current combine, he will need to budget for one major overhaul, yearly checkups, and at least an additional $5,000 per year in repair expenses. Two years of depreciation remain on the old combine totaling $10,620. In addition to depreciation, equipment repairs can be deducted from pre-tax income. He expects the resale value of the current combine after five more years of use to be about $10,000.

## OPTION TWO: RENT EQUIPMENT

Combines are available for rent on a first-come first-serve basis. Of course, the newer and bigger machines which harvest faster, more efficiently, and provide a higher yield of greater quality grain are rented first. Therefore, John may not be able to rent the type of combine he prefers. Timing during harvest is crucial and weather is a major factor. The crop cannot be harvested until it is mature and harvesting conditions are favorable. If the crop is heavy with moisture from rain and the field is muddy, it will take longer to harvest and the yield will be of lower quality and quantity.

Once the crop is ready, the next critical factor is equipment availability. To rent good equipment, John must be first in line. An average rental should harvest all of John's rice and soybean crops for the year in about 300 hours under favorable conditions. Rentals cost $135 per hour with a 100-hour guaranteed use from the farmer. Equipment rentals qualify as an expense, thus reducing pretax income.

Another factor to consider is that this option proposes renting equipment to harvest soybeans and rice only. If John chooses this option, the old combine must still be kept and maintained to harvest the 180 acres of wheat farmed in the off-season.

## OPTION THREE: USE CUSTOM HARVESTERS

Custom harvesters, sometimes called whackers, cutters, or custom crusties, are farmers who own their equipment and hire crews to harvest crops for others. Some are one- or two-man operations in which the harvesters provide this service while continuing to operate their own farms. Others provide this service exclusively, moving north from field to field as crops mature. Prices vary considerably and are usually bid. In John's area of the country, however, an average cutter will charge $20 per acre to harvest soybeans, $40 per acre for rice, and $30 per acre for wheat. If John chooses this option, the old combine will no longer be needed and can be sold for its approximate resale value of $36,500. Charges for custom harvesting may be deducted from income as an expense item.

As with renting equipment, a major consideration in using a custom harvester is availability. John must appraise his crop and harvesting conditions. When the time is right, the cutter may be working another field, and John may have to wait until the crop is past prime.

## OPTION FOUR: BUY NEW COMBINE

New combines are very expensive. The one John is considering is a John Deere demonstration model with 130 hours of use. Its selling price is $150,000, but he can receive a trade-in allowance of $36,500 for the old combine and borrow the difference at 6.85 percent over five years. Including interest, the total payout over the period of the loan would be $134,358. The larger size and increased efficiency of the new combine should result in higher profits due to better quality and quantity milling yield, less grain loss, and faster harvest. John estimates that only 200 combine hours per year will be needed with the new combine, a substantial reduction from the hours needed for the old one.

As previously stated, the first 500 hours of a new combine's use should see only a nominal amount of expense for maintenance and repair. The next 1,000 hours should cost about $500 for every 100 hours used, barring any major failures. After five years and 1,000 hours additional use, John expects the resale value of the new combine to be about $65,000.

The new combine would be depreciated using the Modified Accelerated Cost Recovery System (MACRS) over a seven-year recovery period using the 150 percent declining balance method. Table 3 shows the percentages that would be applied to compute depreciation expense each year (Internal Revenue Service, 2003). Depreciation expense for the new combine would be based on its list price less the trade-in allowance received plus the unrecognized depreciation on the old combine.

| Table 3: MACRS Depreciation for Seven-Year Property | |
|---|---|
| Year | Depreciation |
| 1 | 10.71% |
| 2 | 19.13% |
| 3 | 15.03% |
| 4 | 12.25% |
| 5 | 12.25% |
| 6 | 12.255 |
| 7 | 12.25% |
| 8 | 6.13% |

## THE DECISION

After gathering and reviewing all the data they have collected, John and Mary have not ruled out any of the options. Now it is time to analyze the options and determine which would be most cost effective over a five-year period. John and Mary don't want to base their decision on cost alone, however. Since John is going to retire in five short years, they want to factor that into their decision as well. In addition, there are several quality and availability issues to consider. John and Mary realize this will not be an easy decision to make.

## DISCUSSION QUESTIONS

1. In the production comparison of the old versus the new combine (see Table 2), how many more bushels of rice should be realized in one season with the new combine under similar weather and crop conditions? Based on the average commodity price, how much would rice income increase each year?

2. What is the net out-of-pocket cost that should be incurred over the next five years for each of the four options?

3. What factors other than direct costs must be considered in each of the four options?

4. Which option should John choose? Why?

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# TO INVEST OR NOT TO INVEST: THAT IS THE QUESTION!

**Herbert Sherman, Southampton College – Long Island University**
**Daniel J. Rowley, University of Northern Colorado**

## CASE DESCRIPTION

*This case describes a real estate rental startup venture with a twist; renters select their house to rent and then enter into a three-year contract and earn a $100/month credit to buy the house at the end of the contract period. The problem for the characters in the case is whether or not they should enter into this venture and how they should then proceed given their decision. Several factors complicate this business startup decision, including: their lack of business experience, one of the character's prior negative experiences with being a landlord, the need for further information in order to calculate costs (and therein profits), and the need to examine the potential risks associated with the venture. The case has a difficulty level appropriate for junior level or above. The case is designed to be taught in one class period (may vary from fifty to eighty minutes depending upon instructional approach employed, see instructor's note) and is expected to require between two to fours hours of outside preparation by students (again, depending upon instructor's choice of class preparation method).*

## CASE SYNOPSIS

*Derived from observation and field interviews, the case describes how two English professors, Stephen Hodgetts and Richard Davis, are lamenting their losses in the stock market and how these losses have negatively affected their retirement funds. Davis's solution to working past retirement age (or praying for a miracle turnaround market) is to take control of his investment funds by becoming a landlord and developing a rental scheme which caters to lower income households and/or families with bad credit. Hodgetts has a visceral negative reaction to the plan, given his politics and prior experiences as a landlord, but intently listens as Davis describes in detail how a $10,000 investment per home will yield over $20,000 of profit within three years. Hodgetts is incredulous and wonders why more knowledgeable business people have not constructed a similar business. The case ends with both professors quoting from Shakespeare to support their positions. Hodgetts is willing to get involved in the venture if Davis can provide him with some assurances as to predictability of the success of the business venture.*

**CASE STUDY**

It was August of 2002 and there seemed to be no help in sight for the ailing stock market. The Dow Jones had plummeted from over 10,000 in May to under 8000 in August, a 20% drop, while the total volume of the market dropped by over 10%[1] Professors Richard Davis and Stephen Hodgetts[2], long time friends, colleagues and co-authors, were commiserating their respective losses over a glass of fine wine. Both had taken major hits in their personal stock portfolios and retirement accounts and, overall, had lost at least a third of the value of their estates. For college professors on a fixed income, with at most 3% annual raises, the prospects for a comfortable retirement were looking dimmer and dimmer.

Richard had been hoping to teach only a few more years (he was in his late fifties) and had hoped to have built up a large enough nest egg to retire in comfort. Comfort meant living at his current standard of living, at least one trip to Europe per year with his wife, Rachel, and the wherewithal to be well stocked in good Merlots and Cabernets. Hodgetts, on the other hand, was in his late forties yet he too dreamed of early retirement. He wanted to write his great novel, join Richard Davis in his European adventures, and go on a cross-country speaker circuit.

“Well Stephen,” Richard sighed after a moment of deep reflection on his situation, “it looks like I’ll be spending another few years in the company of Shakespeare and Chaucer. I was really hoping to retire from the Chair in the Classics Department and let Llewellyn take over for me. He’s a fine young man with excellent prospects, but I don’t see how I can lose my stipend while my personal investments and college retirement portfolio have suffered badly from this declining stock market. I want to protect my principal investment, I can’t afford to lose any more money in the market, yet if I were to liquidate my entire portfolio and put my retirement funds into a money market fund, I would only earn about 2% interest. That’s barely enough to keep up with inflation.”

“I know” replied Stephen thoughtfully, as he sipped another drop of wine from his glass. “All the money I’ve made in the market over the last few years is long gone and, of course, the money that I made in my side business (buying and selling used textbooks) I invested in the market, and that’s disappeared as well. Luckily, since I’m only 47, and I do not have to retire for at least another fifteen years, so I have a chance to recoup my losses. But I agree with you. I have the same dilemma - where do I put my money so that I can obtain a decent return, at least 7% per annum, without greatly jeopardizing my principal?”

Stephen’s question brought on a long, silent pause, and the hushed raising of their glasses. It was a silence that seemed to linger forever. Davis pondered his Pinot Noir, staring longingly into his glass, and examining the fine texture of this magnificent red wine. Finally, he set the glass down and turned toward Stephen, “OK, enough already”. This change of tenor in the conversation drew Stephen out of his reflections and he quickly turned toward Richard. “I am tired, so tired, of feeling powerless about my financial situation. Other people are playing with my money and losing it hand over fist. Like Oedipus, I feel like the Gods have conspired against me and have wrongly punished me for something I have not done." He sat up even straighter. "Well, I'm tired of feeling helpless and I'm not going to take it anymore! I am going to take charge of my investments, take full responsibility as to how these funds are to be employed, and avoid the stock market at all costs. There's got to be another way I can use my assets to earn a decent return while protecting my principal!"

"Bravo, bravo" exclaimed Hodgetts, with a bit of sarcasm in his voice. He was enthusiastically clapping while grinning from ear to ear. "Well said indeed! Did you steal those lines from King Lear, or perhaps Hamlet, or perchance even Richard the Third. I do even recall a line from the movie 'Network' sneaking into your soliloquy. I didn't realize that you were going to launch a stage career as your alternative means of fund raising." Both looked at each other for a brief moment, then laughed. Then, Hodgetts continued in a more congenial tone, "But seriously, Richard what can we do? I'm too old to go back into the used book business and our books, although heralded by some as masterpieces in the field, produce very little income. How are a couple of decrepit English professors going to increase their worldly means without giving up their profession?"

"An excellent question, my dear Hodgetts" stated Davis in a Sherlock Holmes-like parody. "We will get to the bottom of this for the game is afoot." Turning more serious, he added, "I need to think about this for awhile but we'll chat once I have some cogent ideas as to what we can do."

## THE PRELIMINARY CONCEPT

About a month later, Professors Hodgetts and Davis were discussing the finer points of Sartre's "No Exit" over yet another vintage bottle of chardonnay, when the discussion circled back to investments and the stock market. "It is as I told you" exclaimed Hodgetts in his most professorial tone "we can make an analogy to Sartre's play 'No Exit' and the current stock market. No matter what you do, no matter where you put your money, you really can't get out of the way of the stock market. If you opt out of the market for a safe investment, say like money markets, you'll barely earn enough interest to keep up with inflation. One could, of course, buy gold, or silver or buy any other commodity, but speculation has never been my forte and I do not intend to take a crash course in the futures market. So you see, we may be stuck with living with the whims of the market. Our investments will wax and wane as the large investment houses and mutual funds buy and sell hundreds and thousands of shares of stock, not based upon the true value of the stock (as measured by price per earnings) but upon technical trend lines and computer simulation models."

Dr. Davis seemed contemplative as he rolled a rather pricey chardonnay around in his glass in order to allow it to breathe better. He sniffed it first, took a minuscule sip, savored the flavor for just a moment, and then finally took a hefty swallow. Replying in his best Sherlock Holmes style, and brandishing a fake pipe in his hand, Davis retorted "My dear Dr. Hodgetts, you have overlooked the obvious answer to our investment dilemma, one which is as old as the Sphinx, as wide as the

Mississippi, and as deep as the ocean. You have forgotten the basis of economic development both here in the U.S. and in Europe, the foundation of our capitalist system, the premise behind a democratic society…."

Davis unfurled another five minutes of explicative comments, stopped to catch his breath, and took another tiny taste of his highly enjoyable wine. His pause was so well timed that Davis could catch, from the corner of his eye, Hodgetts' rumbling like a volcano, a volcano ready to explode - and explode it did! Hodgetts could no longer contain his excitement and his desire to reach the end of Davis's gambit and to uncover this mysterious investment opportunity. He rushed over to Davis, secured his wine glass with one fast swoop of his hand, and stared at him straight in the face. "Well, well … what are you waiting for? The coming of the Messiah? Godot? Come, come man. You just can't leave a fellow hanging like that. What is this secretive and mystifying investment?"

"Why, I believe we should become members of the bourgeoisie" answered Davis, "the nobles oblige, the ruling class."

"You can't mean……" started Hodgetts, half-dazed from the possibility that he could never contemplate in a thousand years.

"That's right" continued Davis. "How often have I said to you that when you have eliminated the impossible, whatever remains, however improbable, must be the truth?" "Indubitably" chuckled Hodgetts "but I never thought that you would want us to own property and become landlords!"

## WE HAVE MET THE ENEMY AND THE ENEMY IS US

"Landlords, landlords" moaned Hodgetts as if he had just learned about the death of a dear friend. "How could you possibly entertain the notion of being a landlord? European and American literature is abound with examples of greedy and miserly landlords. Shakespeare, Dickens, Pushkin, Steinbeck, Alger Jr., the list goes on and on. These writers have sullied the rental profession and anyone who practices it. Why don't we just become money lenders and factory owners for G-d sake and change our names to Fagan and Shylock?"

"Calm down, Stephen. Besides, you're missing the point. You have yet to hear me through. My idea is to not become just any type of landlord but to focus on those individuals who, given their economic situation, will take a long time or never have enough money for a down payment for a house. There are a number of people in this community who are economically stable enough to always pay their rent and their credit card bills but for some reason have had a bad credit history or cannot save enough money to even put 5% down on a home. We …"

As Davis was talking, Hodgetts' face turned redder and redder as deep concern turned to anger. "Hold on!" Hodgetts bellowed. "You're suggesting that we're not going to be just any sort of landlord. No, no that's not just good enough for Davis and Hodgetts. We're going to become the best type of landlord there is, SLUM LORDS!"

## THE STORY BEHIND THE COMMOTION

Hodgetts looked like he had blown a gasket. His face was several shades of red and it was clear that his breathing was fast-paced and shallow. Davis patted him on his shoulder as he caught his breathe, then urged him to sit back down. Davis gave Hodgetts a few minutes to gain his composure and encouraged him to take a few sips of wine to help him calm down. Davis knew that although Hodgetts was an overly emotional individual, that there was more going on than just his knee-jerk reaction to his proposal (especially since Davis had not even been given the opportunity to explain the details of his plan). Once the tension had eased, and Hodgetts was more relaxed, Davis asked Hodgetts what was really going on.

Once Hodgetts had settled down, Davis asked with a very concerned tone in his voice, "What was all that about? I haven't seen you get that aggravated for a long time, especially over something like this."

"I'm sorry," Hodgetts mused as he swished the red liquid around his glass. "The idea hit me wrong, I guess. I wasn't expecting it." He tried to smile a bit as he regained his composure. "I am ashamed to admit it" said Hodgetts sheepishly "but the idea of being a landlord hits a raw nerve with me. You remember that summer two years ago when I was especially hard to find. I did answer my e-mails but I tried to stay away from campus and did not answer my phone calls. Well, I had rented my house for the summer - I was desperate for cash. Unfortunately my original tenants backed out of the deal in the last minute and I had already rented a very small place for myself. I ended up having to rent my home to anyone who could meet my price and I ended up with the tenants from hell. Not only did they wreck my place above and beyond what the deposit could cover, but they put individual locks on each bedroom door, had made-up mattresses in the two walk-in closets, left drug paraphernalia including used syringes all over the house, and were a week late in moving out. I was at the point of calling the police when they finally threw their things into a U-Haul and took off. I swore never again to rent my house, and never, ever to be a landlord again." He smiled at Richard in apology, "I am sorry that I had such a visceral reaction to your proposal but it cut to my very core. I am sure that if I stay calm and listen carefully that your idea might make much more sense than what I did two summers ago."

## THE CONCEPT GETS FLUSHED OUT

Richard nodded as his friend explained himself. "I had no idea you had rented your home," he replied after Stephen had finished. "I can see that you would have some concerns. But, I'm not talking about that kind of rental at all. What I am talking about is helping young couples and young families, people perhaps in their twenties or early thirties, who have very good references except perhaps a minor past problem with their credit." Davis let that statement settle in for a moment before he moved on to explaining the details of his plan.

"Go on" chortled Hodgetts "I follow you so far."

"We would then work backwards – working with a real estate agent, who I have already lined up by the way, we would identify the rental range that these individuals could afford. After some thorough research, Norma, the agent, believes that we could rent a three bedroom two bath house for between $1,100 to $1,400 a month, based upon location and house amenities. Most of our target group already pay this kind of rent for apartments or trailers and many live in slum conditions."

He sat up on the edge of his seat as he continued, his excitement growing, "She also tells me that three bedroom homes sell new for around $175,000, with real estate taxes of around $1,000/year. David, my mortgage lender, tells me that we could put as low as 5% down and qualify for a 5%, 30 year mortgage if we bought this property as a second home. The monthly mortgage payment would then be around $900/month. Variable mortgages, like a five year adjustable rate, would have even lower monthly payments."

"You've obviously done some homework on this" commented Hodgetts "but I would think that there are other costs that we have to consider. For example, what would closing costs run us for a mortgage? What costs would we have to put into this new home to make it livable, i.e. appliances, a yard, etc…? I do not want to sound negative, but we need to delineate all of our costs before we walk into this venture." Davis could tell by Hodgetts' last comment that his old partner was becoming interested and decided to forge ahead with more details.

"Yes, as always, you are right on the money, if you will pardon my pun. We'll need to work out the particulars before we forge ahead. However, I want to explain the big picture to you of our operation. We will not be like normal landlords – first, our objective is to sell these homes within three to five years to our renters. Our renters will hence be only those people who are serious about entering into a three year rental arrangement with us with the long-term goal of buying their rental property. In order to accomplish this task our real estate agent will work with potential customers to find them a home that they would like where the rent is affordable yet they do not have the economic wherewithal to purchase the home outright.

