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LETTER FROM THE EDITORS

Welcome to the *Journal of the International Academy for Case Studies*, the official journal of the International Academy for Case Studies. The IACS is an affiliate of the Allied Academies. Both organizations are non profit associations 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 *JIACS* is to encourage the development and use of cases and the case method of teaching throughout higher education. Its editorial mission 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 Executive Director of the Allied Academies: info@alliedacademies.org.

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, Purdue University, Calumet

CASE OF A PRIVATE UNIVERSITY DEVELOPING THE COMMUNITY THROUGH A HOLISTIC EDUCATION INITIATIVE

Jelena Zivkovic, American University of Nigeria

CASE OVERVIEW

The case challenges students to solve the pressing social and economic problems presently confronting the AUN community, given its turbulent past. Students are expected to draft a strategic plan that will enable AUN to create a strong foothold in the community as a developmental university. The case draws insights from the AUN Strategic Plan 2011-2016, scholarly contributions, and trends in the field of social entrepreneurship. Additionally, students are expected to research this subject and devote some hours outside of class to gaining a grasp of social entrepreneurship and contribute to class discussion. The class is aimed at upper undergraduate students; each class will last 90 minutes.

CASE SYNOPSIS

The case will encourage students to think about the characteristics of a developmental university in general and how AUN in particular can be positioned as such a university that will benefit its local community in Adamawa state, the national community in Nigeria, and the international community in Africa and worldwide.

OVERVIEW

Only six years since its inception, AUN is relatively a young and vibrant institution. The Strategic Plan 2011-2016 presents a fresh and pragmatic vision for the university's future. It also provides a framework for implementing university-wide strategic plans and formulates strategies to achieve the goals. Presently, the number one goal for AUN is to establish itself as an institution that promotes development in Africa and particularly Nigeria. This goal encourages AUN faculty members, administrative staff and students to strive for excellence. The newly appointed president who took over the reins early July 2010 is committed to creating AUN's presence in the community as an institution that provides holistic education and that works to uplift and better humankind.

The youth of today will shape the future of the country. They are expected to assume leadership roles and be the drivers of change in the community.

Development in the community would entail analysing the processes and transferring knowledge and experience to radically transform the lives of those in the poorer sections of society. One step in this direction would be to learn from the Western countries' approach at solving developmental issues and apply these methods to Africa. The view among social entrepreneurs is that the economic, political, and social factors at play are largely universal. However, since the learning environment, resources, and culture vary from country to country; the outcomes also vary. There is also an opinion that Western science and technology could benefit and learn from indigenous knowledge methods.

According to Martin and Osberg (2007, p. 39), “the social entrepreneur should be understood as someone who targets an unfortunate but stable equilibrium that causes the neglect, marginalization, or suffering of a segment of humanity; who brings to bear on this situation his or her inspiration, direct action, creativity, courage, and fortitude; and who aims for and ultimately affects the establishment of a new stable equilibrium that secures permanent benefit for the targeted group and society at large.”

With its strong emphasis on teaching and research, AUN attracts students from all over Nigeria and across the globe. It draws on the experience and expertise of its faculty as well as its students' sense of duty, service, and commitment to the welfare of its community and country. This course has been designed for students at the undergraduate level, focusing on the philosophies and practices of social entrepreneurship. Students are expected to refer to research on developmental theories by specialists in this area and to have a critical and analytical approach to solving development issues facing the community.

The Strategic Plan provides a solid foundation for a course of action to overcome the developmental problems facing the community. Furthermore, this case study will enable students to make a critical assessment of the economic, political and social problems confronting Nigeria.

THE SITUATION

AUN aims to become a developmental university that provides knowledge for tackling the pressing economic and social reform needs confronting Nigeria, West Africa, and the entire African continent. To achieve this vision, we must attract superior talent for our faculty who will embrace our vision, hone their potential, and nurture them so they can excel as teachers and scholars in their fields. Furthermore, we must attract students who have leadership qualities and are passionate about serving the community and implementing social reforms. We also need to equip our instructional programs with the latest technology and continue to develop the university campus on a priority basis. Last but not the least, we must gather funding resources to stabilize and strengthen our financial position and develop the university.

To achieve these set goals we have to overcome our constraints, especially financial and operational. Simply, AUN provides USD $50,000 per student for a year of education and charges the student only USD $20,000 a year for tuition and fees. The reasons for this gap are high faculty salaries, fringe benefits for the faculty such as housing, transport, payment toward utility bills and other subsidiary expenses, and management and maintenance costs for off-campus housing.

To overcome these financial constraints, the university needs transparent and accurate financial information, including a comprehensive set of financial statements, balance sheets, income statements, sources and uses of fund analysis, cash flow analysis, cash budgets, and capital budget statements. AUN is already taking constructive steps in this direction to streamline and formalize its financial management systems. We have to formalize our fund campaign to increase financial resources from both traditional and non-traditional methods, mostly unrestricted funds. To be successful, we must create awareness and enhance the image of AUN as a high quality institution that will make a valuable contribution to the development of Nigeria and the African continent. Overcoming financial constraints would enable us to attract faculty and students of a high calibre, which in turn would help us raise additional tuition and other funds. It would also enable us to realize our mission, financial, and other important goals in the near future.

A harsh environment in Nigeria, poor construction in some buildings on the main campus, and lack of proper maintenance for the past few years have made the need for significant repairs rather urgent. As the university continues to expand, we also will need more classrooms and dormitories. Moreover, it is necessary to provide proper accommodations for the faculty. Presently, they reside quite far from the main campus. Given the current transportation system in Yola, Nigeria, it would be preferable to house the faculty close to the main campus. This would reduce expenses related to off-campus housing and foster better teacher student interactions and a sense of belonging to the local community.

AUN is committed to carving a niche for itself in Nigeria and in the African continent as an institution offering high quality education based on the American pattern and style of teaching. The university achieved an important milestone when its first class graduated in 2009. The institution faces many challenges as it strives to develop from a fledgling institution to a university with an established track record. The strategic plan for AUN is focused on transforming it into an institution that emphasizes holistic education and research and fosters creativity and leadership, one that makes teaching, working, and studying a rewarding experience and that contributes to Nigeria's development.

A SNAPSHOT OF NIGERIA

Located in the western part of Africa, Nigeria is the most populated country in the continent. The country gained independence from Britain on October 1, 1960. Presently, the government follows the presidential system of governance with executive, legislative, and judiciary branches. A new constitution was adopted in 1999. The current President and the Vice President of the Republic of Nigeria are His Excellency Goodluck Ebele Jonathan and His Excellency Namadi Sambo, respectively. In 2004, the population of Nigeria was estimated at 137,253,133 people spread over 500,000 square miles, an area roughly two and a half times the size of California. There are 36 states in Nigeria; Abuja is the capital. It is a very diverse country, with more than 250 ethnic groups and 4,000 dialects. The country has approximately 25 federal, 22 private, and 24 state government universities. More than 18 million students are presently studying at various levels. Nigeria has followed a 6-3-3-4 education system since 1982. The educational policy requires six years of primary (elementary) education, a two-tier (three year junior, three year senior) secondary education, and four years of university education.

Often referred to as 'the Giant of Africa', Nigeria is a land of dichotomy. Nigerians have been reported to be the happiest people on earth, but since independence from Britain in 1960, the country has been through a major civil war and a series of brutal military dictatorships. It is the second largest oil producer in Africa, yet 70% of its population lives below the poverty line. For the past 11 years, the country has tried to instil democracy, but ethnic violence between Muslims and Christians has proven a major challenge. Moreover, ongoing conflict and violence in the Niger Delta, which is the oil-producing region, has become a cause for concern.

The rich and the affluent in Nigeria have amassed a lot of wealth, mostly from corrupt practices. Abuja became the capital of the country in 1991, and it is an ideal city, serving as a model for other cities. However, Nigeria is a country of contrasts. Many parts in the country have poor infrastructure, bad roads, and inadequate health care and education systems. Since the 1970s, the country has become more dependent on oil for income, but that money does not percolate down to the population, most of whom are poor and downtrodden. Many Nigerians do not care about the development of their country; they only want to make a living.

Nigeria has hardly any social service mechanisms. There are no welfare and civic departments, and pension schemes are limited to government employees. Presently, the minimum average wage per person is 8000 Naira a month (approximately US $54). For many male Nigerians, the most lucrative jobs are in government departments, where salaries are high and comparable to those paid to civil servants in the developed world. Nigeria is a male-dominated country, and women are hardly eligible for government and other jobs. Women make a living through home-based microbusinesses such as cooking or selling goods and groceries as street vendors. Some women venture into home-based beautician businesses, but this opportunity is only available to those who can afford to set up such enterprises. Women entrepreneurs could in fact help Nigeria out of poverty, propel the economy towards growth and development, and reduce the country's dependency on oil.

Nigeria is composed of the Federal Capital Territory (FCT) plus 36 states, one of which is Adamawa State.

SNAPSHOT OF ADAMAWA STATE

The population as of 1991 was 2,102,053, and at the last count was 3,552,470 in 2010. The population density rate for the state was at about 68 persons per square kilometre (2000), whereas in the Delta region, one of the southernmost states of Nigeria, population density is 1,311 (2003).There is a large ethnic presence, including the Argi, Higgi, Bwatiye, Fali, Verre, and Fulani tribes, just to name a few. These groups tend to congregate and segregate along ethnic divides. They live in quaint communities and speak their local language. Crops such as maize, sorghum, rice and yams are staple foods. Cash crops are groundnuts, sugar, cotton, and rice.

The national poverty level is 70%, according to the Nigeria Economy (2007). The majority of the people affected reside in the northern region, and poverty is very prevalent in Adamawa. Many beggars and disabled people affected by polio and malaria populate the street corners and shop fronts.

The economic state of the region is quite good in terms of the farming industry, which employs about 80% of the active workforce. Large manufacturing concerns include Savannah Sugar Company, Sebore Farms, Affcot Nigeria Limited, and Mubi Burnt Bricks; small-scale industries include Mubi Groundnut Oil Mills, Gombi Chalk Industry, Michika Animal Feed Mill, and Yola Office stationary. Livestock breeding (cattle, goats, poultry) is a stable and important economic activity. Furniture-making, hairdressing, motor mechanics, tailoring, welding, and iron fabrications are other industries that represent job opportunities. There are countless informal businesses that are either home-based or by the roadsides. Although a large river runs through Adamawa, it is grossly underutilized, and only few fish are caught for the market. Little to no other sea trade occurs.

Culture has a strong presence and the state's largest commodity that is untapped by outsiders. Traditions, customs, conservatism, national dress, and religious affiliations are dominant. State pride is evident, and generous hospitality can be seen in many places.

The vision and missions of the state are clearly centred around eradicating poverty, increasing education levels, and stimulating the local economy. The Adamawa State Economic Empowerment and Development Strategy (2006) describes the vision and mission of the state as:

Vision

Making Adamawa State great, peaceful with prosperous economy for sustainable growth and development.

Mission

- Promotion of efficiency and effectiveness in the implementation and execution of programmes and projects to actualise objectives.
- Foster values of patriotism, honesty, hard work and diligence, merit and excellence, trust worthiness, personal discipline, tolerance, mutual respect, justice, fairness, love, care, compassion and peace.
- Induction and inculcating modern management techniques and procedures in
- government in order to increase rapid productivity and service delivery to the public.
- Promotion of code of conduct to express our commitment to the crusade against corruption and due process.
- Ensure security of life and property, economic and social well-being of the people to enable the state economy proper.
- Eschew nepotism, bitterness, prejudice, indiscipline and manifestations of antisocial behaviours to give way to progress.
- Strengthen partnership in working with the private sector, to a better appreciation of the wealth-creating and job creation capacity of the sector, creating an enabling environment for the sector to function efficiently and make it the major promoter ofthe economy.

Yola is the capital city of Adamawa state. Adamawa state was formerly known as Gongola state until 1991. Yola was founded by Modibbo Adama, a foremost Muslim cleric. The name Adamawa is an elongation of Modibbo's surname, Adama. The current governor is Murtala Nyako, elected in 2007. The prominent ethnic groups are Chamba, Hggi, Longuda, Bwatiye and Fulani. Other groups are the Marghi, Kilba, Bura Fali, Kanakuru, Yungur and Mbula. The name 'Yola' comes from the word 'Yolde', which means a knoll or elevated surface. Yola is a peaceful and beautiful port city on the Benue River in the northeastern part of Nigeria. The climate is characterised by alternating hot rainy seasons and cool dry seasons. The population in 2004 was estimated at 88,500. Yola is the administrative centre of Adamawa and the township's traditional leader's domain. Yola forms part of the 'twin' cities consisting of the traditional Yola township and the cosmopolitan Jimeta metropolis. The city is largely agrarian; people earn their livelihoods through farming, fishing, raising poultry, and trading.

The natives of Yola peacefully coexist with the academic community in the city. Yola offers access to a sophisticated, modern infrastructure and advanced technology. The university campus provides wireless connectivity, which is by far the largest wireless network in Nigeria.

SNAPSHOT OF THE AMERICAN UNIVERSITY OF NIGERIA

The American University of Nigeria opened its doors in 2005. AUN was founded by the former Vice President of Nigeria, His Excellency Atiku Abubakar, with the assistance of prominent officials in the country and administrators at the American University (AU) in Washington, DC. AUN is situated in Yola, near the Vice President's hometown. Having been exposed to the American system of education as a young man, Mr. Abubakar sought to offer this style of instruction, which emphasizes critical thinking, small classes, student participation, problem-solving, a U.S.-style general education program, and American-trained instructors, to qualified youth from Nigeria and across the globe. AUN was initially named the ABTI American University of Nigeria, but the name was changed to conform to the practices of other AU affiliates such as the American University of Beirut and the American University of Paris. AUN now joins AU of Cairo in claiming to offer high quality American-style education on the African continent.

Since AUN's inception, former presidents Dr. David Huwiler and Dr. Michael Smith have contributed to the development and progress of the institution. Presently, Dr. Margee Ensign is the president of AUN. Prior to this, Dr. Ensign was dean of the School of International Studies at the University of the Pacific, where she was also the associate provost. The AUN campus is spread over 500 hectares of land. Recently, His Excellency Mr. Atiku Abubukar has acquired land and suggested improvements to the existing campus. Initially, AUN started its activities in the northern part, which is now called North Campus. The ABTI School, some administrative offices, and residences are still situated in this area. Classes at AUN are conducted in the South Campus, which is the hub of academic activities and where faculty members have offices and students reside in dormitories. Moreover, a new library is under construction, and there are plans to open a new University Centre. At a walking distance from the campus, a University Club is under renovation for students, faculty, and administrative staff to unwind, socialize, and network.

AUN currently enrols approximately 1,400 students and has 85 faculty members. It has successfully graduated two classes of students. The university is comprised of three schools: Arts and Sciences, Business and Entrepreneurship, and Information Technology and Communications. On October 25, 2004, many notable individuals from the cabinet ministry, state government; National Assembly, and embassies watched as the Nigerian President, His Excellency Mr. Olusegun Obasnajo, laid the cornerstone to initiate the first phase of construction. There are plans to convert the 200 acres of campus land into 47 state-of-the art buildings that will resemble a sophisticated American-style university. The vision of AUN is steadily becoming a reality, thanks to several years of planning and collaboration.

Every year, thousands of West African families send their children to study abroad, especially in the United States. However, many students would prefer to study in their home country if they were offered a high quality Western-style education. AUN was created in partnership with the American University in Washington, D.C., internationally renowned for its excellence, and the university now offers students an education in Nigeria that is comparable to that offered in American universities. Most of the faculty are Americans, and the facilities are state-of-the-art. The academic programs are consistent with U.S. accreditation standards. AUN focuses on career progression to train students in the necessary skills required by the job market in Nigeria and abroad. Moreover, all students will be trained in the practical applications of information technology. Until recently, upon arrival at AUN, students received laptop computers equipped with the necessary software. Now, students are expected to purchase their own laptops with support from the AUN IT department. Additionally, they have access to the high-speed wireless network on the campus. We aim to train every student in the fundamentals of entrepreneurship so that they can attain leadership positions and contribute to the country's growth and development. AUN offers a holistic education; students are required to take courses in math, science, social science, the humanities, information technology, entrepreneurship, and ethics. AUN graduates will shape the future of the country and help lift it out of the clutches of poverty. The main AUN campus consists of 11 buildings, including eight dormitories, a spacious cafeteria, a building for classes, and a block that is utilized for general purposes. The north campus provides dedicated space for dorms, a gymnasium, an admissions office, finance and accounts department, and a book shop. All buildings are fully air-conditioned. Dorms have DSTV cable network in common rooms.

The first graduating ceremony in 2009 attracted potential employers, statesmen, academicians, and world leaders. The university board members are distinguished academicians who have made valuable contributions in the field of education as well as humanitarian projects. The university board is comprised of Chairman Alhaji Ahmed Joda, who was formerly a permanent secretary in the Nigerian civil service. The other members are the former American Ambassador to Nigeria and Undersecretary General of the United Nations, who is also a board member. The world-renowned Nobel Peace Prize winner Archbishop Emeritus Desmond Tutu and the Chairman of the Tulsi Chanrai Foundation, which provides eyesight and maternity health services to thousands of impoverished people every year, are also members.

Vision, Mission, and Values

Vision Statement

The American University of Nigeria endeavours to be a hub of learning and research contributing to the growth and development of Nigeria as well as West Africa. In the words of its founder, it sees its role as a 'developmental university'. It respects its traditional role of a repository that imparts cutting-edge knowledge and encourages research and innovation. But most importantly, it is committed to imparting holistic education to the youth of the country and grooming them to be strong leaders who will shape the future of this great nation.

Mission Statement

AUN will strive to create leaders who feel responsible for the development of Nigeria and who believe in democracy, diversity, and humanity. The youth shall be proficient in technology to advance in education and move the country forward on the path of progress and prosperity. AUN will be an institution where students can fulfil their dreams and transform themselves for a lifetime of service and leadership in Africa.

Values

Our values reflect what binds the members of the AUN community and are part of our vision and mission:

- We believe that tolerance and understanding among national, ethnic, and religious groups is essential to the success of this or any other nation. The university will actively work to instil these values in its students, and it shall be part of our academic policies.
- We believe that the university in all of its activities shall demonstrate the highest standards of integrity, transparency, and academic honesty.
- We believe that freedom of expression is fundamental to the growth of the intellectual, and we affirm that all members of the AUN community will have the freedom to express any opinion without fear of reprisals of any kind.
- We believe that entrepreneurship and technology are essential to the transformation of Nigeria and Africa, and we affirm that every graduate will know the basics of innovation and entrepreneurship and will be technology savvy.
- We aspire to train youth for leadership roles in Africa and to incorporate leadership training curriculum at AUN.

Academic Community at AUN

The Chief Executive Officer at AUN performs the role of president and manages the day-to-day affairs of the university. The president is assisted by the executive vice president, who is in charge of finance and administration, and the vice president, who is in charge of admissions. Each of AUN's three schools is headed by a dean.

The university staff also includes a librarian, the dean of student affairs, the assistant vice president for finance and budget, the assistant vice president for public relations and communications, the assistant vice president for administration and development, the director of admissions, the director of public relations, the director of human resources, the director of campus planning, the director of works and maintenance, the director of financial operations, the director of budgets, the director of development, the director of institutional research, the director of resident life, the director of sports and recreation, the director of unified digital campus, the director of purchasing and procurement, the director of internal audit, the director of judicial affairs, the director of IT, the director of study abroad, the director of operations, and the registrar.

The faculty members at AUN are highly qualified; over 85% of them hold master's or doctorate degrees from American universities. Some members of the teaching staff at AUN have taught in American institutions. Furthermore, professors are rigorously recruited from international universities and institutions. They have proved their capabilities in research and other scholarly pursuits and actively participate in conferences and meetings all over the globe. They also publish their work in leading journals.

Information Technology at AUN

AUN prides itself on being the only 24-hour wireless campus in the country, thanks to its hi-tech satellite connection. However, this service has not been used to its fullest capacity. The service needs to be adequately managed so it can be used efficiently for research, learning, and teaching, and to curtail unwanted expenditures on IT services. Fortunately, the university has recently negotiated a contract with a fibre optic company to double the bandwidth and reduce expenses by half. IT is changing the way people work, think, and interact, but AUN and other Nigerian universities have not been exposed to this revolution. Now they are slowly waking up to its potential.

Globalisation and technological advancements are bringing rapid changes worldwide. Nigeria must follow the trend and keep itself updated with the latest developments. This would require a new approach to education and curricula. Individuals must be flexible and creative problem-solvers and life-long learners who are well-versed in technology. Cognitive science, neuroscience, and learning theory have shown us how people learn, but this new research has not been implemented in traditional classroom teaching.

Research has shown that there are multiple learning styles. Learning is an active process, and it is necessary to regularly assess the results. Additional research has shown that education has best learning outcomes when faculty meet for a short duration with students and cover the rest of the course using online technology (Stanford Research Institute, 2004). This learning model, also known as 'blended' learning, will be formally implemented for the at AUN. This learning model will be later be assessed and if there is a positive feedback from the participants, teacher and administrators, this model will be integrated into the undergraduate. With the availability of technology on campus, this style of blended learning may also support the MBA program.

Technology at AUN is not just restricted to learning; it is also extensively used for administrative purposes. The university has been using Banner software to support the registration process and teaching administration tasks such as entering final grades.

Social Entrepreneurship

Social entrepreneurship is a relatively new academic field that is rapidly growing around the world. Professor Martin Burt, renowned internationally for his contributions to social entrepreneurship activities, will be offering two new courses: 1) Introduction to Social Entrepreneurship and 2) Microfinance to Grow Economically.in the School of Business & Entrepreneurship which lead to a minor in social entrepreneurship President Ensign believes that AUN has the responsibility to train its students so that they become productive, innovative and dutiful citizens of democratic and modern. The new Centre for International Development and Social Entrepreneurship (CIDSE) was unveiled at AUN with the objective of imparting social entrepreneurial skills to the students and giving them the tools and skills to make a difference in the country.

Mr Burt will be offering these two courses from his home in Asuncion, Paraguay. He works actively in the field of social entrepreneurship in his native country, other Latin American countries, the UK, and the United States. Mr. Burt has received several international awards for his efforts in bringing about social and economic change. Mr. Burt emphasized the importance of introducing social entrepreneurship at AUN to address the social issues troubling Nigeria; he feels that it would promote self-reliance and transform the lives of people in the rural areas in Yola and throughout Nigeria. President Ensign, who has consistently expressed a strong interest in social entrepreneurship, worked with Mr. Burt in the United States, where they were instrumental in initiating social entrepreneurship programs at the University of the Pacific.

AUN Initiatives

AUN takes it role seriously as a developmental university for Nigeria. At a developmental university, faculty apply their knowledge and expertise to solve the social and economic problems prevalent in the society. Teaching and research requires an interdisciplinary approach. The social, cultural, economic, technological, ethical, environmental, and political problems confronting Nigeria and Africa are complex and interrelated. Increasingly, leading universities are realizing that traditional methods of learning is not suitable for educating today's youth, who have the potential to become future leaders.

For example, an economist or a politician should have knowledge of ecology, culture, and other disciplines. Lack of an interdisciplinary approach to education limits our thought processes and hampers our ability to solve complex problems. However, implementing this approach in Nigeria can be very challenging. AUN is ready to stand up to this task.

A developmental university actively works with local entrepreneurs, who are change agents, to understand the economic, social, cultural, and political environment of the country so that they can together find creative solutions to nagging problems. AUN as a developmental university has identified some of these change agents in community groups, so that students can learn from these leaders and contribute to the local community. The land-grant colleges in the U.S. are role models for institutions in Nigeria that want to be developmental universities. In the 1860s, Congress established the 'land-grant' universities that are charged with conducting research in agriculture, science, and engineering that is tailored to the real and immediate needs and problems of agriculture. These land-grant colleges not only developed new understandings about biology and agriculture, but they also created new products and production methods. Moreover, they developed new methods of irrigation and cultivation of land and introduced these concepts to farmers. These agents were also called ‘extension agents’ because they extended the knowledge, research, and solutions from the universities to the people who needed them the most.

As a developmental university of Nigeria, we intend become the change agents, extension agents, and problem-solvers for Yola, Nigeria, Africa, and the whole world.

Our Priorities

a. Develop and publish a paper on 'The African Developmental University: A Model for the Future'. Circulate and review this paper among the faculty, board members, and other key stakeholders in the Nigerian and African academics.
b. Based upon the responses from the community, hold an AUN-sponsored

conference to create a plan for the university in Africa.

c. Depending upon the results of this conference, publish a monograph describing and defining the developmental University.
d. Examine the five top-ranked African universities to determine how much developmental university curriculum is offered.
e. Redesign course and departmental offerings to include the needed core courses for a developmental university learning experience.
f. Establish a developmental university advisory group to ensure that AUN's curriculum, teaching and research priorities are connected with local, regional, and global developmental needs.
g. Establish a government relations advisory group to ensure that AUN's curriculum, teaching, and research priorities are linked with national development policies and priorities.
h. Implement new courses and, when needed, establish new departments and hire faculty to teach the same.
i. Begin process for U.S. accreditation in late 2011.
j. At the end of three years, have AUN staffed and teaching according to developmental university standards.