"Over this three year period they will be building up their credit rating, assuming they pay their rent in a timely manner, and earn a $100/month credit towards the purchase of their home. In the interim, David, our mortgage lender, will work with the renters to help them clear up any problems with their credit reports and work with them so that they may qualify for special loans requiring very little down payment for first time home buyers (such as FHA and Fannie Mae)."

"That's nice" sarcastically interjected Hodgetts "we're not going to be slum lords, oh no, we're now going to become philanthropists and social workers. We're going to help the poor and downtrodden become homeowners while putting ourselves out of business and with nothing to show for it once they bought our homes – what is in this for us?"

"My dear Hodgetts" countered Davis "if you would just give me a chance to finish I'm sure you'll see where this arrangement is mutually beneficial to both us and the renters. As much as I strongly believe in social capitalism, I am in this to make a profit!"

"First, of course, we will have developed a rental formulae that will translate the buying price of a home into a rental price that will yield us a profit of at least 20%. My goal is to make at least $200/month per rental, not counting administrative costs associated with managing our operation. Second, homes in our area are appreciating in value about 5% every year. A $ 174,000 home today will be worth slight over $200,000 at the end of a three year lease. Selling the home back to the homeowner will yield $26,000, a 13% profit. If you add up all of the profits, we would make $7200 dollars on rental fees over the first three years, and lose $3600 for rental credit towards home purchase; all told, we would make over $20,000 dollars in three years with an investment of less than $10,000 (the mortgage down payment). That's certainly better than the stock market during its best performance in 1999! Think of it, if we buy ten homes between us, that's only $50,000 per person, we each could make over $ 100,000."

## ENTRY OR EXEUNT?

After a long pause, Hodgetts gathered his wits and exclaimed "This all sounds very well and good, too good in fact. Nothing personal Richard, you are very bright, but if an English professor with no experience in business could figure this out for himself why haven't savvy business people jumped onto the same band wagon? I am not an avid reader of either the Wall Street Journal or Investors Business Daily but I do read the New York Times and I have yet to hear of such an easy money-making deal. I cannot believe that such an simple scheme has not reached nationwide proportions or does not have an obvious flaw or two."

No one spoke for just a moment as both men thought over their arguments. Finally, Davis sat back and uttered, "Me thinks thou doest protest too much," in his best Shakespearean tone. He continued to combine rhyme and verse of the great bard in order to make his point. "For there are more things in heaven and earth, Horatio, than are dreamt of in your philosophy. Thou know'st we work by wit and not by witchcraft, and wit depends on dilatory time. Yet how poor are they like yourself that ha' not patience! What wound did ever heal but by degrees? I have come to live it wealthily in Padua; If wealthily, then happily in Padua."

"Hooray, hurrah" exclaimed Hodgetts. He merrily joined in the Shakespearean quote fest. "Cromwell, I charge thee, fling away ambition. By that sin fell the angels. Away, you scullion! You rampallion! You fustilarion! I'll tickle your catastrophe! For when sorrows come, they come not single spies, but in battalions… The fault, dear Brutus, is not in our stars, but in ourselves ... Men at sometime are masters of their fates. We know what are, but know not what we may be. But if you can look into the seeds of time, and say which grain will grow and which will not, speak then to me. For then we will venture once more into the breach, dear friends, once more. We'll cry 'havoc!' and let slip the dogs of war."

## ENDNOTES

1 https://www.dwdean.com/DWDean/Secure/AuthFrame/frames.asp?ID=233&EXID=&Language=en&ENID=17425&Account=232016409&month=, April 3, 2003.

2 The names have been changed at the request of the subjects.

# THE FALL OF THE LAST ANGLO-SAXON KING: A CASE OF LEADERSHIP FAILURE DURING A CRISIS

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## CASE DESCRIPTION

*The process of Crisis Management can be broken out into three distinct phases: pre-crisis preparation, dealing with the crisis itself, and learning from the ordeal after the crisis is over. While the study of all phases is important, this case examines the most crucial phase, the actual crisis itself. The case describes the Battle of Hastings, placing emphasis on the decisions made by Harold Godwinson, the last Anglo-Saxon King of England. First the events leading up to the battle are presented to provide the context and show the preparations undertaken by Harold. Next the Battle itself is explored.*

*The most important skills that a leader can have in dealing with a crisis are the ability to reasonably and objectively evaluate real-time feedback, and the ability to adapt to your surroundings and change course, quickly and decisively, as the situation evolves. The Battle of Hastings demonstrates the failures that can occur when a leader does not have these skills. Crisis management and leadership are the primary topic areas covered. In the questions following the case, students are asked to research and examine three specific well-known crisis situations - the New Coke fiasco, the Tylenol scare and the Apollo 13 accident. Information on these cases is widely available on the internet. Instructors can adjust the questions to fit other crisis situations that the students might be more familiar with. The case is designed for senior level undergraduates or entry MBA level students (difficulty 4/5). It is designed to take two hours of class time with two hours of outside preparation if the Coke/Tylenol/Apollo13 questions are addressed, and one hour of class time with one hour of outside preparation for the Battle of Hastings alone.*

## CASE SYNOPSIS

*In the spring of 1066AD, Harold Godwinson was celebrating his third month as the Anglo-Saxon King of England. This new king acquired two fairly powerful enemies almost immediately - William, the Duke of Normandy, and Harald Hardrada, King of Norway, both of whom were preparing to invade. So the king called out to the entire kingdom for men to mobilize, had defensive positions built along the southern coast at strategic locations, and had many staging areas set up on good ground where he could rally troops and defend the land against invasion.*

*Hardrada was the first to make a major attack, finally landing near York in the central eastern part of the island. The well-trained English reached them in a few days and used tactics that had proved successful in earlier uprisings. They were able to repel the Norwegian invaders in one day.*

*Meanwhile, William's army had landed and proceeded to the town of Hastings. Harold arrived in London ahead of his main force and moved toward Hastings with a new army of relatively untrained men. The forced march that worked with his seasoned troops did not work with the new soldiers. It is estimated that no more than a third of the English army, was on the field when William, long since ready to attack, approached. Unlike previous adversaries, the Norman army had knights and archers who rendered Harold's previously successful tactics ineffective. Harold was unable to adjust during the battle. Despite careful planning and proven successful tactics, the short-lived career of the last Anglo-Saxon King was over.*

## THE CASE

In the spring of 1066AD, Harold Godwinson was celebrating his third month as the Anglo-Saxon King of England. He was not supposed to have been king, though there is ample historical evidence to show that he had coveted the crown for many years before he took it. But Harold Godwinson, the Earl of Wessex, was neither short on ambition or on means. Moreover, he was a man who reacted very quickly to most crises and opportunities he encountered, quickly and aggressively.

### Harold Seizes the Throne

Harold seized the throne before anyone else could in mid-January 1066AD, old King Edward, having died on the fifth of that month, literally lowered into his grave as the crown was put upon Harold's head. There were a few minor rumblings among some of the other Earls and Thegns, the nobles of the realm. But, those rumblings were all put down immediately.

Harold had to seize the throne quickly because not only was there a legitimate, albeit weak, successor to it; but the culture of pre-medieval England was one of fierce independence, and most every Earl and Thegn wanted that same crown placed upon his own head.

Still, for all his speed and early successes against these local lords, this new king acquired two fairly powerful enemies almost immediately. The first of these two enemies was the Duke of Normandy, William by name - a man King Harold had sworn to support, while fighting along side him not two years earlier in that man's bid to become England's King. The other was the King of Norway, Harald Hardrada, who had diplomatic and hereditary claim to the English throne and whose people had been raiding and invading the island kingdom for more than two centuries.

So, when each man heard that Harold had seized the English throne, both set themselves upon a path to take it.

**The Invaders From Norway**

In the summer of 1066AD, Hardrada's ships appeared off the southern English coast. They harried the English coastline for weeks, moving steadily up the east coast of the island. But at the same time, King Harold was receiving intelligence from William's court that the Duke of Normandy was mustering troops and also preparing to invade. The king waited at London for one or the other to make landfall.

But, the king did not wait idly. He called out to the entire kingdom for men to mobilize. He had defensive positions built along the southern coast at strategic locations. And, he had many staging areas set up on good ground where he could rally troops and defend the land against invasion.

Hardrada was the first to make a major attack, finally landing near York in the central eastern part of the island. There, the Norwegians won several, small, land battles and then laid siege to York itself. King Harold was alerted to the landing and told of his enemy's progress by series of signal pyres, large fires set atop huge towers that lined the road from York to London. A signal could run the entire distance in a matter of hours. When the siege began, King Harold left London for York with his army.

The siege at York lasted two or three days, but the city fell on Sunday the twenty fourth of September. In victory, the Norwegian King took many noble hostages but spared the city itself.

**Harold Moves On Stamford Bridge**

The Norwegians held York, but Harold Godwinson was moving quickly. By Monday, the twenty fifth, he was in range to strike the Norwegian army. He had force-marched, traveling an average of 50 miles per day (Tetlow, 1974). This aggressive and bold move caught the Norwegian King by surprise, much as Harold's usurpation of the throne nine months earlier surprised his fellow lords.

The two armies met at Stamford Bridge, seven miles east of York. When they saw King Harold fast approaching, the Norwegians retreated across the bridge, and there a brave, Norwegian warrior held that bridge just long enough for Hardrada to set up his defenses.

When King Harold crossed the bridge, he stopped his march. Accompanied by his hand picked guard of Housecarls, loyal and professional soldiers whom even the Norwegians said were worth any two of their own number, he approached the Norwegian King. He offered Tostig, an ally of Hardrada and Harold's long estranged brother, one third of his new kingdom, if he, Tostig, would make peace and defect to Harold's side. When Tostig asked what would be given to his ally for this peace, Harold offered a grave large enough to comfortably fit the large man's frame.

The offer was refused, of course, and the battle ensued.

**The Norwegians Fall**

The battle was a quick and bloody affair, lasting only one day. The English attacked the shield-wall of the Norwegians several times, and were repulsed each time. At some point, the English retreated, and the Norwegians ran after them. The well-trained English turned and faced the on-rushing force, and the Norwegians could do little but batter themselves against the English shield wall. They battered themselves throughout the rest of the morning.

Eventually, the Norwegian King, "a huge man of great fury" (Linklater, 1966), found himself standing at the forefront of his forces. As such, he was supremely vulnerable to English arrows and throwing spears. Predictably, he took one or the other in the throat before midday and died. Loyal Tostig fought on throughout the rest of the day, even after being offered a second chance at peace. He died soon after the offer, and the battle was over.

**Restraint in Victory**

King Harold Godwinson stood victor over the field. He did not allow his men to take booty from the dead. He granted them only a brief celebration that evening; for he knew that he would have to mop up what remained of the Norwegian forces in the area the next morning, and then head south again, to London, in order to prepare for William.

But while he was still at York, the king received word that on the twenty eighth of September, William's army had landed at Pevensey Bay south of London. And, that landing was uncontested.

**William Moves Towards Hastings**

When no resistance materialized at Pevensey Bay, William of Normandy scouted the roads to London. He could not believe his good luck at the unopposed landing, but he was not satisfied with the roads or his position. So, he ordered his men and his fleet to move a bit north and east, to the town of Hastings.

Hastings was located near a good bay, and the land around it could support an army long enough to hold on for a while and build up some strength. But, most importantly, the town commanded many good roads into London. In this position, William could make a lot of trouble.

And, he did.

He knew that he could not hold out long in hostile territory about which he knew little. So, he spent several days ravaging the villages and countryside around Hastings, hoping to draw King Harold down from London.

And, it did.

**Harold Moves Towards Hastings**

While William was making noise at Hastings, the king was force-marching again back to London, this time at 35 to 40 miles per day. He had to leave most of his army behind though, as many were not able to keep pace.

Luckily, when he arrived at London on the sixth of October, there was a sizable force of men waiting for him. These were general levies from the more remote regions of his kingdom answering the earlier call to help fight at York. They had only just arrived at London, and so had missed all of the northern battle. As they were only general levies, these men were not as seasoned as those who had fought at Stamford Bridge, and most were relatively untrained. But, they would have to do.

Harold spent only five days in London, from the sixth through the eleventh. He attended to the arming and outfitting of these new men, for they had little of their own equipment with which to fight. He also spent some time dealing with the many administrative issues that had built up during his absence. Then, as he had done to reach Stamford Bridge, he force-marched his army to meet William. It took him only two days to get to one of his prepared sites, the one nearest to Hastings - a place called Battle.

It was an excellent site for a defensive fight, a narrow approach up a steep ridge, flanked by nearly impassable bogs on either side. Unfortunately, a defensive fight is not what the king wanted.

A forced-march of this kind is most effective when it gives the marchers the element of surprise for an attack, like it had done at Stamford Bridge. This is because the marchers give up a good bit of stamina (and in this case probably a great deal of it) in exchange for the shock and surprise a quick, unexpected attack will cause. Often, a rout occurs before the enemy knows what hit him, and the battle is over quickly. This did not happen at Stamford Bridge only because the king stopped to parley.

This is what Harold needed. It is not what he got.

William saw his hurried approach. And, as Michael Wood points out, unlike at Stamford Bridge, “Harold, not William, was taken by surprise.” The king, in his rush to get to Hastings, did not put up a defensive screen of outlying soldiers to probe the surrounding area ahead of and around the main body of the army.

**The Battle Begins**

The battle began on the morning of the fifteenth of October. There are varying accounts, but it seems the English did not even arrive at the site until after dawn, with little or no sleep at all. Further, a good portion of the king's army still stretched for miles behind him, so hard had he pushed them. It is estimated that no more than a third of the English army was on the field when William, long since ready to attack, approached.

Moreover, Harold's force was inferior to the Norman's army. William had 4000 knights. Harold did not have any. While William's army was small in comparison to Harold's total force, probably no more than 12,000 men total, he had many more archers than the English, and perhaps most importantly, the archers were formed in units. The English archers were not.

These Norman archers advanced first, firing into the English shield wall. Perhaps not surprisingly, the wall held, as the arrow and bow of the day were both fairly unsophisticated and did not pack enough punch to go through a thick plank of wood, which essentially was the shield of an English infantryman.

Next, William ordered a cavalry charge. But, the day of charging in huge formations had not yet dawned, so these troops attacked in loose groups and in small formations, one after the other. This piecemeal attack failed to break the wall, as well.

So, while exhausted, the English held the high ground, largely undamaged. And, more importantly, they actually were winning. The failed assaults were having a terrible effect on the Normans' morale, and soon many units were in retreat. Some of the less disciplined units even routed.

**The Battle Turns**

Upon seeing the retreat, many Englishmen broke from their positions and charged after the Normans in small groups. But, for infantry to charge in small clusters, horribly undisciplined, over mostly open ground is suicide if knights are on the field and ready to attack, no matter how primitive those knights are. The Norman knights, while primitive, were ready to attack. William had just rallied them by showing them that he was still alive. And so, those Englishmen who had foolishly charged were slaughtered.

William soon rallied the remainder of his troops and then feigned retreat twice more. The English shield wall crumbled a bit each time, as more and more of the English pursued the retreating Normans. And, each time the charging English were destroyed by cavalry that turned on them.

It was over after that. There was still some bit of a shield wall left, and they lasted for a while. But, after the third feigned retreat, William attacked in force. And, the cavalry pressure slowly wore the wall away as the day dragged on into late afternoon. Finally, William moved his archers into a position where they could fire arrows high into the air, so that they would arc down behind the shield wall.

Harold was either killed by an arrow to the eye or wounded by one and later hacked to pieces by William's knights. Sources differ. But it doesn't matter. The result is the same. The short-lived career of the last Anglo-Saxon King was over. More significantly, England and her people would be changed forever.

## DISCUSSION QUESTIONS

1 (a) What is a crisis? Is War a crisis?
(b) What business situations are crises?

2 (a) Clearly Harold was in a crisis, and clearly he did not manage it well - as he lost. The first stage in crisis management is pre-crisis preparation. Was Harold's failure a lack of preparation?
(b) Consider three famous recent crises - the New Coke fiasco, the Tylenol scare and the Apollo 13 accident. (information on these crises is widely available on the internet) Were these crises caused or exacerbated by a lack of preparation?

3 (a) Why did Harold fail to properly evaluate the feedback before moving on Hastings?
(b) Why did Coca-Cola misinterpret their market research? Could any feedback have prevented the Tylenol or Apollo 13 situations?

4 (a) He was effectively blind in the days leading up to the Battle of Hastings. Why did he march to it anyway?
(b) NASA was blind regarding Apollo 13, why did they act so quickly?

5 (a) Did Harold have to attack William as quickly as he did?
(b) Did Coca-Cola have to introduce New Coke when they did?

6 (a) Why should Harold not have pressed so hard to get to Hastings?
(b) Why should Coca-Cola not have committed so fully to New Coke?

7 (a) - The battle did not go as planned. Why didn't the English make adjustments?
(b) The Apollo 13 mission did not go as planned. What adjustments did NASA make or fail to make?

8 (a) What should Harold have done once the battle was joined? Why would that have worked?
(b) What did NASA and Johnson & Johnson do once the crisis was recognized? Did these actions work?