The Challenge

Three varied tasks that can be undertaken for this case study: 1) written, 2) discussion, and 3) presentation,

Written

Assume you are the course coordinator and you have been asked to:

- prepare a SWOT analysis of the current condition of AUN and use your findings to draft a strategic plan explaining how you would apply classroom knowledge to practical situations;
- use a SWOT analysis to propose a course in which students are expected to get involved in their local community to address the needs of the community; and
- draft a syllabus for a new course that will connect theoretical knowledge to solving social and economic problems within the AUN community.

One or all three of the written tasks can be completed.

Discussion

Take on the role of the president of the university or the dean of the school. Brainstorm about six social issues that the local community faces. Now try to identify the opportunities that exist and provide a solution for each of the social issues. Brainstorm on how the university can go about participating in the resolution of some of the most pressing issues. Discuss the benefits and drawbacks of each of the resolutions you have highlighted.

Presentation

Present your SWOT findings, the strategic plan, the new course proposal, and/or the syllabus.

Each group can also make a presentation about the brainstorming activity. Share the social issues, opportunities, and resolutions. Allow time for questions and further discussion once you have disseminated the information to the rest of the class.

THE BEST OF BOTH GROCERS CASE

Shelley Morrisette, Shippensburg University
Louise Hatfield, Shippensburg University

CASE DESCRIPTION

This case can be used to focus on several different types of analysis – financial, marketing, and strategy. The case traces the increased differentiation and competition in the grocery store market and explores the effects on a local privately-owned chain of upscale grocery stores. The case explores the different market challenges and financial structure of two grocery store formats – upscale and discount. This case would be most appropriate for undergraduate courses in small business management -- and graduate courses as a class discussion. The case is designed to be discussed in one to one and one-half hours and should take students no more than three hours of outside preparation.

CASE SYNOPSIS

Joe Peterson is the owner and founder of an upscale local chain of grocery stores. In an effort to extend his local coverage, Joe enters a partnership to serve the cost conscious shopper, as well as the quality focused shopper. Joe's entry into the discount grocery business is successful. However, problems arise for Joe in one of his upscale grocery stores, and Joe begins to question his move into the discount grocery market and his location decision for his most recent upscale grocery store. Now he faces a difficult decision.

INTRODUCTION

The Real Grocer is an accomplished grocery store providing high quality perishables in an urban environment. Founded in 1996, by Joe Peterson, the Real Grocer is committed to understanding the needs, tastes, and heritage of the communities in which it resides and it is their mission to offer an assortment of products and services to meet those various needs. Joe Peterson currently operates eight Real Grocer markets, all located within a large Northeastern city area; four newer Real Grocers are located near four major universities in the area and the other four are located within the city-area (at sites where unsuccessful businesses were previously housed).

In 2009, Joe Peterson established a partnership with John Adams. Mr. Adams was the owner/franchisor of Save-More. Thus, Mr. Peterson launched (as a franchisee) a Save-More grocery store. Save-More's goal is to procure, distribute, and market a carefully selected assortment of quality food to meet household needs, while emphasizing their own exclusive brand. They have created an established, highly-efficient supply chain that enables them to sell at prices well below other retailers in order to pass the savings on to their customers.

Joe's logic for launching the Save-More franchise on top of currently owning the Real Grocer grocery line is to take control of two markets segments (within this city-area) via a differentiated branding strategy. The Real Grocer appeals to middle to higher income customers, offers high quality products, and relies heavily on produce, deli, and bakery sales. The Save-More store appeals to lower income segments, and relies heavily on mass low-priced grocery items. With the combination of the two segments, Joe will operate across all lines of the grocery spectrum in this urban market (i.e., horizontal integration).

John Adams' vision is to own and operate (franchise) Save-More's stores "by the book". In other words, to stay close to the operating philosophy established by the franchisor in other locations. He hopes to capture a significant share of the grocery market in all operation locations by sticking to his own style and business ideas. He partnered with Joe Peterson to obtain financial backing as well as his knowledge of the local grocer market. John brings to the table his hard work ethic and the experience of having opened Save-More franchises in New Jersey over the past ten years. Between the knowledge and experience of the two they should be able to have a successful partnership operating Save-More franchises in the new local area. In 2010, three Save-More franchises were opened in the local area with plans for two more to open by the end of 2011.

The Save-More franchise agreement is pretty simple. The franchisee buys or rents the location, then is paid $50,000 in "refunds" a year to put back into the business for the first few years. Save-More enjoys operating in this fashion because their products are purchased while being freed from the hassle of all the day-to-day operating problems. The most successful Save-More in the nation (located in Philadelphia) has sales of $300,000 per week.

OPERATING A SAVE-MORE

When opening a Save-More it is important to have a good management team who is able to control costs and manage the daily operations of the store. Their responsibilities will include tasks such as personnel management which will include staffing butchers, produce managers, stockers, and cashiers. Cost control and budgeting are very important due to low operating margins. Finding the right team is very important for Save-Much to be able to bring in quality at low prices.

OPERATING A REAL GROCER

When opening a Real Grocer it is important to have a good management team who is able to control quality and create an appealing atmosphere for the quality focused customer. They will be required to create a team that will deliver high-value products and services. Along with a management team, teams of butchers, produce employees, stockers, and cashiers need to be hired and trained to insure smooth operations (similar to the Save-More). A big difference between the Real Grocer and Save-More is that the Real Grocer is union based with a higher worker-pay structure. Additionally, union rules require more workers per shift.

SAVE-MORE COST STRUCTURE AND TARGET MARKET

Each Save-More employs a generic, nationwide strategy. Currently, Save-More stores are located in high-density urban areas, in or near major cities. In the local area there are three locations owned by Joe and John. The current Save-More locations have been placed near high-trafficked areas where consumers can stop-in, on-the-go to grab a few groceries on the way from work or daily trips. The typical consumer targeted has an average income of $30,000 or less. The mission statement of Save-More is to provide quality food at the lowest possible price. In most instances, 60% of their revenue is food stamp based. Save-More store layout is very industrial-like with slab flooring and tall shelving in order to keep fixed costs as low as possible. The main selling products are staple foods, milk, eggs, and canned goods. The average Save-More costs about $1,500,000 to launch.

REAL GROCER COST STRUCTURE AND TARGET MARKET

Real Grocer stores are larger than a Save-More store and they are known as an upscale supermarket. They take pride in the décor and old fashion market place atmosphere that not only is architecturally complex but is artistically beautiful. Real Grocer's products range from the typical staple goods to imported products from around the world. Each Real Grocer also has a fresh bakery, deli, catered food, fish market, Chinese buffet, submarine shop, and a variety of ready to eat meals for consumer's on-the-go or those who want to grab lunch and relax in the upstairs sunroom. Real Grocers have the highest profit margins on imported items, fresh market foods, and the ready to eat meals --- these items generate up to 35% of annual sales in some stores. With the highest quality meats, cheese, produce, and bakery items the Real Grocer is able to attract and keep customers away from the competition. The Real Grocer is famous for their culinary experience, offering huge breakfast, lunch, and dinner menus along with their famous one-pound of meat hoagie station. The overall grocery experience dominates the other competitors in the area. The average consumer who shops at a Real Grocer has a yearly income of $70,000 or greater. Real Grocer costs about $5,500,000 to launch.

THE LOCAL GROCERY INDUSTRY OVERVIEW

The local-area supermarket industry continues to provide a very tough competitive environment for Joe and John. Consumer pressure to create value, quality, taste and nutrition in food offerings requires strong companies with strong management teams driven to obtain successful results. Consumers are calling the shots with their grocery purchases in these difficult times. On the value side of things, lower-quality branded products will be squeezed both on price and for shelf space; however top tier brands will fight for volume growth with limited consumer discretionary spending. Patron use of couponing and other saving opportunities occur across the grocery spectrum. Consumers will continue to increase their shopping trips to discounters especially with a large number of patrons collecting food stamps. Food stamp patrons in the local-region are concerned more about pricing and value than any other aspect of grocery offerings. These customers are mainly targeted by bargain grocers. On the other side of things, the quality, taste and nutrition are important to middle to upper class shoppers, these are many supermarkets' target customers. Another growing trend in the local area (i.e., value customers aside) is health and nutrition. Consumers are beginning to buy more healthful products. This goes along well with healthy products being marketed by the major food companies more than ever before. These health improvement products help provide a buffer for their brand leaders vs. private label. Along with buying healthier brand labels consumers are spending more on organic foods. These trends might provide an edge to higher end supermarkets that offer these products and cater to the demands of health-conscious consumers.

Grocers in the local area are in a constant battle between value and the high quality grocery experience. Due to such large population concentration and hyper-competition, location along with value and grocery experience is very important. Many customers in the local area do not have personal-transportation so location plays a large part in who shops where. Once the location is narrowed down, the stores are selected by the customers preferences and buying behaviors.

REAL GROCER'S MAIN COMPETITION (UPSCALE RIVALS)

SHOP RITE - ShopRite is the largest retailer-owned cooperative in the United States and the largest employer in New Jersey. The cooperative is comprised of 45 members who individually own and operate supermarkets under the ShopRite banner. ShopRite offers a fresh bakery, culinary workshop, pharmacy, fresh meats, and produce section along with their grocery items.

WHOLE FOODS – Whole Foods is highly focused on health foods, and the well-being of all customers, employees, and all stakeholders (in the general public). They offer catering as well as other services such as cooking classes and recipe suggestions for a more health conscious consumer. This company has expanded greatly from several acquisitions of other grocers (across the country).

TRADER JOE'S – Trader Joe's offers a wide variety of health foods with guides that indicate which foods are preservative free, trans-fat free, and gluten free. They offer other services such as pairings of wine and food, and tips for party planning and preparing such foods as fish, meats, and vegetables.

WEGMANS **-** Wegmans offers many of the high quality products that are aimed at families creating meals at home. Along with offerings such as meal ideas and recipes for families that are on a budget, but still interested in a good home cooked meal. They also offer daily and weekly deals on everyday items. Along with a quality grocery selection, Wegmans offers a high end deli, bakery, produce, meat, and catering selections.

COUSINS - Cousins has two local stores where they specialize in fresh meat and produce. By offering fresh produce and meat, they are potentially taking customers away from Real Grocer. The other items throughout the store are mainly bulk items. They also have a small catering business.

SUPER FRESH – Super Fresh has a few stores in the local area. They offer a variety of independent brands of foods which are unique. Their pledge is to have the freshest meat, which is promised to never stay in their store for more than 24-hours. If it is not stamped and approved by the manager, then it is not sold and is discarded. They are a major meat competitor of Real Grocer.

GIANT - Giant is a grocery store chain that offers reasonably priced items for home cooking. They offer fresh meats, produce, and good quality products with their own name brand as well as national name brands. Giant aims to compete with a middle-of-the-road strategy. However, following the increasing demand for organic food, Giant has added organic items and organic sections in their grocery stores, which brings them into competition with the upscale grocers.

SAVE-MORE MAIN COMPETITION (DISCOUNT RIVALS)

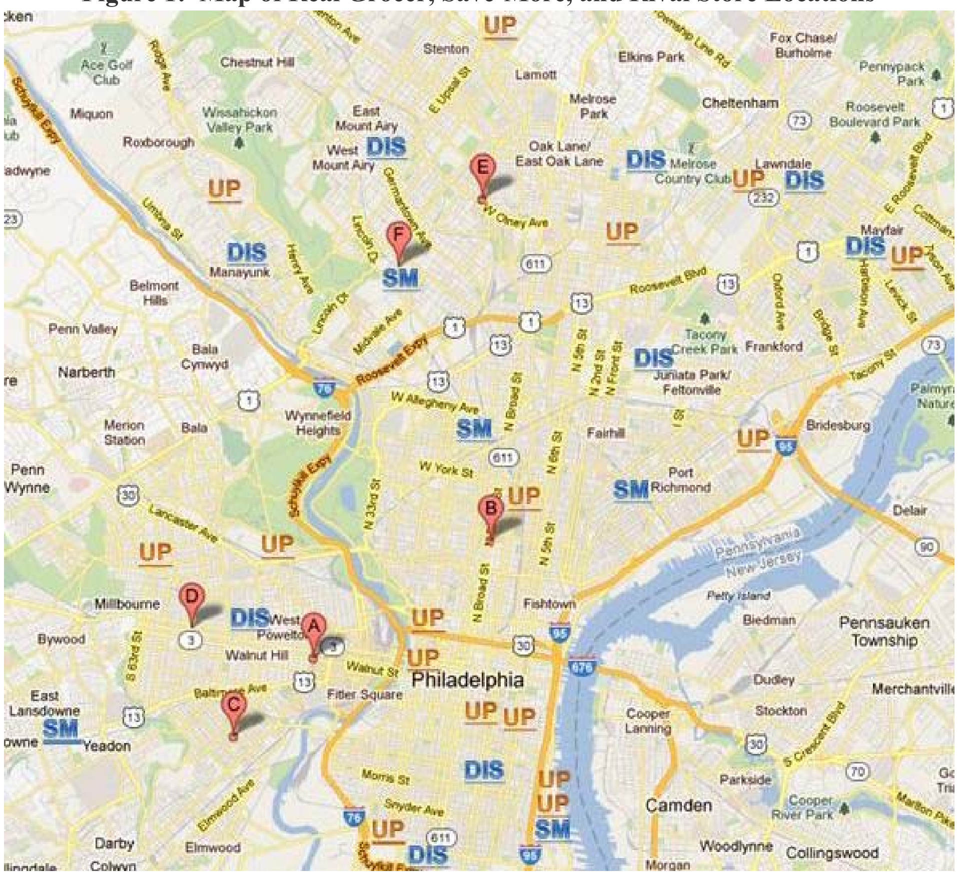
ACME – A small-sized grocery store that is highly focused on its ability to provide families with a low-cost answer to all of their grocery needs. Shoppers can come in, shop, then go home and prepare a meal all at an affordable cost. Everything for family grocery needs is available at rock-bottom-prices.