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# ZEIT SAIC: THE ENTREPRENEURIAL HISTORY OF A FAMILY BUSINESS IN ARGENTINA

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## CASE DESCRIPTION

*The primary subject matter of this case concerns developing an action plan to attempt to save an old line Argentine manufacturing and service firm in the face of a collapsing economy in Argentina and significant technological change making their main product obsolete. The primary focus is that of general management and as such encompasses most of the business disciplines, but stresses primarily finance, marketing and corporate strategy issues. Secondary issues include the role of preparing and analyzing financial statements to aid management decisions and an appreciation of international issues. The case has a difficulty level of four, and is positioned for use in an undergraduate senior level cap stone strategy and policy course. The case is designed to be taught in ten class hours and is expected to require about five hours of outside preparation by students.*

## CASE SYNOPSIS

*This case follows the career of George Brown, particularly in relation to Zeit, S.A.I.C., his family's business. After an on and off early association with Zeit, George, late in his career, joined the Company permanently in 1990 as V.P. In 1998, against the objections of his family, he purchased full control of the Company. That year was momentous since it began a steep decline in the business fortunes of Zeit precipitated by both changing technology and the Argentine financial collapse. The setting for student recommendations is in the middle 2003, near the bottom of the Argentine depression.*

## ZEIT SAIC: THE ENTREPRENEURIAL HISTORY OF A FAMILY BUSINESS IN ARGENTINA

### The Beginning.

The muddy water of the Rio de la Plata slapped against the hull of the old British freighter as the city of Buenos Aires (Bs.As.) came gradually into focus through the morning mist. The long and dangerous journey from Southampton was nearing its end. German U-boats prowled the Atlantic and would have liked nothing better than to send this or any English ship to the bottom. The year was 1940 and an eight-year-old boy, George Brown, his extended family and all of their limited physical possessions were aboard. They were about to begin a new life in what most would then agree was the greatest city in the richest country in the southern hemisphere. Even though their prospects appeared bright, Buenos Aires was a very foreign place. None of the Browns spoke Spanish; in fact, only the children were truly fluent in English. Six years prior the Browns, then known as the Brauns, left Germany ahead of Nazi oppression of the Jews. The Browns were not only smart to leave Germany early enough to assure their safety; they were smart enough to get a substantial sum of money converted to British pounds sterling and have it wired to Barclays Bank in London. Despite that money was frozen in the bank because of the war prohibitions, it acted as a guarantee for a big loan from a distant relative and provided the cushion necessary to re-establish themselves in their new home.

Argentina in 1940 was very different place both absolutely and relatively than it is in the early days of the third millennium. The country's population was only 15 million and of that 4.5 million were Portenos, versus 36 million and 11.3 million respectively in 2001. Some would argue that Argentina had passed its peak position in relative wealth prior to their arrival. In the late 1920s it was estimated that GDP per capita was equal to that of France and not far behind the U.S. or the U.K. In 2001, the Argentine per capita GDP was 38%, 28% and 41% of that in France, the U.S. and the U.K. respectively. The Great Depression, still going strong in most of the world, had not been kind to any country, but the associated falling prices for commodities such as wheat and beef, particularly devastated the Argentine economy. Good prices and high demand had not yet returned. In 1940, Argentina produced little sophisticated manufactured goods. Yes, it was self sufficient in its simple needs such as pots and pans, soap and furniture, as well as fully competent to process its agricultural based exports. Most high technology manufactured products such as high-tension electrical cable, light bulbs, telephones and gas turbines were imported, up until the year before mostly from England; more recently from America. Furthermore the war, just really beginning in Europe, would both greatly increase the demand for Argentine foodstuffs, but perversely, make its delivery to market almost impossible. The Brown family, since the early days of the 20$^{th}$ century, had an involvement in the German electrical fixtures and components manufacturing industry. The hope was that this expertise would be valuable in Argentina.

## THE ZEIT SWEET TIME.

The protectionist environment existing all over the world in 1941 permitted the Brown family to discover a business opportunity in Buenos Aires. The production and distribution of technology based manufactured goods such as telephones and other electro-mechanical devices in an expanding and protected market was a niche crying out to be filled. In partnership with another family, the Weiss's, who immigrated at the end of the 19th century, the Brown's bought 40% of Zeit stock. Despite the crisis of the Second World War, the Argentine domestic market was growing rapidly. Although The Browns were dealing with a new business culture, their commitment to hard work and their wise business judgment permitted them to improve their financial situation. In 1951, George's father bought an additional 10% of the stock, reaching 50% control of Zeit.

Other than three years spent in Germany in the mid-1950s working as an apprentice at Lichtlighter, a Hanover based manufacturer of time recorders, George had been educated in Bs.As., married, raised a family and felt himself to be fully Argentine. Over time, George gained more experience in the family business, but as the youngest son of one of the partners he found it difficult sometimes to have his business ideas taken seriously by his father. In 1959 his expectations started to be fulfilled when the management offered him the possibility of running a new business as CEO of Roticator Co., a new affiliated company. At that point, Zeit management discovered a new market challenge through the development of a new product, the "Tele-Communicator". Their business technology was so innovative that it permitted customers to easily make external and internal calls on one single device for the first time. At Zeit this product line was usually referred to as the "intercom." In order to minimize risks Zeit decided to divide the company into two business units. They settled on a new corporation called Roticator with George the 27-year-old CEO. While Zeit continued offering their mechanical time recorder and other mechanical devices, this new product line set Roticator free to explore and experiment with new markets. Obviously, in order to preserve and nurture the new business, Zeit was prepared to give financial support in the early years. Fortunately, the business was a success from the beginning. In five years, Roticator became the clear market leader in a new growing market: business telecommunications. By helping their customers fulfill their needs in communications, Roticator conquered their competitors and dominated domestic market share. The business became so strong that Roticator was in a position to open branch offices all over the country. Within ten years, Roticator offered their services in most populous Argentine cities: Rosario, Cordoba, Santa Fe, Mendoza, Parana, Mar del Plata and La Plata.

The secrets of their success were based in two strategies: the rental equipment system and ultimate quality support maintenance. Through the former, the company was able to rent medium and small devices to their wide range of customers**.** Through rental systems, both parties got several benefits. The customers got updated equipment (though not as often as today) and excellent technical support without paying a heavy initial investment. Roticator received an increasing and steady cash flow and loyal customers. Literally, the latter strategy was a sine-qua-non condition for the success of the former. Without excellent technical support, nobody would ever have trusted Roticator as their strategic partner to propose and implement communications solutions.

Everything was almost perfect until the mid-1970s. By then the political and economic environment of Argentina had shifted outrageously. A violent political environment and growing economic instability created an inadequate framework for innovation and business success. At that time, George was really worried. He was afraid that the business would not be able to survive these joint threats**.** George was preoccupied not only with external threats, but also with their own company internal weaknesses. The Zeit shareholders were really delighted with the high dividends paid over the last ten years and they were not capable of suffering a reduction. Even though Roticator profits were "juicy", shareholders hardly recognized that the underlying technology was becoming old. In a market closed to imported goods, such as in Argentina over that period of time, sometimes seeing true world competitive reality was difficult. George was the only one who identified this as the major challenging problem for the future of Zeit.

During October 1978, George reached a tough conclusion about the required future direction of Zeit. He decided to force the issue and announced an ultimatum to the shareholder Board of Directors at their November meeting. Either Zeit would modify their short-term business focus and invest substantial funds into the R&D needed to update the product line, even if dividends had to be substantially reduced, or George would present his resignation. Unfortunately, the Board accepted his resignation. The major shareholders were unreceptive, particularly to the idea of reduced dividends. The intercom business was a great cash cow! Perhaps at that stage of their lives, the older generation viewed sure cash now as far superior to uncertain cash later.

## GOING BACK TO THE BATTLEFIELD.

The convulsive situation in the 1980s demonstrated that George was "right on" about the problems facing Zeit. Since 1975, triple-digit annual inflation (an sometimes even higher) was the norm in Argentina, lasting until 1992. All the economic uncertainty (high inflation, huge interest rates, increasing governmental liabilities) adversely impacted the political and social order. Within this crisis environment, the enterprises and entrepreneurs were forced to modify their business practices. At this point, all their efforts and decisions were focused to survive the inflation not to serve the client needs. All companies' profits were made from financial operations, such as investing in junk and government bonds and other high-risk investments, not from the normal reality of making and selling products. Zeit was not an exception in this speculative game.

After some successful personal entrepreneurial activities during the 1980s, George returned to his first love: Zeit, and its time recorders and telecom equipment. At his return in1991, the Board was quite different. His father and the Weiss' were retired and his brother Jerome ran the business. As Commercial VP, George, now age 59, carefully analyzed the then current situation and discovered that the company was far away from its earlier operating margins. George inspired the preparation of a short-term plan in order to reach the break-even point. The first measure of the plan was to merge Roticator back into Zeit in order to reduce fixed costs and an unproductive organizational structure. Secondly, the plan initiated a profound downsizing process all over the company. Employment went from 142 to 91. At first, these initiatives were well accepted by the Board.

**FACING THE CRUEL REALITY: ZEIT IN THE NINETIES.**

In 1992, the macroeconomic environment was modified once again. The Argentine government stopped the high inflation and opened the market wide to all kind of imported capital and consumption goods. Zeit not only still had a substantially out-of-date technology (electromechanical vs. digital controls), but also their overheads were inefficiently high and costly. At this point, without high inflation, which they had learned to live with, and being thrown into a competitive market now opened to imported goods, George and the Board quickly realized the real dimension of the enterprise's crisis.

The telephone ringing on the morning of May 6, 1992 in the Zeit office on Calle Alsina was eventful. It was not just another customer notifying the Browns that their Zeit intercom system was no longer needed. This cancellation took the Zeit installed base of intercom systems to four digits from five. At their peak in 1987, Zeit had 12,348 systems in almost every Argentine business of any size and each generated an average monthly rental payment to Zeit of approximately $42*. In that year, intercom systems, first

All monetary values are translated into 2005 based U.S. constant dollar amounts.

introduced by Zeit (really, their Roticator subsidiary) made up 87% of revenue. From 1960 until 1990, cancellations were rare and the installed base continued to grow as the Zeit sales force successfully "beat the brush" for new customers. What was disturbing in the early 1990s was that other than the normal amount of bankruptcies, cancellations were mostly from their technically most sophisticated customers. They claimed that the Zeit systems were primitive and that much better and cheaper intercom communication systems were available from new Asian suppliers. The writing was on the wall! It was only a matter of time until the main product of Zeit, that product that sustained the Browns and allowed them to prosper financially, would be at the end of its product life cycle.

Even more disturbing, the electronics and telecommunications revolution that was just beginning to sweep the world in the early 1990s seemed ever accelerating. The Zeit installed base of intercom systems was melting away at an ever-increasing rate and the ability of the sales force to find new customers was falling even faster. Exhibit 1 shows the pattern of the annual lease revenue from the installed base of Zeit intercom systems over the years. Fortunately though, over time Zeit had added new products to their line. In 1956 they purchased the right to produce and sell the mechanical time recorder (AKA "time clock") system of Lichtlighter, Gmbh. of Hanover Germany. Over time Zeit refined and expanded its offerings of time recorders. Exhibit 1 also shows annual sales revenue related to time recorders over the same 1965-2002 period.

Under George's management as Commercial VP, performance of the Zeit time recorder business in the 1990s was good and getting better. Unfortunately, the intercom business continued its steep decline. Manufacturing of both time recorders and intercoms was sited in a Zeit owned 1200 square meter facility in suburban Bs.As. Most products were assembled from foreign imported electrical components and domestically produced mechanical parts.

**Exhibit 1**
Zeit Intercom Rentals and Time Recorder and Auxiliary Business Revenue, Selected Years 1965-2002 (in thousands of dollars, based on 2005 constant dollars).

| Year | Intercom Rentals | Time Recorder Sales | Auxiliary Revenue |
|---|---|---|---|
| 1965 | 2,168 | 355 | 16 |
| 1970 | 4,847 | 458 | 31 |
| 1975 | 5,942 | 571 | 67 |
| 1980 | 5,576 | 711 | 90 |
| 1985 | 5,797 | 848 | 93 |
| 1987 | 6,223 | 854 | 96 |
| 1990 | 4,896 | 938 | 100 |
| 1995 | 3,045 | 1,418 | 103 |
| 1998 | 1,754 | 1,804 | 102 |
| 2000 | 1,524 | 1,964 | 91 |
| 2001 | 1,312 | 2,041 | 84 |
| 2002 | 824 | 2,443 | 63 |

**Exhibit 2**
Zeit Intercom Rentals and Time Recorder Sales and Auxiliary Revenue along with Time Recorder Business Profitability 1991-1998 (in thousands of dollars, based on 2005 constant dollars).

| Year | Intercom Rentals | Time Recorder Sales | Auxiliary Revenue | Time Recorder Business Gross Profitability |
|---|---|---|---|---|
| 1991 | 4312 | 1299 | 100 | 522 |
| 1992 | 4113 | 1353 | 112 | 541 |
| 1993 | 3897 | 1434 | 106 | 566 |
| 1994 | 3345 | 1499 | 99 | 584 |
| 1995 | 3045 | 1418 | 103 | 604 |
| 1996 | 2659 | 1632 | 98 | 623 |
| 1997 | 2211 | 1734 | 104 | 654 |
| 1998 | 1754 | 1804 | 102 | 674 |

The success of the time recorder business could primarily be attributed to Zeit' contacts with thousands of Argentine businesses through the customer's use of Zeit intercoms. Of course, the 1989 withdrawal of their major foreign competitor, Bailey Controls of Boston, USA, certainly helped. Early versions of time recorders also provided auxiliary (and very profitable) sources of revenue such as proprietary paper time cards specially printed to accept time records. Overtime though, as time recorders became more electronic and particularly as data began to be processed by download to computers, this "gravy" declined in importance. Exhibit 2 shows details of time recorder, auxiliary businesses and the declining level of intercom rental operating margins over most of the 1990s.

**DOUBLING THE BET:**
**100% of ZEIT AND A FIVE-BULLET STRATEGIC PLAN.**

On the cool rainy evening of August 12, 1998 George sat in his favorite restaurant, Pedemonte, on Avenida de Mayo awaiting the arrival of Richard Brown, the eldest son of his brother Jerome. Over the past two years, Jerome, in declining health, had gradually withdrawn from the day-to-day management of Zeit, leaving George effectively in control. In fact Jerome had not visited Zeit' office in more than four months. George had a good idea about why Richard had asked to see him. Over the past year they all had discussed in some depth the future of Zeit. During the past five years dividends had declined precipitously. There was debate whether any dividend could be paid in the future unless something changed for the better. Jerome's family saw two possibilities—sale of the Company, or failing that, liquidation.

George was right! After short pleasantries, Richard quickly got down to business. Would George be interested in buying Jerome's share of ownership in Zeit? Within ten minutes George and Richard had agreed on a price of $3.2 million, payable in cash by year-end. The price was exactly that proposed by Richard. The terms, however, differed. Richard suggested 20% of the purchase price each year for five years, interest free. George countered with a full-price, all cash offer with a 5% discount price. Long ago George's father had impressed on him the need to avoid debt at all costs. The business part of the meeting was over almost before the drinks order arrived. The rest of the evening was spent enjoying prime Argentine steaks and in a discussion of the upcoming football season.

The year 1998 was also momentous for Zeit. There were three reasons:

1. Revenue from the slowly growing time recorder business first exceeded rental revenue of the rapidly declining intercom business.
2. Zeit went operating cash flow negative during the third quarter. The growing revenue in time recorder rental was not enough to cover the overhead expenses and the minor sales and margin in the telecommunication business unit.
3. Argentina's governmental policies finally tipped the country into the equivalent of a mini-depression.

On October 30, 1998 George Brown closed on the purchase of Jerome's shares, bringing his ownership of Zeit to 100%. George was just short of age 66, a time when most men think of retirement. In fact George's family thought him crazy! They begged him not to risk that kind of money, and not incidentally his health itself, on a failing business. George however was enthused about the future. He foresaw the end of what George liked to call Argentina's "de-industrialization." Though he expected the best, in fact, George had to admit, at least to himself, that the future of Zeit was far from certain.

Even though George had effectively acted as boss of Zeit for quite a while, he never previously involved himself in the financial side of the company. His forte was sales. Now he needed everything under his thumb. The day after the purchase of Jerome's shares, George asked his chief accountant to provide financials for the recently closed third quarter of the year. Preliminary information was provided in the form shown in Exhibit 3, along with some historical comparisons. Financial statements, still prepared by hand, would not be ready for almost a month.

**Exhibit 3**
Preliminary Financial and Other Information from 3Q1998 and Comparable Earlier Periods for Zeit
(in thousands of dollars, based on 2005 constant dollars; with actual employment).

| | 3Q1998 | 3Q1997 | 3Q 1996 |
|---|---|---|---|
| Intercom (I) Revenue | 438 | 542 | 651 |
| Time Recorder (TR) Revenue | 470 | 455 | 430 |
| Cost of Goods Sold--I | 305 | 293 | 275 |
| Cost of Goods Sold—TR | 160 | 217 | 273 |
| Indirect Costs (ex Dep.)--I | 102 | 107 | 125 |
| Indirect Costs (ex Dep.)--TR | 80 | 82 | 90 |
| Depreciation--I | 23 | 24 | 27 |
| Depreciation--TR | 43 | 39 | 31 |
| Corporate Overhead | 42 | 45 | 50 |
| Capital Expenditures | 194 | 87 | 121 |
| Employment--I | 87 | 91 | 106 |
| Employment--TR | 64 | 65 | 63 |
| Employment--Corporate | 20 | 21 | 23 |
| Dividend Paid | 120 | 140 | 180 |
| Cash / Bank Balances | 2349 | 2446 | 2578 |

During the remainder of 1998 George decided that many changes were needed to return Zeit to acceptable profitability, assuming that the Argentine economy did not worsen and that foreign competition did not accelerate further. The following plans were set out:

1. The intercom business must be run even more as a cash cow. Expenses, primarily employment related, must be reduced faster than revenue was falling.
2. Other expenses, particularly corporate overheads, may need to be reduced should sales worsen with possible further economic decline.
3. The time recorder business must be favored with additional capital expenditures and research to keep the product line competitive. Moreover, the strategy aimed to discover new business opportunities with only minor investment requirements. The idea was to create new downloadable software programs related to access controls, bar codes and other control devices. Many customers were demanding these product and services. Fortunately, R&D costs at Zeit were low.
4. Debt was to be avoided and conservative financial policies were to be followed.
5. Dividends were to be eliminated for the foreseeable future.

It was an austere plan—one that would have been impossible to implement under the prior ownership structure, particularly with respect to dividends. George was pretty sure this would be enough to turn Zeit around. He hadn't counted on the depth of the Argentine economic collapse. It would prove a test by fire for Zeit under George Brown's management.

## PERFORMING A SURVIVAL PLAN IN THE MIDDLE OF A STORM.

The period post-1998 was grim for Argentina. As shown in Exhibits 4 and 5, these years were difficult for Argentina. GDP declined a cumulative 18% from 1998 to 2002. Between 2001 and 2002, Argentina suffered a huge and profound economic and social turmoil. The crisis exploded in December 2001. After many rumors, the Argentine president De la Rua froze all accounts in the banking system. After what most believed was an illogical and outrageous decision, his government was able to keep order and stability for only 20 days. Within a month, Argentina had five different presidents. Argentine treasury bills as well as its monetary system were declared in default. The Argentine peso, pegged at one-to-one against the US dollar for ten years, was no longer convertible. In less than five months, the peso was devaluated more than 200%. While salaries increased approximately 10%, food related commodities (wheat, soy, sugar, coffee, etc.) increased at least 200%. Property rights in the Argentine economy were also broken. For at least 10 years all contracts were specified in US dollars, but after the 2002 devaluation the government prohibited that clause and declared the "pesification" of all contracts. The effect was that nobody was able to determine the real price of any good or service for many months. The consequences of the collapse were devastating. Within a year, the number of people living in poverty doubled and unemployment skyrocketed. Exhibit 4 and 5 give further statistics on the depth of the economic crisis experienced by the Argentine people during these years.

**Exhibit 4**
Argentine GDP, Domestic Investment and Inflation for the period 1998-2002
(in 1993 constant currency). Source: INDEC

| | Argentine GDP | | Public & Private | | Inflation Index | |
|---|---|---|---|---|---|---|
| | (in $ millions) | | Domestic Investment. | | | |
| Year | $ | % | $ | % | Index | % |
| 1998 | 288,123 | | 60,781 | | 101.98 | |
| 1999 | 278,369 | -3% | 53,116 | -13% | 100.79 | -1.2 |
| 2000 | 276,173 | -1% | 49,502 | -7% | 99.85 | -0.9 |
| 2001 | 263,997 | -4% | 41,750 | -16% | 98.78 | -1.1 |
| 2002 | 235,236 | -11% | 26,533 | -36% | 124.33 | 25.9 |
| Cumulative | | -18% | | -56% | | 22% |

**Exhibit 5**
Argentine Peso-Dollar Exchange Rate and Social Index in Buenos Aires for the period 1998-2002 (in 1993 constant currency). Source: INDEC

| | Exchange Rate | | Social Index in Buenos Aires | | |
|---|---|---|---|---|---|
| | (Pesos per US Dollar) | | People below | People below | People without |
| Year | Index | % | Indigent Standard | Poverty Standard | Employment |
| 1998 | 1 | | 6.9% | 25.9% | 13.3% |
| 1999 | 1 | 0% | 6.7% | 26.7% | 14.4% |
| 2000 | 1 | 0% | 7.7% | 28.9% | 14.7% |
| 2001 | 1 | 0% | 12.2% | 35.4% | 19.0% |
| 2002 | 3.37 | 237% | 24.7% | 54.3% | 18.8% |

Zeit' business was not excluded from this financial catastrophe. Fortunately George's experience and the lessons learned from his father, allowed Zeit to manage the situation**.** Others seemed to survive using less ethical techniques. At lunch at Pedemonte, Felix Dessignet, a good friend and fellow businessman, offered one possible partial solution to survival of the Argentine crisis. Felix said that his company was selling more than half of their product under the table, on the black market, so that customers could avoid paying IVA. He also told George that the Argentine taxman only knew of 16 of his 41 employees, saving his firm substantial payroll taxes. In the past Felix, like George, had always practiced being totally legal with respect to taxes. Now he reminded George that survival itself might depend on tax evasion. Felix rationalized as follows, "What was better for Argentina? George bankrupt and paying no taxes, or George keeping his employees working and paying at least some of what he owes the government?" It was a difficult question to answer.

Luckily, George foresaw the critical currency situation in 2002 and he withdrew every single US dollar (approximately $500,000) deposited in their bank account at Bank Itau. Safe in their company safe box, that US money was worth triple when measured in the new Argentine peso in less than six months after the chaotic devaluation. That money was crucial. Without it Zeit would have failed. Having it permitted Zeit to gradually implement their five-point 1998 strategic plan.

The first goal was not fulfilled. Its intercom unit revenues declined even more deeply than they previously thought. The intercom business evaporated down to relatively few customers (824 as of year end 2002) with unsophisticated users staying as customers more from inertia than any other reason. Taiwanese electronics firms took what little market remained.

The second goal was partially achieved. Operating expenses were reduced dramatically as well as the pay roll. In the middle of the crisis, the manufacturing building was sold and the employment roll decreased to 13 people. All the other activities that could be were outsourced.

The third goal was achieved more so than originally forecasted. Surprisingly, the time recorder business was not so dramatically affected by the financial crisis. With the money in the safe, Zeit continued to do research on updating the time recorder business unit. The market for Zeit high-tech time recorders grew faster than the Argentine economy fell. Moreover, the third generation was now ready to take its place in its management. George's youngest son Eduardo, an electronic engineer by education and training, recently joined as a V.P. He started to develop new products such as security access control systems, personnel access control systems and supporting software.

Finally, The words, "confidence" and "accountability" were valuable for Zeit and the Browns always, but especially in this crisis time. George and his son Eduardo knew the importance of these issues. For the five-year period since 1998, they kept conservative financial policies at Zeit. They avoided debt and refrained from dividends payments. The fourth and fifth goals were achieved.

## A BUSINESS PROPOSAL AND HUGE DILEMMA.

On May 31, 2003 the critical moments in the Argentine economy and for Zeit appeared to be part of history. Although the government was still in default, the inflation rate and the political environment were quiet once again. George, now 71 years old, recalled how he got through those hard days. He could keep his head up because he kept his family firm alive. Although the future is always uncertain, he was relieved and grateful, but he had to face a new dilemma. At lunch that day at Pedemonte, Agustin Jimenez, another good friend and fellow business owner, had totally unexpectedly proposed to buy 100% of Zeit at a very good price. What should George do? Again, it was a difficult question to answer.

# BADGER SERVICE & SUPPLY: PRICING STRATEGY, VALUE CREATION, AND CHANNEL DISINTERMEDIATION IN WHOLESALE DISTRIBUTION

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## CASE DESCRIPTION

*The primary subject matter of this case is pricing strategy within the context of complex interactions that have resulted from changes in three elements of the competitive environment: the commoditization of product markets, disintermediation in marketing channels, and a fundamental change in buyers' perceptions of value. Each topic is addressed within the context of marketing management. This case challenges conventional ideas about the value added by channel intermediaries and the role of pricing strategy in value creation. Secondary issues include globalization, e-commerce, and distribution strategy. This case has a difficulty level of four, appropriate for senior level courses. This case is designed to be taught in one class hour and is expected to require two hours of outside preparation by students.*

## CASE SYNOPSIS

*Badger Service & Supply is a regional wholesale distributor of heating, ventilation, and air conditioning (HVAC) equipment in Wisconsin. The competitive challenges that threaten the firm's continued existence and the strategic alternatives available to them illustrate a crisis that confronts distribution companies in many sectors of the economy. Radical shifts in the nature of competitive dynamics are rooted in the globalization of product markets, disintermediation in marketing channels, and a fundamental change in buyers' perceptions of value. Badger's response to the havoc produced by these forces has relied heavily on revisions to the firm's pricing policies. However, chronic price dealing and other defensive pricing strategies over the past five years have accelerated the decline in profitability rather than curtailing it.*

*The commoditization of products, increasing emphasis on price as the almost exclusive basis for competition, the impact of e-commerce across a wide range of applications, and the growth of intense competition from foreign products can be observed in virtually every service- and product-oriented industry to a greater or lesser degree. At one time, wholesale distributors and* *other channel intermediaries were regarded as immune from the direct impact of foreign price competition by virtue of both the value-added functions they provided and their proximity to channel end-users. The protective wall that being closer to the customer once provided is being rapidly eroded, however, as foreign competitors have pursued strategies to shorten distribution channels or eliminate independent intermediaries altogether. The solutions posed in this case study provide a range of useful alternatives for managers confronting these challenges.*

## INTRODUCTION

Dana Meeker was nervous and frustrated as she prepared her first end-of-year report as business manager for Badger Service & Supply. Page after page of financial tables illustrated the devastating and pervasive impact of the firm's new pricing policies. For the first time in the company's 57-year history, Badger Service & Supply failed to show a profit in the last fiscal year and there was little doubt that the decision to drop prices across-the-board was the primary factor driving the firm's poor performance. What was most disturbing was that the worst might not yet be over. It was clear that if the ongoing erosion of the firm's pricing structure could not be brought under control soon, Badger's continued existence would be in jeopardy. She knew just as certainly that the company's owner would want specific solutions to this problem when they met next week.

As she worked to identify and isolate all of the factors that were contributing to the pricing crisis, Dana began jotting down several questions on a legal pad.

## COMPANY BACKGROUND

Badger Service & Supply is a regional wholesale distributor of heating, ventilation, and air conditioning (HVAC) equipment. It sells a complete line of leading edge HVAC products to commercial and residential markets, including replacement components and supplies. The firm serves the Northeastern and Central portions of Wisconsin as well as the Upper Peninsula of Michigan from locations in Weston and Appleton, Wisconsin. It has been a primary supplier to HVAC licensed and insured contractors in its territory for over 50 years.

Badger Service & Supply operates as a stocking distributor, carrying more than 10,000 different products and parts. This substantial investment in inventory has been central to its customer-focused business strategy. The products that form the core of its sales are produced by Bryant, a subsidiary of the Carrier Corporation. Carrier manufactures HVAC products under both the Carrier and Bryant brand names. The product lines marketed to residential and light commercial customers are physically identical with the exception of the brand name sticker on the side.

The company employs two technical service representatives to help local contractors with service related issues, a warranty administrator to handle warranty claims, five outside sales people and seven inside sales representatives. The company regularly provides training programs for its customers and initiates regional promotional efforts to support the products it sells. A small staff of engineers employed by the company help support the company's customers with their application/design needs. The company also extends trade credit to its customers to facilitate sales.

Badger's business is dramatically affected by a host of environmental factors including the weather, interest rates, building construction rates, and intense price competition at all levels of manufacturing and distribution. Badger has struggled over the last several years to redefine its competitive priorities in the face of declining unit margins and vanishing contractor-supplier loyalty. The company has struggled to maintain consistent levels of sales revenue growth and profitability. Total annual revenue has remained relatively flat over the past 4 years and it has become increasingly difficult to maintain market share in the face of stiff competition from a host of new market players offering similar products. Annual operating profit, net contribution, and other measures of profitability have been declining steadily since 2000.

## INDUSTRY BACKGROUND

Although the history of HVAC can be traced back more than one hundred years, the most significant developments in the industry occurred after World War II. Comfort air conditioning became increasingly popular and affordable to many middle class families. The industry at this time was dominated by large manufacturers such as General Electric and Carrier. Many smaller manufacturers also developed competitive brands in response to the post-war boom in new residential and commercial construction.

The energy crisis which began in the early 1970s heightened buyers' awareness of performance and efficiency, prompting substantial technological advances within the industry. In the US, new product labeling regulations and performance standards were introduced to promote efficiency as well. Taken together, the focus on efficiency produced by these forces acted to homogenize or commoditize many HVAC products that had previously been differentiated on both performance and non-performance attributes. Predictably, US wholesale and retail markets focused increasingly on head-to-head price competition.

The HVAC industry does not pose particularly high barriers to entry and retail demand, though irregular, has trended reliably higher over the past 30 years. Although large manufacturers such as Trane, Carrier, and Bryant have been able to maintain market leadership, many smaller competitors have developed, collapsed, and reappeared again over the last several decades leading to the fragmentation of the HVAC market (Pauken, 1999).

The most recent trend of significance that has changed the landscape of the HVAC industry is channel disintermediation. Channel disintermediation refers to the process of eliminating middlemen or intermediaries from the distribution channel. A number of factors including the growth of e-commerce and heightened international competition have led manufacturers to shorten distribution channels or eliminate independent intermediaries altogether.

**Industry Dynamics: Growing Competition and Shrinking Margins**

Wholesale distributors in the HVAC supply chain are having to face unprecedented challenges with regards to pricing, value creation, and channel management issues. Confronting a very competitive global market, many firms in the wholesale distribution segment of the industry are having to lower the real dollar prices of their products. Opportunities for generating margin dollars from product markups are seemingly evaporating and organizations are under increasing pressure to improve operating efficiencies and productivity and to reduce operating expenses.

Within the HVAC industry, these challenges are combined with external environmental challenges such as economic instability, dramatic weather fluctuations, rapidly changing worldwide raw materials prices, rising fuel costs, environmental and governmental regulations, and logistical difficulties. The rapid growth of business-to-business (B2B) e-commerce has led to the deterioration and/or consolidation of traditional distribution channels, increasingly encouraging manufacturers to experiment with alternative means of product distribution (Markovsky, 2003). Within the past decade, the HVAC industry has witnessed the "proliferation of competitors with products of similar quality and performance" creating a commoditization of a mature market, making the strategy of value pricing and value creation in the distribution chain even more challenging (Dancer, 2004).

**Distribution Models**

Within the HVAC industry, several different variations of distributor types and supply chain relationships have evolved. Each variation is intended to meet the needs of a specific market segment and is characterized by a distinct pricing structure. The traditional distribution channel in the HVAC industry follows a marketing-supply chain consisting of the following industry partners: manufacturer - wholesale distributor - contractor - homeowner. For commercial applications, the chain typically consisted of: manufacturer - wholesale distributor - contractor - business owner (U.S. Industry and Trade Outlook, 2000). Wholesale distributors such as Badger distribute manufacturers' products and provide technical support directly to contractors who, in turn, provide service to homeowners and businesses.

Large and small manufacturers alike rely on this mode of distribution to get their product to market, promote demand, monitor and maintain inventory levels, and provide technical service/warranty support to local contractors who install their products. HVAC products typically distributed through wholesale distributors have relatively high market demand that is widely dispersed over large geographic areas. This type of HVAC distribution is most effective for common, commodity-type products and is the path that consistently experiences the most intense price competition. This has been particularly evident as competing brands have become more standardized and commoditized. This distribution path also typically realizes the highest variable and overhead costs as a result of stocking/inventory and service/support requirements.

Another type of distribution utilized in the HVAC industry relies on manufacturer's representatives. This channel typically focuses on large commercial equipment or products custom-designed for specific applications such as specialized computer room or medical/emergency room air conditioning units. Products sold through this supply chain have a much narrower or smaller available application base and tend to require much more specialized engineering design and support. Manufacturer's representatives selling such products tend to have much less direct competition and significantly higher profit margins. They also realize some cost advantages because the products they represent tend to be special-order units and have little, if any, inventory requirement. Since the products are sold to highly skilled contractors with significant engineering and installation skill/experience, they require less pre- and post-sales support and assistance.

Some manufacturers prefer not to utilize local and/or regional sources of distribution, choosing instead to sell directly to contractors. This enables them to capture more of the available profit margin in the supply chain by not having to share it with channel intermediaries. This trend has been increasing within the HVAC industry as manufacturers have tried to maintain unit margins and as wholesale distributors have relied on manufacturers to be responsible for product availability and marketing presence.

Utilizing this direct method of distribution forces manufacturers to rely heavily on local contractors who deal directly with homeowners and business owners to promote and inventory the product. The increased role that these contractors must play in the supply chain is rewarded through pricing compensation, allowing them to recoup or realize greater margins within their respective market areas. This method of distribution also allows greater pricing flexibility for manufacturers. This strategy has significant disadvantages for local contractors involved in the supply chain, however. They are forced to inventory large amounts of product because the items are not readily available from a local source of wholesale distribution. This relationship also requires the local contractor to have significantly greater technical expertise because local distribution is not available for post-sale support and service. Manufacturers that utilize this supply chain model tend to realize lower total sales revenues due to smaller market presence and the absence of strong local/regional distribution.

A final variation in the supply chain relationship within the HVAC industry is the development of e-commerce as a means of product distribution. Conducting business exclusively over the Internet is believed by many to be "threatening the core value of distribution" (Fein, 2000). Manufacturers in a diverse array of industries have increasingly turned to the Internet to promote and transact business directly with contractors and end users. Wholesale distributors such as Grainger Inc. (www.grainger.com) have also pursued this new business model, either to bypass local contractors in favor of dealing directly with end users or to provide a higher level of service and convenience to their existing customer base. Wholesale distributors have tended to move cautiously towards this distribution model because their core business is largely dependent on contractor distribution and direct interaction with end users.

## WHOLESALE DISTRIBUTION

"No matter how attractive your products, no matter how productive your factories, no matter how much the marketplace clamors for your better mouse trap, it doesn't count unless you can distribute the goods efficiently" (Olsztynski, 2001). More than 75% of all product sales occur through distributors in a broad range of industries, such as building materials, foodservice products, pharmaceuticals, and industrial MRO products (Fein, 2002).

Although you can eliminate the middleman, you cannot eliminate the functions he performs. HVAC manufacturers have long recognized the utility in having a "trustworthy channel partner whose goals and competencies complement" its own who will "not pursue its own pricing agenda at the expense of the manufacturer" (Jap, Fein, 1999). If HVAC supply chain partners have similar goals and competencies and if they recognize the value that each partner brings to the relationship, they are far more likely to form a "partnering relationship" and to work together to expand the pie of potential benefits between them.

The efficient and effective distribution of products and services is a key element in building a solid foundation for competitive pricing strategy. A firm that can more efficiently distribute its products and make them more readily available to the market can price its products more competitively. The activities performed by wholesale distributors in the HVAC supply chain (Table 1) can add significant value to the product produced by the manufacturer. These value-added activities fall into three broad functional categories: demand anticipation, demand generation and demand fulfillment (Fein, 2003).