ALDI **-** Aldi delivers a shopping experience which is extremely unique. By eliminating the extras of a grocery store, such as the bonus cards and the weekly deals and advertising techniques that are a lure to higher priced items, Aldi has reduced costs and delivers low priced independent brands of high quality. Their goal is keep prices low as possible to the shopper. Overhead is cut to the bone.

GEOGRAPHIC LOCATION

The best performing Real Grocers are located in the local-metropolitan area near four private universities, minutes from major commuter roadways, and are typically set in upscale neighborhoods. Tourists are big business for Real Grocers --- they are fascinated with the store. There are three Real Grocers located in the center of local-tourist areas. The top performing Real Grocers are located near well-educated, high-income, student and tourist areas.

Figure 1: Map of Real Grocer, Save-More, and Rival Store Locations



A-F represents the Real Grocer locations, with *A* being the particular store addressed in this case.
SM represents the Save-More locations.
UP represents the Upscale Rivals.
DIS represents the Discount Rivals.

The Save-More grocers are located nation-wide in the center of major cities including the local area. In the local area they are located on street corners and smaller shopping malls. The real-estate is expensive in the city which is why Save-More keeps the square footage of all of their stores under 20,000 square feet. Currently, the best performing Save-More locations are near public transportation in low or middle-income neighborhoods, without Aldi or Acme stores in the vicinity. The Real Grocer, Save-More, and rival locations are depicted in Figure 1.

PROBLEMS ARISE – MARKET ANALYSIS

The success of the Save-More grocers in the local area had caused Joe to focus much of his attention operating the Save-More stores. With some of the profits generated from the Save-More and Real Grocer, Joe decided to hire a CPA, Frank Baylor, to help him monitor the success of the Real Grocers. When Frank ran the numbers he discovered that a Real Grocer just outside the local area was under-performing in comparison to the other Real Grocer's. Joe immediately blamed himself and felt it was his fault for not paying enough attention to the Real Grocers, so he asked Frank what he should do. Since Frank Baylor claimed to be a small business specialist, Joe was very interested in his analysis of the situation. Frank had many suggestions. First, he suggested to Joe that perhaps the Save-More's were cannibalizing his Real Grocers since they are both grocery stores. Next, he suggested that the under-performing store was in a hyper-competitive location. Next, he blamed the management team at the under-performing store. Next, he felt John Adams might be using Joe to gain important information about the local grocery market. Finally, he thought it might be best to change the under-performing Real Grocer into a Save-More store. What do you think of Frank Baylor's suggestions? What would you do if you were Joe?

FINANCIALS

Table 1 illustrates the financial averages for the typical Real Grocer and Save-More as well as the under-performing Real Grocer.

MARKET DATA

Census data for household demographics for store neighborhoods are presented in Table 2. Beginning in 2010 the Census Bureau used a clustering program to place households into one of 60 behavioral profiles. These profiles are based on socio-economic, behavioral and demographic similarities. The family profiles indicate media, consumption, and life-style habits and are used by numerous database companies to segment consumers. The clustering program, MOSAIC, was developed by Experian (a credit rating agency).

Table 1: Income Statement Comparison for Real Grocer and Save-More			
Weekly Income Statement			
	Real Grocer		Save-More
Grocery Stores Revenues (in thousands)	**Under-performing**	**Average**	**Average**
Sales made cash, check, credit	$75	$281.4	$84
Gross Margin	50%	67%	40%
Sales made on Food Stamps	$75	$138.6	$126
Gross Margin	50%	33%	60%
Overall Sales (total)	$150	$420	$210
Expenses			
Cost of Goods Sold	$117	$273	$147
Gross Margin	78%	65%	70%
Payroll	$4.5	$25.2	$8.82
Gross Margin	6%	6%	4%
Rent	$1.5	$3.15	$1.575
Gross Margin	1%	0.75%	0.75%
Insurance	$0.3	$0.84	$0.42
Gross Margin	0.02%	0.02%	0.02%
General and Administrative	$7.5	$12.6	$2.1
Gross Margin	5%	3%	1%
Advertising	$1.5	$3.15	$0
Gross Margin	1%	0.75%	0%
Lost Product	$0.45	$0.42	$0.105
Gross Margin	0.20%	0.10%	0.05%
Miscellaneous	$9	$16.8	$4.2
Gross Margin	6%	4%	2%
EBIT	$8.25	$84.84	$45.78
Taxes	$9	$25.2	$12.6
Net Margin	6%	6%	6%
Bonus	$0	$0	$0.961
Net Income	$-0.75	$59.64	$33.18

The most significant MOSAIC profiles for the Save-More and Real Grocer store locations are presented in Table 2. These profiles illustrate the different market dynamics in the successful Save-More and Real Grocer store locations. The failing Real Grocer neighborhood has a family profile in-between the successful Save-More and Real Grocer store locations.

There are 5 profiles of significance in this case, which are described below:

Table 2: Household Demographics for Store Neighborhoods				
	Save-More		Real Grocer	
Demos	**2000**	**2010**	**2000**	**2010**
Average Household Income	$41,529	$51,396	$73,671	$95,738
Median Household Income	$30,529	$35,584	$59,436	$72,965
Per Capita Income	$16,148	$19,243	$27,042	$35,574
Food at Home	$2,927	$3,726	$4,347	$5,073
Average Household Size	2.5	2.73	2.7	2.7
Stability Ratio (in residence for 5 years)	59%	46%	57%	45%

Table 2: Household Demographics for Store Neighborhoods				
	Save-More		Real Grocer	
Demos	**2000**	**2010**	**2000**	**2010**
Married Couple Household	45.2%	40.1%	79%	83%
Total Population Median Age	32.9	34.9	41.1	42.3
Median Household Disposable Income	$26,862	$31,438	$48,712	$59,174
Percent Owner Occupied Units	44%	48.7%	73%	76%
Household Headed by College Graduate	17.5%	21.4%	32%	35.2%
Population Employed	89%	91.7%	96.4%	91.8%
Mosaic Index				
American Diversity	____	24.9%	____	8%
Affluent Suburban	____	1.2%	____	22.7%
Upscale America	____	3.1%	____	32%
Urban Essence	____	15.6%	____	.1%
Struggling Societies	____	26%	____	.6%
Mosaic Index for the failing Real Grocer neighborhood:				
American Diversity 11.1%				
Affluent Suburbia 5.1%				
Upscale America 10.8%				
Urban Essence 6.1%				
Struggling Societies 11.2%				

Affluent Suburbia is comprised of the seven Types of wealthiest households in the nation. These segments outrank all other groups in household income, home value, education achievement, latest technology, and luxury goods. They are concentrated in suburban neighborhoods that are predominately white, college-educated, and filled with baby-boom parents and their children. (11% of households)

Upscale Americans are populated with mostly white, college-educated couples and families. They live in metropolitan sprawl areas of cities. Most work as white-collar professionals and their large incomes provide them with large homes and comfortable lifestyles. They spend their leisure time exercising --- jogging, biking and swimming or shopping for the latest fashion or high-tech products. They are active in community affairs --- business groups, environmental clubs, and arts associations. (13% of the households)

Struggling Societies symbolize the economic challenges facing a significant number of Americans. These families tend to be disadvantaged and uneducated. Incomes are less than half the national average. One-third of these individuals never finish high school. They work at low-level jobs in construction, health care, and food service. Many of these individuals are young, minorities, and single parents trying to raise families on low incomes. Without much discretionary income their activities are limited and leisure pursuits include sports like basketball, volleyball, and skateboarding. They shop at discount stores and sporting goods stores. Television is the main source of entertainment --- specifically reality programs, sitcoms, talk shows and sports. (9% of the households)

American Diversity is a reflection of how different mid-America's population really is. It is an ethnic mix of middle-aged couples, singles and retirees. These Mosaic Types consist of households with average education, middle-class incomes, and blue-collar and service industry jobs. Many of the group's adults are older Americans --- aging singles and couples who've already exited the workplace. They have unassuming lifestyles who read books and newspapers, attend movies, and socialize through fraternal orders and veterans' clubs. They have traditional media tastes, enjoying TV news, movies, game shows, and read home-oriented magazines. Conservative in politics and fashion they have limited interest in new clothing, consumer electronics, or the Internet. (8% of the households)

As a whole, the six segments in *Urban Essence* make up the nations least affluent group --- a collection of relatively young minorities living in slum apartments. More than half of the households consist of African-Americans and Hispanics. Many of these residents are single or single parents working entry-level jobs in service industries. With low education levels and household incomes, residents lead unpretentious lifestyles. Many spend their leisure time playing sports like baseball, basketball and football. With their above-average household size, they make a strong market for toys, electronic gear, dolls, video games, and board games. They have high rates of TV viewing, reading ethnic-targeted magazines, and listening to jazz and urban contemporary radio. (9% of the households)

DECISIONS

Joe talked to John Adams about the situation because Frank Baylor's suggestions had him really questioning John's motives. He was concerned that John was using his knowledge of the local grocery industry to infiltrate the local market with Save-More's grocers --- knowing that they could possibly cannibalize the Real Grocers. He thought to himself that it might have been a poor idea to go into a partnership with John to expand a grocery store franchise. Especially, since John had no stake in Real Grocers and had nothing to lose if the Real Grocer stores went under.

As he talked it over with John, John sat in his chair and laughed. John Adams stated "Why would you ever trust a CPA as a reliable consulting source? Perhaps you should hire a consultant for your Real Grocer stores to figure out the real underlying problems. I would not have entered into a partnership with you if I thought our franchise would compete with your Real Grocer stores let alone jeopardize them." John explained that it is very important to find the right locations for this type of business model. He himself had run into a few problems when expanding in the New Jersey area and was forced to close a few locations himself. John explained to Joe that his location might be targeting the wrong market for that specific Real Grocery and it might be best to just close it down. Joe apologized to John for doubting his motives and the failure of the Real Grocer store and decided to collect himself in order to analyze the situation and reach a plan of action.

Less than a week later, Joe was reflecting on his accomplishments at a coffee shop located across the street from the failing Real Grocer. He looked out the window at his store and thought he would never be put in the position again. It was like having to kill a child. The thought tore at him. Glancing around at the surroundings of the Real Grocer, he noticed a Dollar General moving into a vacant building two lots down and it sparked a thought. He began to think about the Dollar General business-model and started to think it might be a good idea to close down the Real Grocer. But instead of selling the lot and taking a loss, he thought it would be a good idea to try and regain some of his investment back by transforming the Real Grocer into a Save-More.

This is an actual company (although the names have been changed to protect all concerned).

MAGIC CARPET RIDE
A FINANCIAL REPORTING CASE

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Roxanne Stell, Northern Arizona University

CASE DESCRIPTION

The primary subject matter of this case concerns corporate financial reporting for a publicly traded company. Secondary issues examined include distinguishing between inventory and property, plant, and equipment, impairment of assets, project termination, discontinued operations, and environmental disposal costs of assets all based on research in the Financial Accounting Standards Board's Accounting Standards Codification. The case has a degree of difficulty consistent with senior level or graduate accounting courses. The case is designed to be taught in one class period and is expected to require six to ten hours of outside preparation by students.