**Table 1: Value-Added Activities Performed by Wholesale Distributors**

| | |
|---|---|
| o Technical support and assistance | o Stocking/inventorying product |
| o Troubleshoot manufacturing defects | o User training |
| o Process warranty claims and returns | o Financing assistance/extension of credit |
| o Help customers with applications | o Sales support, promotional materials |
| o Marketing, advertising and promotion | o Breaking large lots of product |
| o Manage information flows | o Cover long lead times |
| o Engineering and design support | o Local product delivery and logistics |
| o Provide access to larger customer base | o Provide business advice to local customers |

For the wholesale distribution segment of the HVAC supply chain, these value-added activities have traditionally formed the foundation of the argument justifying their value-based pricing strategy. Attitudes towards that value proposition and the wholesaler's role in the supply chain are shifting however. New channel alternatives, an increasingly competitive market environment, and new customer demands are forcing manufacturers to reevaluate the actual value added by the wholesale distribution supply chain. "Wholesalers are pushing work back up the channel to manufacturers. Manufacturers are now expected to create demand, monitor inventory, ship direct, and provide competitive prices. At the same time, wholesalers expect to earn the same margins. It is no wonder that manufacturers are questioning the value that wholesalers provide" (Ruppersberger, Failer, Fein, 2000).

## PRICING POLICIES

The traditional pricing model in the HVAC industry at both the manufacturer and wholesale level combines elements of cost-plus pricing with order quantity-volume based discounts, seasonal rebates and promotional allowances. Sales promotions such as trade discounts, vendor rebates, special financing, and seasonal volume-based incentives are common (Fein, 2004). This pricing strategy has largely been driven by competitors' reliance on market share and sales revenue as primary performance measures.

Cost-plus pricing combined with concessions to customers' price resistance have created a critically destructive combination for many channel intermediaries. The negative consequences of this pricing strategy have also been amplified by many changes in the market environment. Manufacturers are realizing tremendous pressure from foreign products and competitors who have sent production overseas to lower costs. The HVAC market has seen a proliferation of competitors with products of equal quality and performance which has put intense pricing pressure on the market as a whole, made brand differentiation difficult, and forced changes within supply chain/channel management strategy. Customers have been affected by the development of alternative distribution channels in all facets of their operations. The strategies of volume discounts, buying direct, and 'eliminating the middleman' are pervasive throughout the economy due to intense competition, excess manufacturing capacity, and the growth of e-commerce alternatives (Markovsky, July 2003). Deflationary price pressures, rising labor costs, instability in the world economy, fluctuating interest rates, and lackluster business/consumer confidence have also put pressure on the supply chain. These factors have combined to force many wholesale-distributors to make pricing demands on manufacturers and to demand that manufacturers perform more of the supply chain functions to maintain profit margins for marketing intermediaries (Dancer, 2004).

Dana Meeker set aside work on her own analysis of Badger's situation long enough to review the findings produced by an independent agency. Frank Lynn & Associates, a Chicago based sales and marketing consultant specializing in supply chain issues and channel management strategies, intensively studied HVAC channel pricing strategies. Their research identified six reasons for the failure of HVAC pricing practices that rely on cost-based pricing and quantity-volume discounts (Olsztynski, Feb. 2002).

- Special deals with select/preferred business partners causes channel conflicts;
- Customers have incentive to 'cherry pick' lines;
- Volume deals encourage excessive forward buying, followed by price slashing to move slow inventory;
- Large price spreads promote the development of extra distribution tiers;
- Inadequate margins encourage sales to unauthorized parties;
- Volume incentives fuel destructive channel conflict, such as companies not making enough to recoup costs of providing needed technical services.

Dana reluctantly returned her attention to finishing a first draft of Badger's annual report with a sense of despair. The dismal financial tables were complete, but she had yet to provide any formal analysis of the results or recommendations. When she consulted the pages of notes she'd accumulated while trying to sort out the situation the company confronted, she found mostly questions.

## QUESTIONS

What forces are contributing to the pressures that have forced Badger to drop prices? Have new channel options for the distribution of HVAC products impacted Badger's pricing? Are changes in manufacturer's attitudes toward the value of wholesale distributors hurting our business? Are there value-added or channel management strategies that Badger can implement to counteract changing attitudes about the value of distributors? Can Badger demonstrate real economic value in the HVAC supply chain? Is there a pricing strategy that can reverse the course of Badger Service & Supply or is the problem much larger than that? Will the pressure of ever-increasing demands for cost control measures and greater efficiency ultimately make Badger obsolete?

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# WHITTAKER MEMORIAL HOSPITAL

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## CASE DESCRIPTION

*The primary subject matter is strategy under adverse conditions for a small community hospital. The case examines operational, financial and market factors for strategy development. Issues of governance and stakeholder claims for a non-profit, community organization are also examined. As a student case analysis assignment the case is appropriate for an undergraduate capstone course in business policy presented in the context of strategy for non-profits, single business strategy, or governance topics, and for a senior or master's level course in health case management. While class presentation depends on the instructor's choice of scope of the subjects covered, a full discussion and analysis can be rendered within a 50 minute period. A student should anticipate a 2-3 hour commitment to complete the case questions.*

## CASE SYNOPSIS

*Whitaker Memorial Hospital is a small community hospital created to serve the health needs of the African American community in the early 1900's. The hospital has over time expanded but by the 1980's has experienced declining demand and growing financial problems which result in an attempt to reorganize under Chapter 11. The Hospital Director Dr. Bryant in 1995 has successfully led an attempt to save the hospital from a merger by contesting the authority of the sitting board and pledging to continue the hospital's operation as a community institution.*

*The case narrates in background the history of a unique American institution, the African American hospital, and traces through the case of Whitaker Memorial the complexities of surviving in a changed society. The case presents the hospital's difficulties with management, operations, and changed market conditions. As the original "community" of the East End has changed by 1995 the issues of "Who is the 'community' served by the hospital?" and "Who has a claim to govern the community hospital?" are raised and resolved in the narrative.*

## BIRTH AND REBIRTH OF A COMMUNITY HOSPITAL

At the 1993 dedication of the W. Bernard Howard, Jr. Wing of the hospital the man for whom the new facility was named expressed to those assembled the collective worry of the East End community, "We hope the situation is turned around. Personally, I am optimistic about the future of the hospital. We pray that the hospital will get even better as we move into the next century."

The situation in 1993 was that the hospital was in bankruptcy. By November 1995 when the new Executive Director Dr. Bryant took change after a divisive battle over direction and control of the hospital, mounting financial problems were mitigated only by the determination of the Director, the new board, and the community that the hospital would not close. Dr. Bryant's commitment was that he would develop a strategy to save a long time, cherished community institution.

Whitaker Memorial Hospital was founded in 1908 in the East of Newport News. The community was growing as a transportation hub for shipping coal mined in the Ohio Valley to an industrializing nation and the concomitant demand for new ships built by the Newport News Shipbuilding and Drydock Company. Excluded from the nearby "white" hospitals, four African American physicians pooled their resources to rent a four room wood building to create one of the nearly twenty "colored" hospitals that populated a "Jim Crow" nation. In 1914 the Whitaker Memorial Association was established as a community, non-profit organization to provide governance and financial support to the hospital. The By-Laws provided that a Board of Trustees would be elected to oversee the hospital and maintain community control. Within a year the Association had raised funds to construct a hospital building in the East End. Like many of the African American hospitals a School of Nursing was created to train needed personnel. When it closed in 1932 the Nursing School had graduated 112 nurses.

Because of shipbuilding demand and the area's important naval role, World War II increased the community's prosperity and population. The federal Lanham Act providing funding of needy community projects financed the construction of a new 58 bed Whitaker Memorial Hospital in 1943. The hospital was accredited under the first set of national standards set by the American College of Surgeons and again in 1948 under new national standards of the Joint Commission on Accreditation of Hospitals (JCAH) now called the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

In 1956 the Whitaker Memorial Hospital Association rebuilt the hospital to a "state of the art" 81-bed medical facility. The $628,000 building was financed using a combination of federal Hill-Burton funds made available after World War II to improve the nation's system of health care and a matching share was raised by a City of Newport News bond issue.

By the 1980's Newport News like most southern cities had become part of "the new South." African American physicians were active medical staff of the three larger, previously "white" hospitals. Affluent blacks had moved from the "East End" into distant integrated, middle class and affluent neighborhoods. Surrounded by impoverished neighborhoods Whitaker Memorial Hospital began to be identified as the "public hospital", a moniker that unfairly communicated inferior care for the indigent. The hospital was financially impoverished also. By the end of 1984 the hospital's costs exceeded revenues by $749,000.

Demographic changes in the East End community were not the sole cause of the hospital's declining position. Hospital care pricing at Whitaker Memorial had not kept pace with other community hospitals. The region's average daily charge for hospital care was $456.95 but Whitaker

Hospital's average daily charge was $381.76, the lowest of all regional hospitals. There were allegations that the hospital did not charge for all services delivered and that some charges simply may have been lost in accounting. These were clear signs of management problems that the board thought would be reversed by contracting out administration to a nationally reputable management firm. Despite cost cutting, layoffs, and tighter management of admissions the contracted national firm left Whitaker Memorial after one year and recommended that the hospital affiliate or merge with one of the area's larger hospitals.

The hospital's board thought differently. To escape the "public hospital" image a new facility would be built at a different location and with a new name. The 126-bed Newport News General Hospital opened in July 1985. To finance construction the old Whitaker Memorial Hospital building was sold for $960,000 and converted into a home for the elderly. Nearly half of the money was used to pay off debts and half to help finance the new hospital's construction. An additional $1.5 million was contributed through a fund raising drive spearheaded by a prominent actor. Another $15 million was borrowed by selling bonds backed by the Federal Housing Administration. A "AAA" bond rating guaranteed that the bonds would be bought. The new hospital started with a $136,000 monthly interest payment for the next twenty five years.

## A NEW BEGINNING?

The hospital's financial health seemed to improve with a new name and a new administrator. Although the hospital's board planned to operate 126 beds administration decided to open only 80. With an average of 64 inpatients General Hospital's occupancy hovered at eighty percent, above the area's hospitals average occupancy. The president of the hospital's board announced, "We feel the hospital has progressed. We feel that it has progressed by our own efforts. We believe that if we can maintain it that would be a credit to us – having an independent hospital." Noting that General Hospital was now one of a few remaining African American owned and operated hospitals, he added: "The trustees did not want to abandon that legacy."

At the end of the first year General Hospital reported a loss of $184,000 and the administrator left. The hospital board hired the city's mayor as administrator to turn things around. To improve management systems a $500,000 main frame computer was purchased. To cut costs personnel were laid off, reducing hospital staff from 200 employees to 100. Except for the shipyard, the new General Hospital was the East End's major employer and the community was in an uproar over the firings. Nurses that were not laid off protested management's action by calling in sick and were also fired. Payroll checks were not cashed by banks due to "insufficient funds". The hospital's mortgage payments were not being made. The number of patients at the hospital fell to an average of fifty inpatients.

Over the next five years here was a stream of new administrators, plans for new technologies that failed to materialize, lawsuits to recover unpaid supplier bills, and an offer by a group of doctors on the medical staff at General Hospital to buy the hospital. The General Hospital board rejected the offer to sell preferring to keep the hospital under community control. The Whitaker Memorial Hospital Association which was the original “community,” however, had for some time become inactive by 1990.

## BANKRUPTCY

By 1990 the hospital reported $20 million in debt. Even the most ardent supporter understood that General Hospital was bankrupt. The hospital board acting for the Whitaker Hospital Association filed for bankruptcy under Chapter 11 which was granted in 1993. This provided relief from lawsuits from nearly 900 creditors. The bankruptcy petition showed a debt of $22.4 million against assets of $14.6 million. Since the mortgage was insured by the Department of Housing and Urban Development, the federal government assumed payments of the mortgage. There was over $4 million in unsecured debt outstanding, but Chapter 11 enabled General Hospital to reorganize and develop a plan for future operations. The bankruptcy judge gave notice, “If everything else is equal, the people who want it must support it.”

For now General Hospital, formerly Whitaker Memorial Hospital, remained one the eight remaining African American hospitals in the nation still alive. In the state there were only three remaining historically black hospitals left. The closest, Dixie Hospital in nearby Hampton, had been sold for one dollar to Hampton University to be remodeled as a student dormitory.

## BATTLE OF THE BOARDS

The hospital board examined a number of options to reorganize the hospital. Converting to psychiatric care was not an option as it required outside approval for a different license and modifications of the building which were expensive. Unable to identify a clear niche for the hospital the board attempted a political strategy to bailout the hospital with government funding. This failed when Virginia voters rejected the hospital’s Senatorial champion. By 1995 General Hospital was in a continuing downward slope of declining occupancy and revenues and faced increasing debt.

The hospital board’s president and the administrator proposed that General Hospital ally and merge with one of the larger hospitals, Riverside. As news of the proposal spread, opposition was immediate. Key members of the board stated that they were uniformed of talks with Riverside. Many in the community voiced opposition because they feared they would be without any medical care if Riverside closed General Hospital. Members of the medical staff filed suit against the board to forestall the merger. Opposition members of the board, community activists and leaders joined in the suit to dissolve the hospital board. Dr. Bryant as a prominent member of the hospital’s medical staff assumed leadership of the opposition and took the position that the hospital board could not decide the fate of a hospital owned by the Whitaker Memorial Hospital Association. His group now claimed to be the Whitaker Memorial Hospital Association and reclaimed community control over the hospital.

The issue of which group, the sitting board or the opposition, could determine the future of the hospital went before Circuit Court Judge Frank who refused to become entangled in reconstructing an eighty-one year history of the hospital's ownership. The judge ordered both parties to come to a mutually agreeable resolution. The resolution was an election of a new board under the 1914 By-Laws. The By-Laws of the Whitaker Memorial Hospital Association simply required that members be "of good moral character" and "people of the community."

In 1995 who were "people of the community?" In 1914 the issue was clear: African Americans living in the East End, a segregated, racially homogenous, income diverse section of Newport News. Influential members of both camps now lived outside this geographical area. Both sides agreed that anyone could register for membership in the Association at the hospital's business office. Either side could challenge an application for membership. Once the membership was established, a meeting would be called to vote on By-Laws and elect an Advisory Board which, in turn, would elect a Board of Trustees responsible for hospital governance and management.

The opposition group headed by Dr. Bryant assumed control of the hospital in late 1995. If anyone could breathe life into General Hospital it would be this former military surgeon and prominent community leader.

## CURRENT OPERATIONS

In reorganizing the hospital Dr. Bryant assessed its operations. The Emergency Room (ER) was one of the first points of contact with patients. Of the 700 patient visits to the ER each month most cases were for minor ailments not requiring admission. While the ER was serving as a clinic, major injuries in the neighborhood were transported by ambulance to nearby, larger hospitals. A study of bed utilization showed that of the 126 beds available, 98 were allocated to medical and surgical patients. Utilization of these beds has fallen to about 20 percent. Psychiatry was allocated 22 beds and demand was increasing largely due to drug abuse cases. Courts and community service groups in the region were referring patients to General Hospital for drug rehabilitation. The hospital charged $650 a day for psychiatric care.

Medicaid typically paid 85 percent of the hospital's bill for patients enrolled in the program. Because these were indigent residents the balance of a hospital bill usually was unrecoverable. About 32% of the medical and surgical cases were covered by Medicaid. Medicare insured another 33% of patients who were on Social Security retirement. While the government was reducing it payments under Medicare, General Hospital received full reimbursement of the costs of services provided under Medicare. The remaining 26 percent of patients were equally split between those covered by insurance and those that had no coverage. Private insurance companies paid nearly all hospital charges as long as the services delivered met reasonable expectations for the kind of care needed.

## A COMPETITIVE MARKET

In 1995 the region was served by four hospitals (Appendix A). The largest Riverside Regional Medical Center located in Newport News was a 534-bed comprehensive, community hospital offering a broad spectrum of services in a modern, technologically sophisticated facility. It typically reported a 60% occupancy. Closer to General Hospital, but located in the city of Hampton, was Sentara General Hospital. Owned by a corporation with a multiple hospital system the Hampton hospital operated 237 beds, mostly medial and surgical services, with a 67% occupancy. The Hampton hospital building was aging and the neighborhood was increasingly poorer. Sentara had announced that it would be building a new, larger facility in another part of the city closer to more affluent neighborhoods and the city's booming commercial district. General Hospital's third rival was the Catholic owned Mary Immaculate Hospital (MI). It was a 225 bed facility operating at 80% occupancy and provided general medical and surgical care. MI had begun to focus on obstetrical care and was building a local reputation for the delivery of newborns.

Patients are admitted to a hospital by a physician who has been granted admitting privileges. Because doctors are the critical link for hospitals to build demand for beds, competition among hospitals often focuses on capturing the highest revenue producing physicians. Since these are usually specialists, medical centers with the latest technologies have an advantage.