CASE SYNOPSIS

Mecca Media's first foray into online entertainment is causing Joe Dixon, the somewhat colorful CEO of this small public company, more than a little discomfort. Mecca has invested millions in intellectual property rights, PP&E (property, plant and equipment), and (TV) set-top boxes, in addition to committing to a multi-year consulting agreement. Over a year into the Magic Carpet project, revenues are disappointingly below projections and now the CFO and the Board of Directors are questioning the viability of the project. In hopes of stemming the negative cash flow, the CFO has proposed drastically scaling back Magic Carpet and now she must determine the financial reporting consequences of her suggested actions. This requires significant research and analysis in the FASB's Accounting Standards Codification to satisfy the Board of Directors, Mecca Media's auditors, and her own personal standards.

MAGIC CARPET RIDE: A FINANCIAL REPORTING CASE

Joe Dixon sat in his opulent office contemplating the results of his latest corporate venture. Things had not gone as he had planned when he envisioned his company's foray into online entertainment. Now he had to deal with an unhappy Board of Directors (Board) as well as his CFO and auditors. Joe had never liked numbers or accountants and his upcoming encounters would likely not change his perception of either.

Joe was the CEO of Mecca Media, Inc. (MMI or the Company) headquartered in southern California. He had taken the Company, which he founded over three decades prior, from an enterprise that marketed VCR tapes to a publicly traded corporation with annual revenues of 100 million dollars. It certainly wasn't a large public company but he enjoyed the freedom and perks managing MMI provided him. And he was in no mood to let a bunch of 'pencil necked accountants' tell him how to run the Company, or much of anything else for that matter.

Carrie Hutchinson had been the CFO of MMI for only three years. Prior to joining MMI she had been a senior manager for one of the large international public accounting firms. She still considered herself a CPA more than a corporate executive. She liked order in her life and in the processes she developed for MMI. Like most accountants she was a rule follower and had little tolerance for those who attempted to manipulate the rules for their own benefit. Although a loyal employee she had limited respect for Joe and his management style. She felt that his insistence on 'gut feel' decision making, rather than relying on well-developed financial modeling techniques, would eventually damage MMI to the point of ruination. She only hoped that it hadn't already happened.

In January 2009 MMI purchased intellectual property rights from Allied Performance Systems (APS) for 1.2 million dollars. Dixon envisioned using this intellectual property with a proprietary TV set-top box (similar to cable or satellite receivers) to offer streaming video of MMI's content library in the European market. MMI had worked with the set-top box vendor to build and test interfaces to the Company's proprietary digital production studio over a secure delivery transponder. The plan was to use this platform to penetrate and establish a presence in the UK and other European Union (EU) countries and potentially to expand into Asian and Middle Eastern markets as well. The project was internally referred to as Magic Carpet.

As part of this plan, MMI had also entered into a multi-year consulting agreement with two of the principals of APS to explore and develop market opportunities. MMI had developed proprietary software, codenamed Loom, and a website to support customer acquisition, marketing and other internal operations. In addition to a significant inventory of set-top boxes, fixed assets were acquired and deployed to house the customer delivery infrastructure and data center operations. The Company also established a foreign subsidiary, Mecca Media Technology Amsterdam (MMTA) to house the operations and assets of this venture.

MMTA began offering the subscription service to customers in April 2009 after development and testing of the internet delivery transponder and the functionality of the set-top boxes was established. At that time MMTA launched various marketing initiatives to enhance market penetration. The service was initially offered in EU countries to customers on a monthly subscription basis. The set-top box was provided without charge to subscribers when service was established.

Shortly after the business model was developed and the acquisition completed, the MMI staff prepared an internal estimate of future cash flows (Exhibit One) that supported the fair value, and the amount paid, for the intellectual property rights. The Company recorded the purchase price of 1.2 million dollars as other intangible assets and began amortizing the cost over five years using a straight line methodology. MMI and MMTA have a March 31 year end.

After the end of the first calendar quarter of 2010 (Q4) the Chief Operating Officer of MMI prepared the following internal document:

Progress Report March 31, 2010

The Magic Carpet product/service was successfully launched in Q1 of FY 2010. The service was well received by some customers and the operating and delivery infrastructure was performing as intended. However, various attempts to enter into third-party distribution and licensing agreements had not been successful and numerous marketing initiatives had yet to yield the forecasted results.

In July 2010 Mr. Dixon, Ms. Hutchinson, other MMI executives, and the Board held discussions on the status of Magic Carpet and the 'go-forward plans' to continue the operation and funding of the project. Dixon made an impassioned argument that such initiatives took time to reach fruition and that one year was hardly a realistic timeframe for success. He further stated that he put little if any credence into forecasts and was not too concerned that revenues to date were below projections. He remained confident that Magic Carpet would be a successful endeavor.

Dixon's contribution to the Magic Carpet discussion did not sit well with Ms. Hutchinson but she was in an awkward position. She had generated the forecast based upon projections from marketing, the Chief Technology Officer, and the CEO but now the CEO was diminishing the forecast's importance. Unwilling to be personally and professionally marginalized in the discussion she commented that during the time that the project had been funded the venture had produced five quarters of significant operating losses. She went on to state that in spite of the best efforts put forward in marketing and distribution there were very limited prospects for significant growth in Magic Carpet revenues going forward.

Dixon responded somewhat caustically by asking Hutchinson what she would suggest regarding Magic Carpet. Hutchinson was surprised that Dixon would even entertain a suggestion that might rein in the project but she had been thinking about possible avenues of attack to stem the outflow of cash. Therefore she presented what appeared to be a comprehensive approach for the 'go-forward plan'. Her suggestion was to significantly scale back the investment in the ongoing Magic Carpet operation with the following course of action:

1) continue to offer the service to existing customers and accept new customers;
2) significantly reduce marketing efforts to acquire new customers;
3) terminate the consulting agreement with the former APS principals;

4) redeploy fixed assets currently used by Magic Carpet to other segments of MMI unless they are specifically required to support existing customers and the limited number of anticipated new customers;
5) reassign employees now engaged in Magic Carpet unless they are specifically required to support existing customers and the limited number of anticipated new customers.

The Board, but not Dixon, appeared interested in what Hutchinson proposed. However, they wanted more details and related dollar amounts involved and information on how such actions would affect the financials of MMI. She told the assembled group that she was unable to answer those questions without first doing the necessary research and discussing the relevant issues with the outside auditors. This wasn't the answer the Board wanted to hear but they agreed to allow a week for Hutchinson to respond.

Hutchinson now has to determine the financial reporting implications of her suggested course of action. She knows that adequate research of the issues must be completed to provide definitive accounting treatments that will satisfy the auditors, the SEC, and Dixon. Realistically she knows that satisfying two out of three parties may be the best she can hope for at this point. Over the next two days Hutchinson prepared revised cash flow projections based on the best information currently available before considering the effects of her suggested actions. In addition to those projections (Exhibit Two) she determined the following:

- The unexpired costs associated with the intellectual property, website, Loom software, and original non-compete agreement with the former APS principals as of March 31, 2010 are $900,000.
- The carrying value (purchase price) of the inventory of 10,000 set-top boxes is $320,000. The set-top boxes contain high levels of lead which will require special disposal at a cost of $25 per unit.
- The unexpired cost of the fixed assets deployed to support Magic Carpet at March 31, 2010 is $500,000.
- Cost to terminate the multi-year consulting agreement is $262,500.

Three days before Hutchinson is to report back to the Board, Dixon informs her that she must meet with MMI's investment bankers in New York the following day. This is necessary since Joe wants to immediately look into the possible acquisition of a small private company that he feels is a "perfect fit" with MMI's existing operations. Hutchinson calls you into her office and says "I have to leave town for a couple of days and since you are up to speed on Magic Carpet I need you to follow through on the necessary research that must be completed. Once you're satisfied that you have the financial reporting issues under control please communicate your results to me so that I can prepare for my presentation to the Board." Being the most competent, university trained accountant on staff you realize that Hutchinson has made the best of a less than ideal situation. You are excited at the opportunity that has been presented to you but you are also aware that she has very high expectations. There seems to be a lot at stake for both you and the CFO.

Exhibit One
Initial Cash Flow Projections

Fiscal Year		Projected Net Operating Cash Flows				Discounted Operating Cash Flows
2009		none				0
2010		600,000		0.833		499,800
2011		850,000		0.694		589,900
2012		900,000		0.579		521,100
2013		700,000		0.482		337,400
2014		650,000		0.402		261,300

Exhibit Two
Revised Cash Flow Projections

Fiscal Year		Revised @ 3/31/10 Projections for Net Operating Cash Flows				Revised Discounted Operating Cash Flows
2010		100,000		1.000		100,000
2011		180,000		0.833		149,940
2012		300,000		0.694		208,200
2013		250,000		0.579		144,750
2014		100,000		0.482		48,200

INTRODUCING MICRO-FINANCE IN SWEDEN

Ester Barinaga, Copenhagen Business School

CASE DESCRIPTION

The case describes the first year of efforts to introduce microfinance as a tool to work with vulnerable groups in Sweden, more particularly ex-convicts, former drug-addicts and long-term unemployed women of immigrant background.

The teaching objective is to discuss whether micro-finance can be seen as a tool to catalyze social change in developed welfare states such as Sweden, or if it rather reinforces the very power structures it aims to subvert.

The author uses the case to analyse the efforts to introduce a new concept to well-established economic and social actors, as well as to understand the difficulties of building collaborations between actors with different logics. The analysis is threefold: 1. The mobilization and generation of social capital; 2. The conflict of logics/frames; 3. The frame alignment process set in motion by micro-finance

The case is based on extended field research. It was written for students of social entrepreneurship. It has also been tested on students enrolled in the Philosophy and Economy Masters Program.

CASE SYNOPSIS

In late-March 2009, Linda Sandberg, leader for the introduction of microfinance in Sweden by the Swedish Association for Savings Banks, was considering relations with Feem (Forum for Entrepreneurs from Ethnic Minorities), the pilot project's non-profit partner. Relations had deteriorated culminating in accusations of plagiarism. Fredrik, Linda's supervisor, had asked her for an analysis of the tensions for their next meeting scheduled in one hour.

BACKGROUND: 2007-8 AT THE STOCKHOLM SCHOOL OF ECONOMICS

Linda Sanberg was a brilliant student at the Stockholm School of Economics (SSE) with a strong interest in civil society governance and experience working in developing countries for various non-profit organisations. Through these experiences she had come into contact with the concept and practice of micro-finance initiatives in Africa. In her master's studies, Linda wanted to apply the idea of micro-finance in the context of a developed welfare state.

Fredrik Winbladh, associate professor in the same school and Linda's thesis supervisor, was also interested in the idea. Fredrik had worked for almost fifteen years in the field of civil society strategy and governance in Sweden, having collaborated with many non-profit organisations that had recently showed an interest for micro-credit to work with their target groups. Furthermore, Fredrik's extended network included many non-profit organisations and, more interesting for establishing the idea of micro-finance in Sweden, he was the Scientific Secretary for the Swedish Association of Savings Banks. The match was perfect, and Linda got a one-year contract as a research assistant at the SSE.

During this time, Linda studied micro-finance initiatives in third world countries. Inspired by the winner of the Nobel Peace Prize, Muhammad Yunus, and by micro-finance initiatives in developed countries, she became increasingly convinced about the potential of micro-finance in achieving both individual and social change even in developed welfare states such as Sweden. Yet, she and Fredrik complained that such an "attitude [had] hardly been shared by the Swedish Financial Supervisory Authority or by Sweden's National Board of Health and Welfare – or by the large Swedish banks, for that matter."

For that reason, they set out to influence policy-makers. Their efforts were not in vain and, thanks to Fredrik's contacts and Linda's zeal, the Swedish Association for Savings Banks agreed to launch a one-year project to examine the potential of micro-finance within the sphere of savings banks to reach out to "excluded entrepreneurs (refugees, former criminals, and former drug-addicts) with financing opportunities." Linda was to be the leader for the pilot project. By this time Linda was already working at Öhrlings PricewaterhouseCoopers. She then signed a one-year contract with the Swedish Association for Savings Banks to work 75% of her time on the introduction of micro-finance in the sphere of savings banks, and reduced her work in the accounting firm to 25%. She started on August 2008.

THE PILOT PROJECT: 2008-9 AT THE SWEDISH ASSOCIATION FOR SAVINGS BANKS

Savings banks are value-driven financial institutions committed to develop their local community. Sponsoring cultural and sport activities, providing economic help to non-profit associations, supporting mentorship programs for the younger, or funding studies for particular regional programs, they are "a bank for the community". For savings banks, that is, social involvement goes alongside more traditional commercial interests. This mixed logic of value-driven commercial business fitted well with the concept of micro-finance. Or, as the project leader wrote:

> *"Microfinance provides an opportunity to actors within the sphere of savings banks to refer back to its grounding values and, at the same time, reach groups without previous relation to the bank system with a commercial product." (Linda Sandberg)*

That is, micro-finance came to be seen as both a way "to improve the conditions for regional growth" and as a way "to reach out to new groups of customers without taking unreasonable financial risks."