The task for Dr. Bryant was going to be difficult. General Hospital had the lowest market share of all hospitals in the region. The state's Cost Review Council had given it the worst efficiency score. There were no obvious prospects for capital improvements. He would soon present his plan to the new board to attempt to do what prior managers had not done: turn the hospital around financially, preserve an historic institution, and provide to the East End a sustainable hospital owned by the community.

| Table 1: Hospital Profitability, 1991 | | | |
|---|---|---|---|
| Facility | Net Profit | Net Revenues | Profit % |
| Mary Immaculate | $2,220,684 | $24,325,203 | 8.68 |
| Sentara Hampton General | 2,463,020 | 53,181,593 | 4.63 |
| Riverside Regional Medial Center | 7,178,082 | 111,063,725 | 6.46 |
| Peninsula Psychiatric Hospital, Hampton | - 74,530 | 12,535,025 | -.59 |
| Charter Colonial Psychiatric Hospital, New Port News | -150,359 | 7,798,332 | -1.93 |
| Newport News General Hospital | -2,173,593 | 8,666,300 | -25.08 |
| Source: Virginia Health Services Cost Review Council | | | |

| Table 2. Facility Data, 1994 | | | |
|---|---|---|---|
| Facility | Case Mix | % Market Share | Efficiency Score |
| Riverside Regional Medial Center | 1,162 | 12.67 | 1.83 |
| Sentara Hampton General | 1,122 | 5.58 | 2.28 |
| Mary Immaculate | 916 | 2.71 | 2.61 |
| Newport News General Hospital | 960 | 1.23 | 3.39 |

Case Mix: The complexity of cases treated by a hospital. Higher values are more complex cases.
Percentage of Market: Percentage of hospital patient days to total for the region.
Efficiency score: The lower the score the higher the efficiency. Ratings are based on 18 financial and operational criteria, including per patient revenue, labor costs, and Medicaid participation.
Source: Virginia Health Services Cost Review Council

| Table 3: Area Hospitals: Utilization, Cost, and Service Data | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Beds in Operation | Admissions for the Year | Average Census | Expenses Total | Total Payroll | Personnel | Specialized Services |
| Newport News General Hospital, Newport News | | | | | | | General inpatient care; emergency room and outpatient services. |
| 1994 | 35 | Data Not Reported to AHA | | | | | |
| 1993 | 35 | Data Not Reported to AHA | | | | | |
| 1992 | 78 | Data Not Reported to AHA | | | | | |
| 1980 | 126 | 3533 | 81 | 4143 | 2139 | 268 | |
| Riverside Regional Medical Center, Newport News | | | | | | | Specialized and general inpatient care, including advanced diagnostics. |
| 1994 | 574 | 19068 | 319 | 152347 | 50942 | 1980 | |
| 1993 | 576 | Data Not Reported to AHA | | | | | |
| 1992 | 576 | 19848 | 352 | 133807 | 50600 | N/A | |
| 1980 | 641 | 21847 | 509 | 33370 | 15433 | 1488 | |
| Sentara Hampton General Hospital, Hampton | | | | | | | General inpatient care with some advanced diagnostics |
| 1994 | 237 | Data Not Reported to AHA | | | | | |
| 1993 | 211 | 9043 | 158 | 64815 | 26242 | 1067 | |
| 1992 | 225 | 9738 | 163 | 59555 | 25820 | 996 | |
| 1980 | 328 | 11171 | 257 | 17273 | 7852 | 729 | |
| Mary Immaculate Hospital, Newport News | | | | | | | |
| 1994 | 225 | 6481 | 182 | 42118 | 18426 | 717 | General inpatient care. A 115 unit nursing home is also operated, but not included in data. |
| 1993 | 225 | 6110 | 188 | 40430 | 17267 | 760 | |
| 1992 | 225 | 5794 | 182 | 37341 | 15949 | 755 | |
| 1980 | 112 | 4082 | 54 | 4410 | 2310 | 230 | |

| Table 4. Newport News Demographic and Income Data, 1990 and 1994 | | |
|---|---|---|
| Newport News | 1990 Census | 1994 Estimated |
| Total Population | 170.045 | 183.8 |
| African American population | 57,077 | 61,000 |
| Total Households | 63,952 | 69,282 |
| Median Age | 29.5 | 29.8 |
| Median Household Income | $27,469 | $29,886 |

| Table 5. Newport News General Hospital. Income Statement (Years ending June 30, 1994 and June 30, 1995). | | |
|---|---|---|
| | 1994 | 1995 |
| OPERATING REVENUE | | |
| Net Patient Revenue | 8,528,383 | 9,858,446 |
| Other Revenue | 386,285 | 253,563 |
| Total Revenue | 8,914,668 | 10,112,009 |
| OPERATING EXPENSES | | |
| Salaries | 3,355,391 | 3,540,940 |
| Payroll Taxes | 1,026,076 | 1,274,260 |
| Physician Fees | 807,431 | 787,895 |
| Contracted Services | 1,581,970 | 1,564,821 |
| Medical Supplies | 738,677 | 782,988 |
| General Supplies | 165,038 | 171,957 |
| Utilities | 319,613 | 279,288 |
| Insurance | 128,486 | 163,558 |
| Legal | 52,458 | 66,508 |
| Rental | 142,229 | 119,594 |
| Other | 197,854 | 170,065 |
| Bad Debt | 278,389 | 544,602 |
| Total Operating Expenses | 8,793,612 | 9,466,476 |
| INCOME (LOSS) BEFORE INTEREST AND DEPRECIATION | 121,056 | 645,553 |
| Non-Operating Gains (Losses) | | |
| Interest | (33,544) | (105,325) |
| Depreciation | (802,490) | (771,492) |
| Reorganization Cost | (72,458) | 0 |
| TOTAL NON-OPERATING GAINS (LOSSES) | (908,492) | (876,817) |
| Income (Loss) Before Non-Recurring Bad Debt Write-Off | (787,436) | (231,284) |
| Debt Write-off | 0 | (439,720) |
| Expenses and Losses in Excess of Revenues and GAINS | (787,436) | (671,004) |

| Table 6. Newport News General Hospital. Balance Sheet (Years ending June 30, 1994 and June 30, 1995). | | |
|---|---|---|
| | 1994 | 1995 |
| Cash | 791,893 | 577,461 |
| Trade Receivable | 1,539,390 | 2,062,142 |
| Other Receivable | 7,847 | 46,449 |
| Supplies Inventory | 271,997 | 277,191 |
| PrePaid Expenses | 85,265 | 102,066 |
| Total Current Assets | 2,696,392 | 3,065,309 |
| Land | 276,865 | 276,864 |
| Buildings | 8,772,782 | 8,772,782 |
| Equipment and Fixtures | 5,243,738 | 5,354,421 |
| Total Plant and Equipment | 14,293,385 | 14,404,067 |
| Accumulated depreciation | 6,999,531 | 7,535,929 |
| Property and Equipment less depreciation | 7,293,854 | 6,868,138 |
| Deposits | 87,113 | 87,113 |
| Unamortized Debt Expense | 522,850 | 522,850 |
| Total Other Assets | 609,963 | 609,963 |
| Total Assets | 10,600,209 | 10,543,410 |
| | | |
| Accounts Payable | 802,184 | 1,036,151 |
| Notes Payable | 0 | 40,000 |
| Due to Insurance Companies | 2,924,863 | 2,840,027 |
| Accrued Payroll | 59,569 | 58,926 |
| Accrued Vacation | 192,881 | 251,500 |
| Other Accrued Expenses | 498,133 | 312,049 |
| Total Current Liabilities | 4,477,630 | 4,538,653 |
| Capital Lease | 0 | 29,317 |
| Liabilities Subject to Compromise (Prior debts negotiable under Chapter 11) | 21,972,071 | 21,972,071 |
| Fund Deficit | (15,849,492) | (15,996,631) |
| Total Liabilities and Fund Deficit | 10,600,209 | 10,543,310 |

# THE WESTERN NORTH CAROLINA PLAYHOUSE

**Philip L. Little, Western Carolina University**
**Beverly L. Little, Western Carolina University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns managerial accounting cost behavior concepts. The case has a difficulty level of five, appropriate for first year graduate students. The case is designed to be taught in 3 class hours and is expected to required 5-6 hours of outside preparation by students.*

## CASE SYNOPSIS

*This case requires students to apply managerial accounting concepts beyond the traditional manufacturing/production problems, by having them make recommendations to a regional playhouse as to how many plays to produce (evening v. matinee), how much to spend on those plays, and how to raise outside funds for renovation.*

## INTRODUCTION

The Western North Carolina Playhouse (WNCP) was completed in 1918 at a cost of $30,000. P.L. Wiseman, an architect from the Western North Carolina area, designed the Arts & Craft inspired structure. The building was designed as a place of entertainment for the local citizenry. The building is an excellent example of the Arts & Craft movement of that era.

The building was constructed with brick from three local brickyards. The granite used in the construction came from a quarry in the Western North Carolina area. Local craftsmen's and artisans' talents in woodworking and masonry were used throughout the construction of the original building. A gas lighting system was installed with a reflector, or "sun burner", for added brilliance. Drop curtains and seven scenes or sets for the stage were available. One scene, a landscape, survived to the late 20$^{th}$ century.

The WNCP quickly became know as "the entertainment center of the Blue Ridge Mountains." On its stage appeared touring companies of New York plays, minstrel and variety shows, famed vocalists and lecturers, magicians and mind readers, novelty acts and boxing exhibitions. The WNCP was used not only by professional performers, but also by the community. Meetings, dances, college commencement exercises and musicals were held in the spacious auditorium.

Silent "moving pictures" were shown at the playhouse in the early years. Slowly, movies replaced the big stage shows, and in the late 1920's the playhouse was remodeled as a movie theater. In 1952 with the showing of *The Outlaw*, the Opera House was closed as a movie theater. By 1959, there was talk about tearing it down, but a public outcry stopped the wrecking ball. In 1969, the Western North Carolina Historical Society promoted the preservation of the playhouse, as did several other community groups. In 1970, the building was placed on the National Register of Historic Places.

Since that time, the WNCP has been used primarily as a venue for traditional professional theatre. In the year 2003, the mission of the WNCP was changed to emphasize avant-garde plays. Other area playhouses were focusing on more traditional plays and the WNCP Board thought that the change in emphasis would set the playhouse apart from the others. The Board plans to implement the new play genre in its schedule for 2005.

## PLANNED RENOVATION

The WNCP Board is currently in the process of planning a renovation of the building. The renovation is expected to be completed by the end of 2007. The total cost of the renovation will be approximately $5,000,000. The Board expects to incur construction costs of $1million in 2005, $3 million in 2006, and $2 million in 2007. The Board is in the process of arranging a line of credit to finance the renovation. The Board expects that $1 million will be drawn from the line of credit at the beginning of 2005; $3 million at the beginning of 2006; and $2 million at the beginning of 2007. Principal repayments are expected to be $500,000 per year and paid at the end of each year beginning in 2005. Interest payments of 6% per annum will be paid on the outstanding loan balance at the end of each year beginning in 2005.

The planned renovation will return the building to its former glory and transform the interior to a full featured, professional, and engaging center for the arts and the community. A renowned architectural firm has been hired to develop the drawings. Experienced theater consultants were used to recommend design features to maximize the quality of the theater's acoustics, comfort and esthetics.

The restored structure will marry historical accuracy with a state-of-the-art performance space ideal for internationally recognized performers and the regional audiences they will attract. The facility will include spacious public areas and support spaces and will be completely accessible to all patrons.

The building's electrical, plumbing, and heating and air conditioning systems will be replaced, and state-of-the-art lighting and sound systems will be installed. Restoration will include a 10,000 square foot addition to house a new loading dock, an elevator, a second stage for rehearsal, and dressing rooms. The improvements for the building will incorporate full accessibility and an assisted hearing and TDD capability.

The building design includes acoustic isolation and shaping of the performance space, and a space conditioning system that is virtually silent. Oversized doors and corridors provide for the easy flow of patron traffic and for movement of instruments and set pieces.

The renovation work will be scheduled such that the ongoing usage of the facility will not be adversely affected. Thus, the Board of WNCP is planning to offer the normal number of plays during the theatre season which runs from May until October. During that period, the WNCP normally schedules 150 evening performances. Matinee performances may be added in the early afternoon hours preceding the evening performances.

## THEATRE TRENDS

The administrative staff of the WNCP gathered theatre trend data from regional theatres for the past five years, from 2000-2004. The data are presented, as follows:

- *Attendance increased by about 4%*
- *Outside contributions increased by about 3%*
- *The average theatre derived about 53% of its revenues from performances and about 47% from contribution*
- *Average ticket prices were about $20*
- *The average theatre sold about 75% of its playhouse capacity per performance*
- *Revenues from concessions and advertising in the playbills were about 5% of ticket revenues*
- *Outside contributors consisted of:*
- *Government 10%*
- *Corporations 15%*
- *Foundations 20%*
- *Individuals 40%*
- *Others 15%*

The average theatre incurred expenses, as follows:

- *Artistic 40%*
- *Technical 35%*
- *Administrative 25%*

In the past, the WNCP operations closely resembled the trend data compiled above. However, due to the changes in the emphasis of its play genre, the WNCP Board developed the following set of assumptions regarding the operation of the playhouse over the next three years, 2005-2007:

- *Outside contributions are expected to be about 40% of revenues*
- *Average ticket prices for evening performances are expected to be about $21*
- *Average attendance is expected to increase by about 5% over the three year period*
- *Ticket sales are expected to average about 81% of the playhouse capacity per performance*

The expense breakdown is expected to be, as follows:

- *Artistic 50%*
- *Technical 30%*
- *Administrative 20%*

In order to achieve its objectives, the WNCP Board has entered into negotiations with a number of talent agencies to secure top name actors to appear in the plays that will be performed over the next three year period. The Board expects that offering trendy and modern plays with top talent will generate the increase in revenues necessary to offset the loss in outside contributions and the increase in artistic costs. Thus, artistic costs are expected to be a higher percentage of total costs. It is expected that the costs for technical and administrative will not change, but will be a smaller percentage of the total.

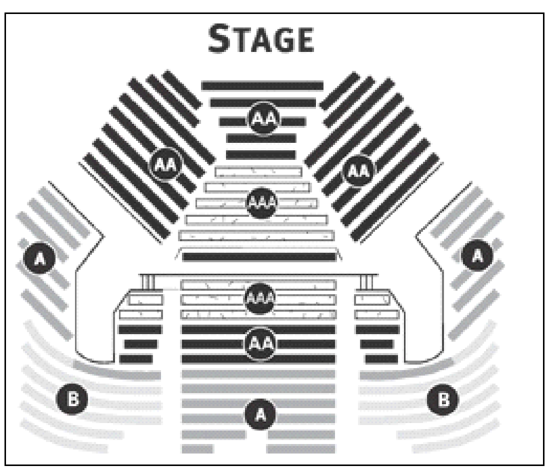
**THREE-YEAR PLANNING DATA, 2005-2007**

Performance revenue:

The WNCP auditorium has 1000 seats with four sections, AAA, AA, A, and B.
The number of seats and the normal ticket price for each of the four sections is, as follows:

- *AAA 100 seats $40 per ticket*
- *AA 200 seats $30 per ticket*
- *A 400 seats $20 per ticket*
- *B 300 seats $10 per ticket*

The auditorium is configured as shown below:



If matinee performances are scheduled, normal ticket prices are reduced by $5 per ticket and are expected to generate about 50% of the expected attendance of the evening performance. Matinee performances are expected to have little or no effect on the attendance of the evening performances.

Each play that is considered for performance is given a category rating to indicate the level of attendance the play is expected to generate over a relevant range of performances. Because the WNCP wants to offer a wide variety of plays each season, the schedule will include plays from each category with a minimum number of offerings of 5 evening performances per play per year and a maximum of 20 evening performances per play per year. Each year WNCP will offer a total of ten plays: two plays from category 1, three from category 2, three from category 3, and two from category 4. The administrative staff of the WNCP has developed the following category chart for each evening performance of a play in that category:

| *Category* | *Section* | *% of Capacity* |
|---|---|---|
| *1* | *AAA* | *95%* |
| | *AA* | *95%* |
| | *A* | *95%* |
| | *B* | *95%* |
| *2* | *AAA* | *90%* |
| | *AA* | *85%* |
| | *A* | *85%* |
| | *B* | *80%* |
| *3* | *AAA* | *85%* |
| | *AA* | *80%* |
| | *A* | *75%* |
| | *B* | *75%* |
| *4* | *AAA* | *80%* |
| | *AA* | *75%* |
| | *A* | *65%* |
| | *B* | *65%* |

**Outside Contributors:**

In the past, WNCP has received most of its outside contributions from two sources, individuals and corporations. Normally, WNCP has required at least $1 million per year in outside contributions, 60% from individuals and 40% from corporate sponsors.

WNCP has developed and used a plan for obtaining individual contributions that has proved effective. The plan involves providing tickets to the contributors that can be used for any performance and the contributors are recognized in the season's playbill. There are five different categories of contributors, which are, as follows:

| | | |
|---|---|---|
| *Stars* | *$5,000+* | *12 tickets in section AAA* |
| *Angels* | *$3,000* | *8 tickets in section AAA* |
| *Benefactors* | *$2,000* | *6 tickets in section AA* |
| *Supporters* | *$1,000* | *6 tickets in section A* |
| *Sustainers* | *$ 500* | *6 tickets in section B* |

As in prior years, it is expected that WNCP will have 20 Stars contributing an average of $6,000 each, 40 Angels contributing $3,000 each, 60 Benefactors contributing $2,000 each, 100 Supporters contributing $1,000 each, and 300 sustainers contributing $500 each.

WNCP has a number of loyal corporate sponsors to underwrite a part of the cost for each of the ten plays offered each season. These sponsorships are $40,000 per play and provide WNCP with $400,000 per year. The corporate sponsor receives a block of 8 section AAA tickets to each performance of the play being sponsored and major recognition by WNCP.

**Table 1: Variable Cost per Performance**

| | Category | | | |
|---|---|---|---|---|
| Variable Costs per Performance | 1 | 2 | 3 | 4 |
| Salaries Top Actors: | | | | |
| Maximum Number | 3 | 2 | 1 | 1 |
| Salary Per Performance | $3,000 | $3,000 | $3,000 | $1,500 |
| Salaries Supporting Actors | $ 100 | $ 100 | $ 100 | $ 100 |
| Obtain Rights | $ 120 | $ 80 | $ 60 | $ 40 |
| Orchestra Fees | $ 200 | $ 200 | $ 150 | $ 100 |
| | Category | | | |
| Fixed Costs per Performance | 1 | 2 | 3 | 4 |
| Fixed Production Costs Per Play: | $500,000 | $300,000 | $200,000 | $100,000 |
| All Other Fixed Costs: | $600,000 per year | | | |

## Cost Behavior

The administrative staff compiled data on the expected cost to produce an "average" play at the WNCP over the next three years, 2005-2007. One of the problems encountered by the staff is that there is no such thing as an "average" play and every play is quite different from every other one. Much depends on the number of performances and how many actors are hired. Typically, a medium-sized (6 actors, 20 performances) play's fixed production costs will be about $350,000. That includes directors and other production staff salaries, scenery, costumes, lights, and sound. In addition, each play has variable costs per performance that include salaries for top name actors and supporting cast, obtaining the rights for the play, and orchestra fees. The variable cost per performance and the fixed production cost for each play are expected to fall into the same four category ratings used to determine ticket sales.