Within this mixed commercial value-based logic, Linda set out to work in various fronts.

The Savings Bank of Sörmland – The Micro-Credit Product

> *"Micro-finance is a potentially important tool to reach out to new market segments, for instance people of foreign background, with which banks have difficulties building trust. A bank that offers a micro-finance product can, through the goodwill that the product conveys, connect to other more solid customers that need a housing loan, or to save for their pension." (Linda Sandberg)*

Yet, long-term unemployed immigrant women together with ex-convicts and former drug-addicts, all targeted by the micro-finance initiative, had been outside the labour market for a prolonged period of time, had no saved capital or property of their own to rely on, and some of them even had significant debt. The very reasons that made the group the target of micro-finance initiatives also made it a "high-risk customer group."

However, the Swedish Financial Supervisory Authority forbade banks to expose themselves to unreasonable high risks, a rule that was strictly interpreted in the midst of a financially induced world economic crisis. Further, a savings bank's own capital needed to be in relation to the bank's risk level, a rule that made the concession of micro-credits to such a risky group excessively expensive for the bank. And there was more. The Regulation of Consumers Credit decreed that any customer had to be assessed as being able to pay back the loan, as a precaution not to worsen the particular individual's economic situation. That is, the bank couldn't, by law, offer credit to individuals who were deemed to lack the capacity to pay the loan back.

Various solutions were discussed, from creating a Warrant Fond for such loans, to offering the product within the frame for the Fund for Local Growth (the entity within the bank that managed its charity and social initiatives). In this process, however, they started to see some similarities between a potential micro-credit product and an already existing product, the "member-credit". This was a loan with considerably fewer formalities offered to trade union members. In these loans, the fact of being member of a trade union acted as some sort of warrant for the credibility of the customer.

As a result, some formalities were abandoned and new handling routines created. More particularly, it was decided that a micro-finance product was to be offered to:

> *"entrepreneurs who came through specially chosen non-profit organisations that the Savings Bank collaborated with. The individual entrepreneur was still to be personally*

responsible for paying back the loan. But if the entrepreneur had a business idea that was profitable and commercially sustainable, enough to judge the entrepreneur's repayment capacity as good, a micro-credit was to be granted even if the entrepreneur (1) lacked own capital, (2) did not have the necessary security, (3) had annotated debts, and/or (4) was not Swedish citizen or did not have a residence permit. All of these were prerequisites for any other normal bank loan."

Central for this change had been the role taken by the non-profit organisations. The organisations' knowledge of the target group and a high-quality process of screening, training and coaching candidates constituted an informal security.

"It has been a prerequisite for us that the co-operating organisations have a clear and well documented process that shows how they select and train the potential entrepreneurs. For me, as the bank's Director of Credit Risk, it has been a prerequisite that those processes work so that I can stand upright and say that now, we are going to accord loans to persons that had been previously considered non-worthy-of-loan."

Accordingly, the bank had started to put demands on the non-profit organisations it collaborated with. The organisations had to be rooted in the local community, be economically stable, have the skills and resources needed to support the entrepreneurs, work within a strategy in which entrepreneurship was central, have control over the overall process of screening-selection-training-coaching, and work with well-proven and documented processes. Only then could the formal security requirement for conceding loans be side-stepped.

The non-profit organisations, that is, were to guarantee the bank that the particular entrepreneurs coming from such a high-risk group had the competence and driving force required to run a business.

By the beginning of the spring 2009, the Savings Bank of Sörmland had bent its internal rules and could offer a micro-credit product for high-risk customers without demanding any sort of formal security. Furthermore, they were actively spreading the idea of micro-finance to other savings banks. As the director of the Savings Bank of Sörmland put it, "it started as charity. Yet, today we think more in terms of developing our business." And as Linda, the leader for introducing micro-finance into the savings banks, confirmed:

"For the bank it was central to present this group as a market niche. It was important to move away from the idea of charity. [...] To think 'client' instead of thinking 'we-want-to-give-away-money'."

The Steering Group Meetings – The Micro-Finance Process

Rather than looking at micro-finance as a product, the project leader of the initiative as well as those involved within the bank and the non-profit organisations increasingly came to regard micro-finance as a long-term process in which the actual granting of the loan was but a stepping stone along the way. The goal of the micro-finance process was to turn "long-term unemployed" into "economically independent individuals". Accordingly, the goal was not so much to create entrepreneurs, but to facilitate the particular individual to become independent of welfare benefits:

> *"The project's success shouldn't be measured in terms of number of micro-loans accorded, but rather in terms of number of new companies started as well as number of persons that no longer depend on social welfare benefits. Even if some of the participants do not become self-employed, the project may have helped them move into paid employment or into furthering their studies."*

Considering the groups the micro-finance initiative was initially to address, ex-convicts, former drug-addicts and immigrant women, Linda argued:

> *"Even if the problem leading to outsiderness is different, the solution to the problem is the same!"*

A strong and positive collaboration between the bank and the non-profit organisations was thus essential to warrant the smoothness and quality of the micro-finance process. With that in mind, Linda set up the "steering group meetings". Representatives for the Savings Bank of Sörmland as well as for four non-profit organisations (Feem, Yasta, KRIS, and Dagöholm – KRIS worked with ex-convicts whereas Dagöholm worked with rehabilitation of former drug-addicts) became members of the steering group. At these meetings the bank could explain to the non-profits the requirements it had, and non-profit organisations could explain for the bank their ways of working and the obstacles they were encountering.

During the process of starting their own businesses, people from the represented vulnerable groups had to meet other relevant institutions. Various welfare state agencies might be relevant along the way, depending on the particular circumstances of each individual. For instance, coaching a former drug-addict with large debts would inevitably involve engaging the State Collections Agency and re-negotiating the particular individual's terms of repayment. The Insurance Agency might as well had to be involved so that the potential entrepreneur did not see its welfare benefits disappear from the first months of her/his start-up when it still was not profitable.

As a result, representatives for the various state agencies were at times invited to the steering group meetings. The banker, the former thief and the immigrant woman came to share the meeting table with the civil servant working for the Employment Agency, the Insurance Agency, or the State Collections Agency.

All participants in the steering group agreed on the importance of a sustainable process through which the potential entrepreneur was to go. The actual micro-credit, they argued, was merely a moment in a much longer process of preparing, training and coaching the new entrepreneur in her current and future entrepreneurial endeavours. In other words, the quality of the process was to warrant the quality of the entrepreneurs that came to the bank. Therefore, the bank was very keen on specifying non-profits' most relevant activities in relation to the bank's potential customer. Non-profits were to:

1. "Identify the entrepreneurs.
2. Supervise, support and coach.
3. Follow up on the newly started businesses
4. The decision on who is going to get a micro-loan is made in dialogue with the bank."

The non-profits answer to the requirement of the bank came in the form of:

1. Courses, in which the aim was to give the group of potential loan-takers entrepreneurial competencies: how to write a business plan, to make a budget, to develop a business pitch, and carry out a market analysis. Together with knowledge of the various agencies involved in starting and owning a company, taxation rules, and employment rules among others.
2. Workshops, in which the group discussed the nature of entrepreneurship, how to maintain a positive relationship with the bank, or how to present oneself in a trustworthy manner.
3. Personal coaching, in which a coach followed the personal development of each individual, helping her along the way.

From the beginning, the pilot project for the micro-finance initiative was to focus on long-term unemployed immigrant women. Thereby, the organisation that was most closely studied by the rest of the actors (the Savings Bank of Sörmland and the project leader in particular), and whose work might serve as a model to follow was Feem (Forum for Entrepreneurs from Ethnic Minorities).

Yet, in those meetings, it became evident than even Yasta was ready to go.

The Yasta Course

Linda and Karin found each other at the "steering-group meetings." They were both young Swedish women and had a similar background in business and economics. More importantly, both were firm believers in the huge potential of micro-finance as a tool to work with vulnerable groups. This manifested in the enthusiasm and energy that both of them lavished on the initiative.

Yasta was a cooperative run by and for former drug-addicts. Among other activities, Yasta runs a company offering gardening services and another offering labour to the building sector. After rehabilitation, former drug-addicts had the opportunity to go to Yasta's courses and learn a trade. In Yasta they got training and after completion they obtained the official license that allowed them to work as truck-drivers, bricklayers, plumbers, or ceramist. They were then offered the opportunity to work within the co-operative and become members. This implied that former drug-addicts became co-owners of the organisation.

A high proportion of persons attending Yasta's training programs did get a job after obtaining their licenses. This success in getting people with a difficult background into employment led the Municipality of Södertälje to send many of its unemployed Middle Eastern refugees to the Yasta courses.

It did not take long for Yasta to realize that this was a very different group than the one they had worked with before. Many of the individuals in the group already had the skills necessary to work in what they were being trained for. Moreover, some of them worked in Sweden in those sectors, although illegally because they did not have a Swedish license. So, when after completion of the course Yasta could not help these individuals get a job, they started to think that something other than licenses was the problem.

> *"We bumped into the first discrimination very soon, and that was to obtain internships. It is easy to find internships for Swedish-speakers, but we could not find one single practice job for Arabic speakers. Then we asked them if they could consider developing Yasta's buildings and get a practice job that way. And they did that. Everything went perfect, very nice job. So I then went to them and asked if they could consider start their own businesses. And they answered 'But Lena [headmaster], we live on welfare benefits. There is no chance we get a bank loan'."*

If they were not offered a job, Yasta's headmaster thought, then let us help them create their own jobs. The cooperative had previously worked with Fredrik, who informed them of the micro-finance initiative. And so Karin, responsible for course development at Yasta, was invited to participate in the steering group meetings.

Linda was quick to realise that Yasta already had a group of potential entrepreneurs with concrete business ideas. Karin was also quick to see the possibility of creating a course on entrepreneurship for this particular group of Iraqi men. That fit well into Yasta's way of working.

Karin and Linda first met in October 2008. In February 2009 they were together facing 6 immigrant men in a classroom in Yasta's premises and running a course on entrepreneurship. Some of the guests speakers invited to the course came from SSE, Centre for Entrepreneurship, Öhrlings PriceWaterhouseCoopers, the Savings Bank of Sörmland, the Insurance Agency, and the Employment Agency.

After six weeks, in which the potential entrepreneurs worked to develop their own business ideas and on writing a business plan, two course participants had decided not to start their own businesses, one had gone on sick-leave, one had established contacts with potential customers yet was uncertain about whether the business was profitable enough to support him and his family, and two had thoroughly developed business plans. Out of these two, only one needed a bank-loan. The other had been buying the equipment necessary to start the business for some years now and had some savings that would allow him to get started.

The course ended with a diploma ceremony at the SSE. Course participants presented their ideas and business plans to a panel formed by representatives from the Savings Bank of Sörmland, SSE and Yasta.

FEEM: THE PILOT NON-PROFIT ORGANIZATION

Feem, Forum for Entrepreneurs from Ethnic Minorities, was the selected non-profit organization with which the micro-finance product was to be tested and with which the micro-finance process was to be developed. It was a non-profit organization started by Jazmin Nkoya Lundin, an academic from Tanzania who had migrated to Sweden some ten years earlier.

When the pilot project started, Feem followed the idea of teaming up with financial service providers, in this case the Savings Bank of Sörmland. The non-profit was to reach out to long-term unemployed women of foreign background, organize groups where they could talk about their personal and economic problems as well as gain an awareness of being a group, help them develop their business plans, and coach them during the first three years after they obtained the loan. Initiating and supporting empowerment processes for these women seemed to be their main goal. As Jazmin put it:

> *"As an immigrant woman, if you are lucky you may have some contacts among fellow-countrymen. But one has absolutely no contacts within the majority society. One speaks the language badly, and has no job. This is why we work the way we do."*

FEEM'S FIRST LOAN TAKER

Afiya was an Iraqi woman that grew up in Iran. She moved to Sweden some twenty years earlier and had been working ever since. For the last 3 to 4 years she had entertained the idea of starting her own café, when the opportunity arrived of buying a small news- and food-stand in the train station of a nearby village. When Afiya contacted Feem, she had her business idea well developed, was well integrated into Swedish society, and had been economic independent for the previous 20 years. As Afiya put it, she contacted Jazmin because she had read about the possibility for immigrant women to get more advantageous loan conditions if getting a micro-credit. For a week Afiya sat with Feem and completed a business plan. Only then did she visit the bank accompanied by representatives from Feem. From then on, Feem presented Afiya as the first “immigrant woman” that got a loan through them.

A TENSE RELATIONSHIP BETWEEN FEEM, THE SAVINGS BANK AND LINDA

Much of Feem’s work went into making “immigrant women” believe in themselves, and believe in their capacity to start their own businesses. It was the organization’s presence throughout the whole process that was particularly interesting to the bank and to Linda. Early into their collaboration, however, relationships between Feem, the Savings Bank of Sörmland and Linda started to deteriorate.

It all started when Feem presented two potential loan-takers to the bank. Well-dressed and with their business plans in hand they entered the bank office accompanied by a representative for Feem. After a mere 15 minutes long conversation with the bank officer, the three women left the bank in anger. They felt treated disrespectfully, the bank asking too personal questions to them. The bank, however, thought that the business plans were not sufficiently developed, the business ideas being too uncertain.

After listening to both sides, Linda believed it was partly a problem of communication. Feem, she thought, had not mastered the bank’s language. Feem’s attitude, however, was that the bank also needed to learn to see competence even if it did not come in the professional language of the bank. Although to some extent agreeing with Feem, Linda concluded that Feem should learn to think as the bank; only then would the organization be able to prepare people from its target group. Yet, when Linda suggested them the figure of a loan officer within the organization, someone who understood banks but was not constrained by their thinking, Jazmin took it as a sign of control and lack of trust.

From that moment on, Jazmin seemed to experience Linda’s activities as too intrusive to the organization’s work. The conflict escalated when Linda developed together with Yasta the course on entrepreneurship. In the course description, as well as in the marketing brochure, Linda had used the formulation that the Savings Bank of Sörmland used in its micro-finance product information sheet: “You have the driving force. You have ideas.” Apparently, Feem used the same formulation on its website, and was now accusing Linda of stealing Feem’s slogan. The incident resulted in Feem’s refusal to send any of its potential loan-takers to the course. Further, Feem stopped attending the steering group meetings, accusing Linda of thinking and behaving like “a white woman.”

END FORMAL RELATIONS WITH FEEM OR NOT?

Linda was walking up the stairs to the second floor where her old office was located. She was to meet Fredrik, and she wanted to present him a well-grounded analysis concerning Feem as well as alternatives on how to proceed.

Feem was arguably the organization that had come farthest in its process of preparing potential loan takers. They had prepared several coaches who each lead a group of women. They had established working collaborations with other non-profit organizations in other areas of Sweden (Skövde, Gothenburg and Stockholm). What is more, Feem was located in Katrineholm, the small city where the Savings Bank of Sörmland had its headquarters, and the capital of the region where the bank focused its operations.

However, Feem did not show any willingness to collaborate. Formally Feem readily appeared in all documentation about the project and presentations at major workshops or conferences on the initiative. Yet, in the everyday work of establishing micro-finance as a method to work with vulnerable groups, Feem was absent, never even a dialogue partner. Not only that. Constant misunderstandings, muffled tensions, and conflicts only expressed by e-mail took the major part of the time and effort Linda put on the project. And yet, that time and effort, she felt, was only further deteriorating the relationship with Feem. Had she, as Feem insinuated, been too controlling?

An issue that also worried Linda was Feem's relationship with the Savings Bank of Sörmland. The bank had been making efforts to educate its loan officers in the new micro-finance product, it had reduced the requirements put on the potential loan-taker, and had explicitly asked for Feem at those occasions where they were not present. Yet, Linda felt Feem was not showing an equivalent interest in understanding the bank's language and ways of proceeding. In fact, Feem had been discussing the possibility of starting its own Micro-Finance Institute (MFI).

Whereas the working model with which all actors had been working this far was a linkeage-banking model, in which non-profit organizations team up with financial providers, in the MFI model the non-profit offers also the financial resources. This was the most common model in the developing world. Yet, so far there was only one actor in Europe working that way, Adie in France. Feem had been suggesting that the second be built. The only reason why Feem had not started an MFI yet had been that they still lacked funds of their own.

Timing was also a sensitive issue. There were only two more months left before the formal end of the pilot-project. Should she take the decision now and prepare for the continuation of the project with another non-profit organization (Yasta came to her mind), or should she wait until the end of May and take the decision when evaluating the year that had passed?

CONCLUSION

Linda opened the wooden door into her old department. Fredrik sat in the little kitchen by her office, sipping a hot cup of coffee.

> *"Hello Linda! I got the previous meeting cancelled, and thought I could spend some more time with you and the micro-finance project. How is Feem doing? Have you decided what to do?"*

IS NO UPGRADE A DOWNGRADE?

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CASE DESCRIPTION

The primary subject matter of this case relates to the decision-making process within small businesses and the various factors effecting those decisions. Secondary issues related to the case include accounting and economics. The case has a difficulty level of three, appropriate for junior level management courses, such as Principles of Management. The case is designed to be taught in one class hour and is expected to require two hours of outside preparation by students. Included is a student worksheet to assist them in making the best decision.

CASE SYNOPSIS

Johnny and Marie Hastings own a screen-printing business that is very successful. The company owns various machines that are vital to its success. The most important machine, the automatic press, is developing reliability concerns that are associated with age. Johnny and Marie are contemplating three options regarding this machine: 1) keeping the current automatic press; 2) outsourcing the production to another company; or 3) buying a new press. The cost effectiveness and efficiency of the options begs the question: is no upgrade a downgrade?

IS NO UPGRADE A DOWNGRADE?

Johnny and Marie Hastings wanted to own a business since meeting in college and beginning a new life together. Eight years into their marriage the opportunity to start a small business presented itself. They decided to open a screen print shop in the college town where they had met. The business opened in 1990 offering textile screen-printing to the public and business-to-business. In the beginning, both worked in the business. Marie did the artwork and printing, while Johnny assisted customers and took care of all the bookkeeping duties.

As the business grew, part-time employees were added and within three years they decided to add trophies and engraving to the product mix so an engraving machine and inventory were purchased. One full-time employee now operates the trophy and engraving department. Around 1996, an embroidery machine was added and staff hired for embroidery-related production. The company currently owns a four-head embroidery machine, a two-head embroidery machine and a single-head embroidery machine. Two employees operate within the embroidery department, one full-time employee and one part-time employee.

The business started with one 6-color 4-station manual screen-printing press but now currently owns two 4-color 4-station manual screen-print presses, one 6-color 8-station manual screen-print press, one 6-color 8-station automatic press, and one 4-color manual-cap screen-print press, a cap dryer and two large textile dryers. The screen-printing department consists of four full-time employees and two part-time employees. The company has three full-time artists who work with all departments. Anna is the office manager and works with customers on a daily basis. The company employs a bookkeeper for invoicing and receivables management.

Anna has worked for the company approximately four years and her parents, Johnny and Marie, plan to turn the daily operations over to her in four years. The automatic screen print press was purchased used approximately ten years ago and is in need of upgrade or replacement. The automatic press can print t-shirts in half the time or less it normally takes on a manual press. Two people are required to run the machine, a person who loads the t-shirts and a person who unloads the t-shirts and places them through the dryer. This machine is most efficient on orders of 100 or more garments.

In 2000, Johnny interviewed and was hired by the local university to work with local small businesses that were just starting up or needing some type of assistance. Marie moved to a management role and relied on both full-time and part-time staff to produce the goods. The company averages approximately 20 employees with 12 of those in full-time positions.

The one automatic screen-printing press, the most expensive and efficient piece of equipment owned by the company, has performed nobly over the past ten years, but is reaching a point of requiring the high cost of either an overhaul or a replacement.
After meeting and discussing the options with her parents, Anna was told that she can decide whether it is time to replace the machine or simply replace worn parts and conduct maintenance on the existing machine. Anna has identified three options: 1) keep the current automatic press; 2) outsource the production to another company; or 3) buy a new press.

The various options have unique factors to consider and understand before making a decision. Options must be considered and comparisons made between the upgrade of the old machine and ongoing maintenance costs, new equipment purchase and maintenance, benefits of depreciation, and production quantities. Outsourcing work will require attention to the time available per order and the costs associated with it.

Table 1: Annualized Cash Receipts & Disbursements Statement Screen-Printing Department	
	Year 2011
CASH ON HAND	$29,336
CASH RECEIPTS	
Cash Sales	699,996
TOTAL CASH RECEIPTS	699,996
CASH PAID OUT (Expenses Assigned to Department)	
Purchases (Merchandise)	490,000
Gross Wages (excludes withdrawals)	90,000
Payroll Expenses (Taxes, etc.)	9,000
Accounting and Legal	1,800
Advertising	3,600
Dues and Contributions	600
Insurance (General Liability)	3,360
Miscellaneous	6,000
Office Expenses (Postage, etc.)	1,800
Operating Supplies	14,400
Permits, Licenses and Other Fees	600
Rent or Lease	9,600
Repairs and Maintenance	10,000
Telephone	2,400
Travel (Meals & Entertainment)	600
Utilities	37,000
Vehicle Expenses	2,400
TOTAL CASH PAID OUT	683,160

Anna has watched a demonstration of the new automatic screen print press at a trade show and knows its capabilities. Anna is weighing the cost vs. benefits in her attempt to make the best decision based on production cost savings and upfront costs of the new machine. The machine has a cost of $22,495 but additional equipment and installation costs run the total to $40,000. This includes an industrial air compressor, screen alignment tool, along with installation and training. The benefits would include increased operating efficiency, increased output, and less maintenance. She has constructed an Annualized Cash Receipts and Disbursements Statement for the screen-printing department based on last year's income statement for the screen-printing department. The information is contained in Table 1.

PRINT PRESS COMPARISON – COST VS. BENEFITS

The existing machine can print a design up to six colors but most designs are one to three colors. For purposes of this decision, a one-color design will be used for printing comparison purposes.

An automatic screen printing press is used to print textiles such as t-shirts or sweatshirts. The machine does most of the work and can speed up the printing process by several times. A screen is "burned" by exposure to light creating the stencil that will be used to print a particular design. The screen is attached to the machine and then lined up to print squarely to the garment. The machine is then automated to pull a squeegee across the garment printing the stencil or screen. The machine speed can be adjusted to move as fast as an operator can load a garment on the printing board, eight boards on this machine. Another operator or the same person then removes the printed garment and sends it through the dryer that cures, or sets, the ink as it passes under 350 degrees of heat.

Depending on the skill level of an experienced operator, the existing machine can print approximately 333 t-shirts per hour based on a one-color design on a white shirt. A darker color shirt will slow the printing process down because some colors may have to be pulled over the stencil more than one pass.

In comparison, the new machine will be able to print approximately 500 t-shirts per hour based on an experienced operator and a one-color design on a white shirt.

Table 2: Production Comparison
Old Printer vs. New Printer

Machine	# of Pieces	# of Colors/Sides	Production Time
Existing	1,000	1-Color 1-Side	3 hours
New	1,000	1-Color 1-Side	2 hours

OPTION ONE

Keep the Current Press

The current screen printing press is over ten years old with approximately 1,000,000 print occurrences. The current press is a Rototex brand and will produce approximately 333 prints per hour on a white t-shirt with a one-color design. Estimated costs to repair the current machine are $3,000. This includes travel costs for a technician, parts, and labor to repair the three heads that are not functioning properly. This cost will probably be an annual occurrence going forward because of the age of the machine and normal wear and tear. Also, there are additional costs of down time, while waiting on a technician and the potential loss of business and reputation if an order is not completed on time. One benefit of staying with the current machine is that no one has to be trained.

OPTION TWO

Outsource Large Orders

Several companies offer custom screen-printing on large orders and will accept orders from other companies. Orders over 144 pieces could be outsourced to another company. Some constraints that would need to be considered include shipping, pricing, quality and guarantee of work. Some assumptions to be considered include:

- Assume 25% of monthly sales outsourced at an average unit price of $5.00
- $58,333 * 25% = $14,583
- $14,583/$5.00 = 2917 units
- 2917 units * average cost per pull of $1.50 = $4376
- Assume direct cost of printing will be reduced by 5%
- Assume that gross wages will be reduced by $20,000
- Assume that payroll expenses will be reduced by $7,000

Shipping costs are important to this option because orders would have to be either dropped shipped from the supplier directly to the printer or shipped from the company location to the outsource company. After the order is printed, the goods must be shipped to the company or directly to the customer. Number of days in shipping would have to be considered as well as the cost to ship. Both of these factors could affect the bid process and whether or not the company wins the bid.

Pricing is a concern for the business because the price charged by the wholesaler will have to be passed on to the customer with no negotiating room. If the order is printed in-house, the company has more control over the pricing.