The administrative staff has compiled a chart showing the variable cost per performance and the fixed production cost for each play by category rating, as shown in Table 1.

## PLAYS UNDER CONSIDERATION

The WNCP Board is considering thirty plays for the three year period, 2005-2007. Ten different plays will be scheduled each year. As mentioned before, each year's season runs for 150 days and evening performances will be scheduled for each of those days. Matinee performances can be scheduled preceding any evening performance if economically feasible. The plays are under consideration are displayed in Table 2.

**Table 2: Plays Under Consideration**

| Play | Genre | # Actors | Category |
|---|---|---|---|
| Bay at the Moon | Comedy | 6 | 1 |
| Beat | Comedy | 2 | 1 |
| Beautiful Woman | Comedy | 5 | 1 |
| Bill of Rights | Drama | 3 | 1 |
| Admissions | Comedy | 8 | 1 |
| The Bill Show | Comedy | 9 | 1 |
| The Box | Drama | 7 | 2 |
| The Brightest Light | Comedy/Drama | 20 | 2 |
| Cairo | Drama | 11 | 2 |
| Captain 11 | Drama | 12 | 2 |
| Cat and Mouse | Comedy | 4 | 2 |
| Chitterling Heights | Drama/Comedy | 8 | 2 |
| Christmasless | Comedy | 6 | 2 |
| Circumference | Drama | 2 | 2 |
| Counsellor Adams | Drama | 9 | 2 |

| Table 2: Plays Under Consideration | | | |
|---|---|---|---|
| Play | Genre | # Actors | Category |
| Hate Mail | Comedy | 8 | 3 |
| Hell to Pay | Farce | 7 | 3 |
| The Hidden Place | Drama | 5 | 3 |
| A Hole in the Dark | Drama | 10 | 3 |
| A House of Cards | Drama | 4 | 3 |
| Dreaming of Norton | Comedy/Drama | 6 | 3 |
| Eastwest | Drama | 2 | 3 |
| Eighteen | Drama | 6 | 3 |
| Evergreen | Comedy/Drama | 9 | 3 |
| Heights | Comedy/Drama | 9 | 4 |
| The Coyote Bleeds | Comedy | 4 | 4 |
| Cupid & Psyche | Drama/Comedy | 2 | 4 |
| Dangerous | Fantasy/Drama | 10 | 4 |
| Debt | Drama | 6 | 4 |
| The Desk | Drama | 8 | 4 |

The WNCP Board has asked your consulting firm to assist them in preparing the three- year planning report, 2005-2007. The Board has suggested the following format for the report:

Executive Summary

Cost/Volume/Profit Analysis

1. Spreadsheet showing revenues, variable costs, and contribution margin per evening and potential matinee performance for each play
2. Recommended schedule of plays per year that will maximize cash flows and satisfy constraints established by the WNCP Board
3. Number of performances of each play required to cover the play's direct fixed costs.
4. Amount of money that must be raised from outside contributors to cover the projected deficits for each year.

A Year by Year Cash Flow Budget (include outside contributions from individuals and corporate sponsors)

Summary of Recommendations

Special Issues

1. How would the recommendations change if, in a worst case scenario, the forecasted attendance was 80% of the original forecast?
2. What if the top name actors are paid one-fourth of the stated salaries plus 1% of the proceeds from ticket sales? Would this be a better deal for the WNCP? The actors? Support conclusions with detailed analyses.
3. What means of raising outside contributions could the playhouse pursue? Develop a detailed plan.

# QUIK SIX CONVENIENCE STORES: THE ANATOMY OF AN EXPENSE REDUCTION PROJECT

**Dennis Kripp, Roosevelt University**
**Carl L. Witte, Roosevelt University**

## CASE DESCRIPTION

*The primary focus of this case is on the problem solving processes and tools used by a large retail organization as it attempts to reduce legal expenses and improve efficiency. Secondary issues include project management, teamwork, organizational behavior, and action planning, following the implementation of a new strategy. The case is appropriate for undergraduate and graduate level students. It is designed to be taught in a two-hour course segment and does require several hours of outside preparation by students. The case requires a good understanding of management practices and quality management techniques.*

## CASE SYNOPSIS

*The Quik Six Company was a leading retail marketing organization and had over 10,000, company-owned and independent dealer, convenience retailing/gasoline stores throughout the U.S. Both Quik Six and the convenience retailing industry as a whole were going through a rough business cycle. Although the company had already launched major cost-cutting efforts, the efforts had to be accelerated.*

*The company identified one major problem area as excessive legal expenses. The top priority was to figure out the root causes of the higher legal expenses, recommend corrective actions, and do the work as quickly as possible. It was necessary to initiate a cross-functional project involving the core corporate retail marketing function and the legal department to address this issue. The objective was to reduce legal expenses by $1,000,000 within the next six months, with an additional objective of enhancing the efficiency of the interactions between the legal department and the rest of the company.*

*The next step was the formation of a cross-functional team to develop and rollout a plan. The Quik Six organization had officially adopted and mandated a formal Project Management Process (PMP) including project templates which is described in the case. The team would be using this process to manage and carry out the "Legal Process Improvement Expense Reduction" project. The case covers the formation of the team and goes in detail through each of the steps in the Project*

*Management Process, as the team constructs a plan to reduce excessive legal expenses. The process culminates in the development of a well-defined action plan.*

## INTRODUCTION

It was summertime in Ft. Lauderdale, the home base of the Quik Six convenience store chain. The Quik Six Company was a leading retail marketing organization and had over 10,000, company-owned and independent dealer, convenience retailing/gasoline stores throughout the U.S. Like any summer day in Florida, the temperature was in the high nineties, and there was always an on-and-off threat of a thunderstorm. A really nice job perk for the Quik Six employees was the prime location of the Quik Six office directly across from the Ft. Lauderdale beach.

Colleen Cannon was a senior level organizational development (OD) consultant for the company. She had just returned from lunch when a phone call came in from the Corporate V.P. of Retail Marketing, Anna Cheng. "I have a problem for you to work on and you need to find a solution expediously. Please come up to my office."

## BACKGROUND

Both Quik Six and the convenience retailing industry as a whole were going through a rough business cycle. Quik Six had recently developed a new long-term strategy which expanded the profit concept to convenience retailing businesses that included gasoline, fast food, dry-cleaning, and car washes. However in the short term, demand for convenience products was currently stagnant, and prices were low due to steadily increasing competition. Even as the broader economy began to improve, the company saw little likelihood of an immediate recovery in the short-term for the industry. The company needed to continue working strategically to ensure success over the long-term, while simultaneously coping with weak markets and lower prices in the short term, which had seen financial performance deteriorate.

Quik Six has the strength to make it through tough times, but not without considerable pain and sacrifice. Although the company had already launched major cost-cutting efforts, the efforts had to be accelerated. The company was undertaking a three-tiered attack to improve earnings and cash generation.

> First, reduce current year's capital spending. A budget review is underway and a specific decision will be reached shortly.
> Second, intensify consideration of the sale of non-strategic assets, and
> Third, reduce operating and overhead expenses throughout the company.

## THE PROJECT

Ms. Cannon took the elevator up several floors to Cheng's office suite, to find Anna and the company attorney, Steve Summers, seated at the conference table. Anna began, "as you both know our company is under pressure to cut expenses. I have just reviewed our legal expenses and they are out of control. We need to initiate some type of OD (organizational development) intervention to reduce legal expenses by at least $1,000,000 within the next six months." Anna went on to say that she felt the legal team was highly competent and it was not likely a personnel issue but rather process and behavioral issues that were driving the higher expenses. Speaking directly to Colleen she said, "your new assignment and top priority is to figure out the root causes of the higher legal expenses, recommend corrective actions, and do the work as quickly as possible."

Colleen knew immediately this should be a cross-functional project between the core corporate retail marketing function and the legal department. She needed to have a counterpart in the legal department who knew the Quik Six legal system, the critical processes, and their application history. She asked Steve Summers to assign someone from legal to work with her. Summers responded that he would "assign Sean Dermody as the legal department liaison to the project." The meeting came to an end with Cannon calling Dermody and scheduling a meeting for the first thing in the morning. The project had commenced.

At 8 a.m. the next morning, Cannon and Dermody met in the conference room to develop a roadmap for attacking the company's legal expense problem. Dermody started by suggesting that they needed to develop a high level plan to meet the objective of reducing legal expenses by $1,000,000 within the next six months, with an additional objective of enhancing the efficiency of the interactions between the legal department and the rest of the company. They would call this the "Legal Process Improvement and Expense Reduction" (L-PIER) project. The next step was the formation of a cross-functional retail marketing and legal team responsible for developing and rolling out a plan to achieve the objectives. The team would then move forward, using a formal project management system and template that the Quik Six organization had officially adopted as the "Way we do things around here."

Cannon and Dermody decided that they would approach the senior sponsors, Cheng and Summers, to assemble a temporary special team to be called the "L-PIER" team. Fourteen key business and legal experts were assigned to the team and the project work was to begin immediately. Other employees could be added to the team on an ad hoc basis as the need arose. Please see team members listed in Table I.

## THE FIRST PROJECT TEAM MEETING

The agenda for the first meeting was straightforward. Senior sponsors, Cheng and Summers would introduce the project and provide the rationale behind it, and would then hand off the project to Cannon and Dermody. As senior sponsors of the project, Cheng and Summers needed to be visible and to provide high level leadership for the project so that all levels of the Quik Six organization would be fully committed to the final action developed by the team. It was their ultimate responsibility to ensure that the project objectives were achieved.

**Table I: L-PIER team members**

| Corporate Retail Marketing | Retailing Function | Legal Department | Legal Function |
|---|---|---|---|
| Anna Cheng | Senior Sponsor & Gatekeeper | Steve Summers | Senior Sponsor & Gatekeeper |
| Colleen Cannon | (OD)Marketing Consultant & Process Champion | Sean Dermody | Legal Consultant & Process Champion |
| Lou Geyer | Retail Operations | Margo McDonald | Claims Litigation |
| Terry Wallis | Real Estate | Neil Dulles | Real Est. Law |
| Don Alston | Merchandising | Tom Cruz | State-Litigation |
| Steve Jefferson | Finance | Ron Phillips | H.R. Law |
| Mary Michaels | Advertising | Don Johnson | Dispute Resolution |

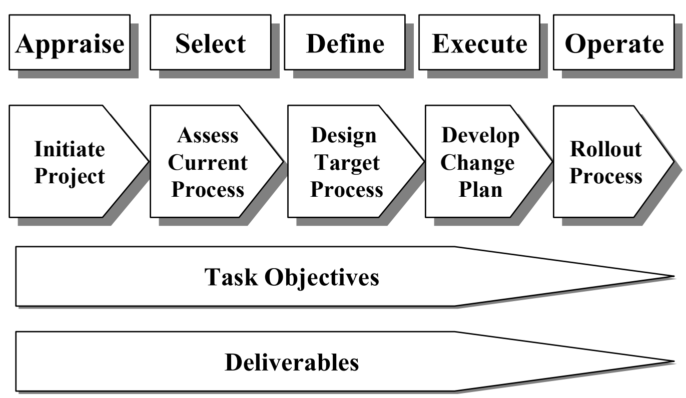
After explaining the objectives: the need to reduce expenses and improve efficiency, Cheng addressed some additional concerns. “I don’t think we have been successful in implementing interdepartmental cooperation in the past,” said Cheng. “This time our people need to commit to change early in the process.” Summers interjected, “our people don’t know how to embrace change. They often do not see it as an opportunity.” “In the past we didn’t get enough people to want to own the process,” said Cheng. “But this project is different, previous change initiatives at Quik Six have not gotten this type of commitment,” she noted. Then Cheng encouraged L-PIER team members to:

*Value the past.*
*Learn from each other.*
*Value each other.*
*Work as partners rather than line vs. staff.*

The Quik Six organization had officially adopted and mandated a formal Project Management Process (PMP) including project templates. The PMP was a process technique the company had adopted in an effort to transform an organization with relatively poor project management skills into an organization that was “world class.” The L-PIER team would be using this process to manage and carry out the “Legal Process Improvement Expense Reduction” (L-PIER) project. An overview of this process is shown in Exhibit I. The team would methodically work through the five process steps.

The purpose of PMP is to provide a structure and process for the leadership, maintenance and continuous improvement of project work in the Quik Six organization. Projects are broken down into steps, each of which has a "Gate" that must be passed. The "Gates" force the gatekeeper and the project team to make appropriate decisions. These decisions and the rationale behind them are captured in written team documents. All projects should be strategically driven, and PMP applies to all projects, regardless of size. By using the formal PMP approach, the organization sought to: institutionalize accountability in the organization's project management process, develop an internal contracting process, create a mechanism to share organizational learnings, and develop sustainable continuous improvement processes.

**Exhibit I**
**Project Management Process**
**(PMP) Approach**




On this particular project, both Anna Cheng and Steve Summers were acting as jointly accountable gatekeepers. The gatekeeper is the individual responsible and accountable for signing off on the decisions made at the end of each step before proceeding to the next stage in the project, and for securing resources and funds for the next stage. The gatekeeper is also the communicator of the objectives to the project team, and the definer and framer of decision alternatives and selection criteria. Finally, the gatekeeper would approve and communicate key decisions to the rest of the Quik Six organization.

Colleen Cannon and Sean Dermody would act as process champions/facilitators throughout the project. In the role of facilitators, Cannon and Dermody were to help the team meet the assigned objectives. The facilitators were to use the PMP to facilitate participation by the cross-functional team members. Cannon and Dermody were also to train and communicate with the team members on the approved common approach to project management (PMP).

## WORKING THE PROCESS

Step one, APPRAISE, was mostly about project initiation. In this step the team seeks to build consensus confirming the project goal, scope and objectives, before proceeding to step two of the project process. Team member roles and accountabilities needed to be established, and appropriate resources needed to be allocated. The team also had discussions about related points such as:

*What was the business impact of solving this problem?*
*How will progress be tracked?*
*Does the team have a good probability of success?*
*What is the relationship of the team's success to the accomplishment of the overall business strategy?*
*What is the sense of urgency to get this project completed?*

Step two, SELECT, was concerned with assessing the current state of the project environment. The team saw this as about defining the "size of the prize." What was this project really worth? Was the benefit worth the effort for the organization? Yes, the legal budget needed to be reduced by $1,000,000 but was that possible knowing what the team currently knew about the situation. A schedule of the current year's expense was laid out to begin assessing the potential. Total legal expenses for the current year, were estimated to be $15,032,000 (See Exhibit II).

Included in step two, the L-PIER team brainstormed some basic theories about the current elements of the system that appeared to be driving most of the costs, and the associated issues. Cost drivers and associated issues are shown in Table II.

**Table II**

| Cost Drivers | Associated Issues |
|---|---|
| Legal Counseling | Strategy & Business Model |
| Legal Transactions & Drafting | Operational Processes |
| Litigation Avoidance & Dispute Resolution | Role Clarity |
| Litigation management | Human Resources and Training |
| Administrative filings<br>Settlements and Judgments | Accountability |

## EXHIBIT II

### "SELECT" Stage:
### Total Quik Six Legal Dept. Charges & Settlements/Judgments Paid by Legal Dept.

| | | | | | |
|---|---|---|---|---|---|
| **1.** | Litigation Mgmt.--claims | 4,006,000 | **22.** | Legal Counseling--Trademarks | 81,000 |
| **2.** | Litigation Mgmt--Advertising | 2,350,000 | **23.** | Legal Counseling--Patents Trade Secrets | 81,000 |
| **3.** | Transactions--Real Estate--Buying/ Leasing New Retail Sites | 1,713,000 | **24.** | Preventive Counseling--Labor Empl. Policy/Activity Review | 79,000 |
| **4.** | Litigation Mgmt--PMPA, Antitrust, State Law Issues | 1,601,000 | **25.** | Legal counseling--Pricing | 63,000 |
| **5.** | Transactions--Real Estate--Selling/ Leasing out | 757,000 | **26.** | Legal Counseling--Franchising | 63,000 |
| **6.** | Litigation Mgmt--Products Pricing/ Channel Management Issues | 532,000 | **27.** | Litigation Mgmt--Ordinance Violations | 55,000 |
| **7.** | Transactions--PMPA, State Laws, and Antitrust | 363,000 | **28.** | Transactions/Drafting-- Technology/Secrecy Agreements | 54,000 |
| **8.** | Transactions--Non-Real Estate | 296,000 | **29.** | Administrative Filings--Pricing | 47,000 |
| **9.** | Preventive Counseling--PMPA, Antitrust, State Law | 285,000 | **30.** | Preventive Counseling--Claims Risk Management | 44,000 |
| **10.** | Transactions--Real Estate Multi-Site buys | 276,000 | **31.** | Litigation Mgmt--Trademarks-- Auth. Vendor Program | 44,000 |
| **11.** | Litigation Mgmt--Real Estate Disputes About Collecting $ Lent to Dealers to Develop sites | 268,000 | **32.** | Administrative Filings--State Law | 42,000 |
| **12.** | Transactions/Drafting--Franchising | 253,000 | **33.** | Transactions/Drafting--Pricing | 42,000 |
| **13.** | Litigation Mgmt--Employee Lit. & EEOC/State Agency Discrim. charges | 249,000 | **34.** | Litigation Avoidance/Dispute Resolution--Pricing | 32,000 |
| **14.** | Dispute Resolution/Lit. Avoidance-Claims | 235,000 | **35.** | Legal Counseling—Indep. Dealer Insurance | 28,000 |
| **15.** | Litigation Mgmt--Superfund | 192,000 | **36.** | Legal counseling--Client Training--Real Estate | 28,000 |
| **16.** | Preventive Counseling--Problem Employees | 162,000 | **37.** | Legal counseling--Strategic Alliance | 27,000 |
| **17.** | Dispute Resolution/Lit. Avoidance-Real Estate | 156,000 | **38.** | Transaction--Drafting Environmental Provisions | 27,000 |
| **18.** | Dispute Resolution/Lit. Avoidance-PMPA, Antitrust, State Law | 137,000 | **39.** | Dispute Resolution--Union Employee Discipline/Discharge | 17,000 |
| **19.** | Legal Counseling--Advertising | 113,000 | **40.** | Litigation Mgmt.--Other (non-real estate) Contracts | 16,000 |
| **20.** | Patent Application Filings | 108,000 | **41.** | Preventive Counseling--Labor & Employment Employee Trng. | 15,000 |
| **21.** | Legal Counseling--Other (non-real estate) Contracts | 95,000 | | | |

In the third stage, DEFINE; the team determined the industry's best practices. Then they identified: critical success factors, measurements, targets, data sources, and the basic processes to be examined. Also, at this point the team determined a list of "Quick Hits", which could be pursued immediately while the rest of the project was still being developed. Quick Hits identified by the team were the following:

*Redesign and update, where appropriate, the legal rider system*
*Begin performing spot audits of critical operational practices, such as insurance certificates and materials, and dealer operational practices to determine current expenses of present legal activities.*
*Work with senior management on the overall issue of risk management (to sue or not to sue).*
*Check and build consensus with the corporate risk management group on potential new strategic positions.*

As an additional part of this step, the L-PIER team brainstormed potential opportunities and solutions. The findings of the brainstorming process included the following ideas for improvement, which were categorized but not prioritized during the brainstorm:

**Behavioral Issues**

**--Strategic Concerns**

-Control the quality and quantity of strategic and tactical changes. Constant changes add rework and expense.
-Build legal safeguards into strategies as they are being developed rather than adding them afterward.

**--Engagement Process**

-Eliminate multiple requests for legal opinions regarding the same issue.
-Eliminate internal lawyer shopping for more favorable opinions.
-Get the legal department involved early in the program development process.
-Work with organizational members to change the mindset that certain legal decisions are optional.

**--Relationship Building**

-Develop a process for how attorneys and retail marketing personnel can incorporate performance expectation feedback loops into the cross-functional work process. Findings that would improve work unit effectiveness should follow.
-Get the legal department proactively involved on the front end of projects, not just after problems have been discovered.
-Change the organizational perception so that *the legal department is viewed as a retail marketing partner*, not just a legal provider.

**--Shared Learnings**

-Build a sharing learning process to teach the retail marketing organization about legal successes, failures, and best practices.
-Improve current decision-making process by looking at prior decisions and their resulting costs in order to predict future costs. The ramifications of decisions made today may not be felt until years in the future.

**--Human Resources**

-Legal orientation for new employees. Improve the organization's understanding of the legal process.
-Work with the human resources group regarding personnel issues that have legal implications.

**Structural and Process Issues**

**--Administrative Issues**

-Need for an improved expense tracking system.
--Expense Management
-Explore opportunities to reduce rework.
-Identify the drivers of legal expenses, are there opportunities to leverage cost savings, and how do multiple organizational layers contribute to a higher overall cost structures?
-Identify what the corporate retail marketing and legal organizations can do jointly.

**--Process Focus**

-Develop core process designs and maps for the following critical legal processes: leases, rents, independent dealer relations, administrative functions, and process accountabilities.
-What processes are needed to manage expenses? Who are the process owners?
-Institutionalize (formalize) critical processes.

-How are processes measured, and what would a process scorecard look like?
-How will the process be tracked and controlled?
-What is the real time impact of various processes?

**--Role Clarity**

-Role clarification should be a factor that leads to the reduction of duplicate work and legal expense.

**--Accountability**

-Develop a more comprehensive process scorecard with linkage to accountability systems.

**--Communication**

-Improve organization communications regarding the availability and access to legal resources.
-Improve generic communications across departmental boundaries.
-Expectations need to be communicated more clearly.

**--Organizational Learning Processes**

-Focus on changes in approach, process redesign, and organizational behavior.
-Establish a process for legal knowledge transfer to the retail marketing organization.

In the fourth step, EXECUTE, roles become more clearly defined as change management actions are determined. Proposed actions are analyzed for feasibility, the human resources component begins to be addressed, and a communication plan is developed. The cross-functional team had identified a series of opportunities to focus on.

These high potential opportunities, with estimated savings of $1.6 million per year, have been categorized as follows by the L-PIER team as shown in Table III.

The main purpose of the fifth step, OPERATE, is to roll out the final product. In this case, that meant institutionalizing and formalizing the program to keep the expense reductions permanent. This phase included project evaluation, the observation of any unintended effects (which would need corrective actions), and the sharing of best practice success stories. The final roles and responsibilities of process members would be locked and loaded, appropriate polices and procedures would be finalized, and the complete process would be communicated to the entire organization.

How did the Quik Six L-PIER team conclude their work on the project? For one thing, the project's action plan would deploy over a longer period of time than the team's project life. The continued institutionalization of the project's requirements would necessitate follow-up, evaluation, and periodic feedback. Therefore, a well-defined action plan was needed as the key final part of the OPERATE step. The action plan was set up as displayed in Table IV.

**Table III**

| | |
|---|---|
| Litigation Management | Personal Injury/Property Damage<br>Site hazards present to customers<br>Prevention of accidents at sites<br>Case Management<br>Improved joint case management between retail marketing and legal departments<br>Workman's Compensation<br>Error reduction and fraud avoidance |
| Legal Counseling Activities | Petroleum Mktg. Practices Act, State Laws, Anti-trust |
| Real Estate Transactions | Real Estate (Buying & Leasing)<br>Buying & Leasing of new sites<br>Real Estate (Selling & Leasing )<br>Selling surplus and idle sites<br>Litigation Management<br>Local Ordinance violations<br>Litigation Management-Real Estate Disputes<br>Loans, cycle time, environmental claims, purchase options |

**Table IV**

| | ACTION STEP | Process Owner | Date To Be Completed |
|---|---|---|---|
| 1. | Implement the defined "Quik Hit" list. | Steve Summers | 2Q |
| 2. | Develop Litigation Management Claims process. | Don Johnson | 3Q |
| 3. | Develop Real Estate Litigation Management process. | Margo McDonald | 3Q |
| 4. | Develop Retail Marketing-Legal Counseling process. | Ron Phillips | 3Q |
| 5. | Develop Real Estate Administrative and Litigation Avoidance process. | Tom Cruz | 3Q |
| 6. | Develop Retail Marketing/Legal Training Orientation program. | Cannon & Dermody | 4Q |
| | LONGER-TERM ACTION ITEMS | | |
| | Develop and Refine a "Continuous Improvement Process" using internal and external benchmarking techniques. | Colleen Cannon & Sean Dermody | Next Year 1Q |

**Table IV**

| | ACTION STEP | Process Owner | Date To Be Completed |
|---|---|---|---|
| | Continue to seek out additional “Quick Hit” opportunities. | Designated Process Owners | Next Year 1Q |
| | Assign process owners and “gatekeepers” to insure accountability for results. | Steve Summers & Anna Cheng | Next Year 1Q |

## QUESTIONS

1. What is the major problem that Quik Six is facing? What are the three actions they are taking to address the problem?

2. What is the L-PIER project? Why was the project undertaken and how does it fit into the three major actions Quik Six is taking?

3. Who are the leadership/senior sponsors of this project? What is their role?

4. What is the Project Management Process (PMP)? What is its purpose?

5. Who assumed the gatekeeper roles in the project? What role does the gatekeeper perform?

6. Who are the facilitators/process champions in this case? What is their role?

7. What was the L-PIER team, what was it responsible for, and who were its initial members? Can membership in the team change?

8. What are the five steps in the "Project Management Process" used at Quik Six? Describe what occurs in each step.

9. In the DEFINE stage, describe three of the Behavioral Issues the L-PIER team identified during their brainstorming sessions as providing opportunities for improvement. Explain why you Do or Do Not think that each of the solutions suggested by the L-PIER team would be effective.

10. In the DEFINE stage, describe three of the Structural and Process Issues the L-PIER team identified during their brainstorming sessions as providing opportunities for improvement. Explain why you Do or Do Not think that each of the solutions suggested by the L-PIER team would be effective.

11. In the DEFINE stage, what was the general benefit of the "Quick Hits" initiative? What specific "Quick Hits" were identified by the L-PIER team?

# POTTERS FOR PEACE: THROWING CLAY IN NICARAGUA FOR PEACE AND PROFIT

**Charles A. Rarick, Barry University**
**Martine Duchatelet, Barry University**

## CASE DESCRIPTION

*The primary subject matter of this case concerns the strategic direction of a not-for-profit organization. Secondary issues include international trade theory and economic development. The case has a difficulty level of three, appropriate for junior level students. The case is designed to be taught in one class hour and is expected to require four hours of outside preparation by students.*

## CASE SYNOPSIS

*Founded by peace activists potters from the United States, Potters for Peace seeks to change the world, one clay pot at a time. The grassroots organization promotes Nicaraguan pottery, provides educational support and training, and conducts intercultural exchanges. The ability of the organization to grow and develop is hampered by a lack of financial support and strategic planning.*

## INTRODUCTION

In 1986 a group of a potters in Washington, DC held a benefit sale to support fellow potters from Nicaragua, and to oppose U.S. military aid to the Nicaraguan contras. One of the organizers of the event created a banner that read: "Potters for Peace," and a nonprofit organization by the same name was soon developed. Potters for Peace (PFP) was created due to the political and economic difficulties of Nicaragua in the 1980s and a desire to see change in a troubled country. While the organization has been successful in helping some Nicaraguan potters market their products and improve their standard of living, PFP lacks a strategic orientation and is unclear on how to increase its effectiveness.

## NICARAGUA

During much of its recent past, Nicaragua has been known for dictators, revolutions, earthquakes, and hurricanes. The second poorest country in the Americas has seen more than its share of difficulties. While the country is now a democracy, and has been since 1990, per capita GDP amounts to only $2,200 and unemployment remains stubbornly high. By some estimates, 50% of the Nicaraguan workforce is unemployed or underemployed. Many Nicaraguans have had to leave their homes in the rural parts of the country to seek work in the larger cities. Many of the rural citizens are experienced artists, with craft skills that have been developed from generation to generation.

Nicaragua gets its name from the Native American tribe name, Nicarao. The tribe name was combined with the Spanish word for water and the name Nicaragua was born. Spanish explorers claimed Nicaragua for Spain, but Spanish rulers had little interest in the territory due to its lack of significant gold and silver deposits. Nicaragua gained its independence from Spain in 1881 and briefly joined the other newly freed Central America countries in a federation. Nicaragua declared its independence in 1883 and has experienced political instability during much of its early existence. American involvement in the internal affairs of the country eventually led to the Somoza family ruling the country. The Somoza's accumulated vast wealth while the people remained extremely poor. An earthquake in 1972 led to the end of Somoza rule in Nicaragua as international funds intended for relief ended up in Somoza family bank accounts. Opposition against the Somoza regime grew and the communist Sandinistas gained power in 1979. The Sandinistas nationalized many industries, and the United States suspended aid to the country in 1980. The U.S. began to fund a counter-revolutionary group, the contras, as the economy of Nicaragua remained in ruins. It was against this backdrop of economic desperation and political instability that a group of altruistic potters from the United States formed an organization to promote the pottery industry of Nicaragua.

## SAN JUAN DE ORIENTE

Located about an hour's drive from Managua is the town of San Juan de Oriente, the pottery capital of Nicaragua. The town is close to another town well known for its artistry, Masaya. Visitors to San Juan de Oriente pass Masaya and a large figure of Sandino, the inspirational figure of the Sandinistas, as they make their way to the many pottery shops of the town. San Juan de Oriente is the location where Potters for Peace first began its helping operations.

The Nicaraguan potters of San Juan de Oriente have also benefited from another nonprofit group dedicated to advancing the economic welfare of the less fortunate. Pro Mujer is a women's development organization that operates in Latin America and provides micro-loans to female entrepreneurs and women who wish to start a business. Pro Mujer also provides educational activities devoted to entrepreneurial education. The organization has a branch in Nicaragua, and has provided over 13,000 micro-loans to women in Nicaragua. Typical is Elsa del Carmen Mercado Nicoya, a mother of five who used a micro-loan to purchase a potter's wheel and begin her pottery business in San Juan de Oriente.

Another typical potter, Dina Gutierrez owns a pottery store in San Juan de Oriente where she and her mother sell the pottery made by the family at home. Dina has an outdoor oven, a room for pottery painting, and several rooms filled with inventory. Not only does Dina sell the family's pottery in her store, but she has also developed an exporting component to her business. Potters for Peace has helped Dina and other women of San Juan de Oriente develop a business that employs the entire family. With few employment opportunities in the area, the family businesses allow a measure of financial independence. Unlike some of its neighbors, Nicaragua does not have a thriving tourism industry. While Nicaragua is now a democratic country, it nevertheless is still politically unstable, and this political chaos keeps many visitors away. Without a tourist infrastructure in place, Nicaragua is bypassed as other Central American countries such as Costa Rica and Belize attract wealthy visitors from Europe, Asia, and the United States. Many Nicaraguans are forced to work in the country's many free zones, earning a meager living in the many forms of light manufacturing found in those zones.

The women of San Juan de Oriente make pottery basically the same way previously generations before them made their pottery. Clay arrives, sometimes via oxcart to the pottery area from nearby farms and it placed in water to make it more plyable. Sand is added to the clay and the clay is worked to remove any air bubbles. The clay is then shaped into the desired form, and a black liquid form of clay is painted on the object. After drying, the piece is painted again, this time with a white oxide and then dried again. The object is then decorated and placed in a wood-fired kiln and baked. The piece is removed from the kiln and polished, and is then ready for sale. Nicaraguan pottery has increased in popularity in recent years, however, the production process lacks efficiency and is not always considered healthy. The United Nations Industrial Development Organization warns that smoke from the rudimentary ovens of such home-based businesses generate an unhealthy home environment, and that chemicals used, such as oxides, produce an additional hazard to the potters' families. The pottery designs are a mixture of Native American and Spanish influences. San Juan de Oriente pottery is now sold in local retail outlet, to wholesalers in the United States and Central America, through the Internet, and promoted by Potters for Peace.

## POTTERS FOR PEACE

Headquartered in Bisbee, Arizona, Potters for Peace seeks to fulfill its dual mission of promoting peace and advancing the economic well being of Nicaraguan pottery makers and other less fortunate artists. The organization's mission statement follows:

## POTTERS FOR PEACE MISSION

> *We seek to build an independent, nonprofit, international network of potters concerned with peace and justice issues. We will maintain this concern principally*

> *through interchanges involving potters of the (overdeveloped) North and (underdeveloped) South. PFP aims to provide socially responsible assistance to pottery groups and individuals in their search for stability and improvement of ceramic production, and in the preservation of their cultural inheritance.*

Potters for Peace refers to itself as a "U.S. based nonprofit network of potters, educators, technicians, supporters, and volunteers interested in peace and social justice issues." The organization does most of its work in Nicaragua, however, recently PFP has branched out into Central America, Asia, and Africa. Potters for Peace is a registered nonprofit organization and donations made by U.S. citizens are tax deductible.

The organization conducts regional sales of Nicaraguan pottery in Denver, Colorado, San Francisco, California, and Yellow Springs, Ohio. PFP also maintains a booth at the annual National Council for Education in Ceramic Art (NCECA) meeting where they educate the industry about Nicaraguan pottery and their role in its development. PFP conducts educational tours to Nicaragua, with visits to San Juan de Oriente, and supports cultural exchanges among Central American potters. PFP also publishes a newsletter twice a year to inform members of events and to report on the organization's progress.

Potters for Peace maintains a website (www.potpaz.org) through which they solicit donations and memberships. The annual membership fee is $25, and one can also make a donation by printing out a form from the website, and mailing it to the organization. Potters for Peace also advertises T-shirts, books, videos, and posters through the website. All purchase orders, donations, and memberships must be mailed to the organization's address in Arizona. The website does not allow for on-line purchases. PFP does not sell pottery directly through its website but lists places where the pottery can be purchased. Currently only eight retailers in the United States are listed on the website as selling Nicaraguan pottery.

When PFP first began to provide assistance to the potters of Nicaragua it was discovered that the potters didn't need help making pottery, they needed funds to buy supplies and equipment. The potters of Nicaragua were skilled in their craft but lacked the ability to effectively market their products. They needed help in promoting their works and exporting them to the United States and Europe. Potters for Peace developed a brochure and organized tours of the area. Potters for Peace also organized informational visits by retailers from the United States such as Pier 1 Imports, which placed a one-time order for 18,000 ceramic pieces.

One of the newer projects PFP promotes is a ceramic water purification system. The portable unit is a low-cost alternative to more expensive systems, and is aimed at residents of less developed countries and victims of natural disasters. The system costs about $10 and requires no electricity to operate. Replacement clay filters cost around $4 and are replaced once a year. The units consist of a porous clay filter that uses colloidal silver as a germicide and disinfectant. Potters for Peace does not sell the filters but promotes their use and teaches potters how to make the filters in order to increase their income opportunities. Although PFP had a significant role in developing the filters, the organization decided not to patent the process in order to ensure widespread usage.

Potters for Peace now seeks to help the poorer and more remote regions of Nicaragua where access to the international market is almost impossible. Potters for Peace found that the transportation costs of moving pottery from these remote locations was prohibitive, and so the organization encouraged the potters of the remote area to develop ceramic jewelry. The jewelry is sold through PFP and other NGOs and church groups. Potters for Peace seeks to generate employment, and give the poor people of Nicaragua dignity. It is hoped that this will promote peace in a country not known for a peaceful existence.

## DISCUSSION QUESTIONS:

1. Select one international trade theory and use it to explain the pottery industry of Nicaragua. Evaluate the mission, activities, and success of Potters for Peace.

2. What suggestions would you make to Potters for Peace in order to increase the effectiveness of the organization?

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