Quality and guarantee of work is very important because customers do not care whether the company outsourced the work or not, they want a quality product and the willingness of the company to stand behind its work if a problem occurs. A problem could be a mistake on the artwork or the ink does not set properly and washes off.

OPTION THREE

Purchase a New Press

Anna has researched different machines on the market and likes the Diamondback 8 station 6-color machine similar to the existing machine. The cost is $22,495 for the new machine. As mentioned earlier, additional costs related to the new machine run the total cost to

$40,000. The new machine could be financed over five years at a monthly cost of $801.52 at 7.5% interest. The annual depreciation using the straight-line method would be $8,000. The machine carries a manufacturer's warranty and a company technician would be available for set up and training on the new machine. A benefit of this option is that once the machine is setup, there will not be the cost of down time like Johnny and Marie would face with the current machine. Another benefit of purchasing the new machine is the use as a tax write-off either as straight line depreciation or, if needed, take advantage of section 179 of the tax code and write the entire amount off in the year it is purchased.

DISTINGUISHING BETWEEN LIABILITIES AND EQUITY: TWO MINI-CASES FOR IMPROVING STUDENTS' CRITICAL THINKING SKILLS IN INTERMEDIATE FINANCIAL ACCOUNTING

Konrad E. Gunderson, Missouri Western State University

CASE DESCRIPTION

The instructional approach herein is designed for undergraduate intermediate financial accounting. With a minimum use of classroom time the following learning objectives can be met: (1) students gain an appreciation for the diversity of financial instruments as they vary along a continuum from pure debt, through hybrids to pure equity; (2) students gain an understanding of representational faithfulness and the limitation of a dichotomous classification scheme to faithfully represent the diversity of financial instruments that exist; and (3) students have an introductory experience with principles-based accounting rules and applied professional research. Minimal use of class time is achieved because, after an initial in-class activity, case assignments are completed outside of class. One follow-up class period, after students complete cases, is useful for summary, comparison of ideas, and feedback.

The cases develop competencies considered important for entry into the accounting profession including critical thinking, writing, applied professional research, and working in groups [Big 8 Public Accounting Firms "White Paper" (1989), Accounting Education Change Commission (1990), American Institute of Certified Public Accountants' Core Competency Framework (1999)]. Student feedback data from two administrations of the cases is included.

CASE SYNOPSIS

An overview of the instructional strategy is as follows. An introductory in-class exercise has students rank a series of financial instruments from most debt-like to most equity-like, and decide where the line separating debt from equity should be. Case A requires students to evaluate the representational faithfulness of debt and equity categories of an example company balance sheet, an experience which demonstrates the limitation of a dichotomous classification scheme. Case B has students analyze characteristics of a financial instrument drawn from practice, making judgments about classification based alternatively on (1) application of existing authoritative literature, and (2) a conceptual analysis of essential features of the financial instrument.

INTRODUCTION TO HYBRID SECURITY CLASSIFICATION

Traditionally, share instruments have been reported in the stockholders' equity section of the balance sheet. This led to some diversity in the stockholders' equity section, with both common shares and various types of preferred shares being classified as equity. Over time, this practice has changed. In 1979 the United States Securities and Exchange Commission (SEC) ruled that redeemable stock had to be excluded from the stockholders' equity section of the balance sheet (Accounting Series Release No. 268, 1979), which led to the practice of reporting redeemable stock in an unclassified area between liabilities and equity, commonly known as the mezzanine. Stocks covered by this ruling include shares redeemable at the option of the holder, as well as shares mandatorily redeemable on a specific date. The balance sheet below illustrates mezzanine reporting of redeemable preferred stock by Net Talk.com, Inc.

Illustration I	
Net Talk.com, Inc.	September 30,
Condensed Balance Sheet	2010
Total Assets	$ 4,814,568
Liabilities, Redeemable Preferred Stock, and Stockholders' Deficit:	
Liabilities:	
Current liabilities	$ 11,683,541
Total Liabilities	$ 11,683,541
Redeemable preferred stock	$ 224,968
Stockholders' Deficit:	
Common stock	$ 13,430
Preferred stock	2,000,000
Additional paid in capital	3,314,488
Accumulated deficit	(12,421,859)
Total stockholders' deficit	(7,093,941)
Total Liabilities, Redeemable Preferred Stock, and Stockholders' Deficit	$ 4,814,568
Source: Net Talk.com, Inc. 10-K Annual Report	

The Financial Accounting Standards Board (FASB) in 2003 issued Statement No. 150 which required that mandatorily redeemable stocks be reported as liabilities, and related dividends be treated as interest or financing expense in the income statement. The FASB thereby removed one instrument from the mezzanine; however shares redeemable at the option of the holder are still reported in the mezzanine in the U.S., as illustrated above by Net Talk.com.

The International Accounting Standards Board (IASB) in 2003 issued International Accounting Standard No. 32 (IAS No. 32). IAS No.32 requires liability classification for all redeemable shares, including those redeemable at the discretion of the holder. IAS No. 32 states that for equity classification, a firm must have an *unconditional* right to avoid repayment, otherwise a liability exists. Thus shares redeemable at the option of the investor are liabilities since the firm *may* have to redeem them.

In 2007 the FASB released a proposal for classifying financial instruments entitled *Preliminary Views: Financial Instruments with Characteristics of Equity* (FASB, 2007). The proposal takes a narrow approach to equity, allowing only the most residual interests (e.g. common ownership shares) to be classified as equity. In this approach items previously classified as equity, such as preferred shares, would be reported as liabilities. The approach represents a reversal of traditional practice, limiting the number of items classified as equity, and making liabilities the wider category containing both traditional debt instruments, and instruments issued in the form of shares.

The FASB narrow equity approach has not been adopted. The FASB and the IASB have declared their intent to work cooperatively in accounting for financial instruments and the FASB's 2007 Preliminary Views document represents only a starting point in their deliberations.

INSTRUCTIONS FOR STUDENTS

In the ensuing exercise and cases, you will be asked to examine characteristics of various financial instruments, and to make judgments about whether they should be classified as debt or equity. In order to assist you, a set of principles is provided. These are provided below in ESSENTIAL CHARACTERISTICS OF DEBT and ESSENTIAL CHARACTERISTICS OF EQUITY. In addition, a glossary and references are provided at the end of this document.

These principles define pure forms of debt and equity. Most instruments however combine characteristics of equity and debt, and your task will be to decide whether an instrument overall is more debt-like, or more equity-like. Table I summarizes the essential characteristics by showing that debt and equity are contrasted along four dimensions: (1) key legal rights; (2) ranking among claimants; (3) return characteristics; and (4) term of investment.

Characteristic (2), rank among claimants, recognizes that there will be some ranking for receiving periodic payments, as well as liquidation proceeds should the company terminate. For example, in a company with common equity and a bank loan, the loan would have higher rank in that interest must always be paid before any dividends and, in the event of liquidation, the loan would have to be fully repaid before common investors could receive anything. If the company also had preferred shares, the order would be interest on the loan first, dividends on preferred second, and last dividends on common. In liquidation, the par value of preferred shares would have to be paid before common could receive anything; this is referred to as the liquidation preference of preferred shares.

In studying characteristics (3) and (4), return characteristics and term of investment, it is helpful to distinguish between return <u>of</u> investment and return <u>on</u> investment. For debt, interest is the return on investment, and the loan principal, when repaid, is return of investment. Return of principal marks the end of the relationship between lender and company (limited term). For equity, periodic dividends are the return on investment, and final return of investment is received only in liquidation, when shareholders have the right to redeem their shares for a portion of remaining monies after all liabilities have been satisfied. The term of equity, and any amount that may be received for shares, is indefinite.

ESSENTIAL CHARACTERISTICS OF DEBT

D1 Debt has contractually promised payments with a high degree of specificity in terms of amount and timing. Debt has the right to threaten the company with bankruptcy in cases of default.

D2 Debt is characterized by seniority of its claims. Scheduled payments must be made first, before any payment is made to share instruments or other lower-ranked claims. This applies equally to periodic payments and in sharing of liquidation proceeds should the company terminate.

D3 While debt has the advantage of legal guarantees, it also has a fixed, limited return. Periodic payments do not increase if the company happens to be unusually successful. In liquidation debt is entitled to contractually promised amounts, but no more.

D4 Debt is promised redemption of its par or face amount (principal) on specific date (or dates). Once repayment is made the relationship between investor and company is terminated.

ESSENTIAL CHARACTERISTICS OF EQUITY

E1 Equity (ownership) has the right to control the company through voting rights. Payments (dividends) are made at the discretion of the company, and shareholders cannot threaten bankruptcy for lack of payments.

E2 Equity is defined by its residual status. Equity can receive payments only after all senior claims have been satisfied; this applies equally to periodic payments (dividends) and in sharing of liquidation proceeds should the company terminate.

E3 Equity has unlimited upside potential; if cash is plentiful, periodic payments can be significant. In liquidation, equity gets all the excess after others have been paid off. In contrast, if the firm is unsuccessful, equity may get nothing. Equity has an inherently variable and uncertain payoff.

E4 Equity is a permanent investment in that the company does not have to repay shareholders' initial investment paid for shares. Investors may sell their shares to others, but they do not have the right to demand redemption by the company.

Table I: Summary of Essential Characteristics

Characteristic	Description	Debt Aspect	Equity Aspect
1 (D1/E1)	Key legal right	Right to promised payments	Voting right (control)
2 (D2/E2)	Rank among claims	Senior (high rank)	Residual (low rank)
3 (D3/E3)	Return characteristic	Fixed, limited	Variable, unlimited
4 (D4/E4)	Term of investment	Limited, scheduled	Permanent, indefinite

Your general approach in analyzing a financial instrument should be to identify its nature in terms of the four essential characteristics. Some characteristics will be obvious, for example common shares possess voting rights while debts do not. In other cases the nature of an instrument will require more reflection. If you need clarification of an issue you may send the instructor an interrogatory. Your interrogatory question should be a request for basic information or clarification which allows you to reach a conclusion; interrogatories should not be requests for the instructor to evaluate a proposed solution.

IN-CLASS EXERCISE – ANALYZING FINANCIAL INSTRUMENTS

Consider the following financial instruments:

CUMULATIVE PREFERRED STOCK (non-redeemable).	BONDS (DEBENTURES)
3%-8% INCOME BONDS[1]	COMMON STOCK (VOTING)
PREFERRED STOCK (non-cumulative, non-redeemable)	REDEEMABLE PREFERRED STOCK[2]
SECURED BONDS[3]	

[1] Income bonds receive 3%-8% interest per year depending on profitability. If profits exist after paying interest on secured bonds and debentures, income bonds may receive interest up to 8%. To summarize: income bonds receive at least 3% even if the firm is not profitable, and are limited to 8% no matter how profitable the company is.
[2] Investors can redeem their shares for par value at any time. Dividends are cumulative - any dividends in arrears must be paid at the time of redemption.
[3] Specific assets are pledged to ensure payment. If any payment is missed, the assets must be immediately sold at auction and the proceeds used to fully pay principal and interest due.

1. You are to determine which of the financial instruments are liabilities, and which are equities. As a prelude to this task, rank the securities on a continuum, in descending order, from most debt-like, to most equity-like as follows:

Pure Debt

security judged to be pure debt, or most debt-like
security judged next most debt-like

-
-

security judged next most equity-like
security judged pure equity, or most equity-like

Pure Equity

For each security, provide a rationale for why you placed it in the continuum where you did, making specific reference to ESSENTIAL CHARACTERISTICS to justify your decision.

2. Decide which of the financial instruments are liabilities and which are equities by drawing a line such that all securities above the line are liabilities, and all those below the line are equities. In making your decision you will have to decide what characteristics you think are crucial in distinguishing between debt and equity.

Clearly state what characteristic(s) you are relying on to distinguish between debt and equity. You may have strong feelings about a key debt feature; any instrument lacking it would then be classified as equity. All the instruments above the line must possess the characteristic you consider essential for liability classification, and none of the instruments below the line possess it. Alternatively, you may identify a key feature necessary for equity classification; any instrument lacking it would be classified as a liability. In this case all instruments below the line will possess the key equity feature, and none of the instruments above the line will possess it.

Debt

security judged to be pure debt, or most debt-like
security judged next most debt-like

-
-

security judged to be least debt-like, but still included in debt
----
security judged to be least equity-like, but still included in equity

-
-

security judged next most equity-like
security judged most equity-like, or pure equity

Equity

CASE A – AN INTERNSHIP AT THE SEC

Margo Lang sat at her small desk, finishing the cup of coffee she had sipped on the train on the way into work. She felt lucky to be in her present position. She and several other accounting students from around the country had been selected to be summer interns at the United States Securities and Exchange Commission (SEC), Division of Corporation Finance, in Washington, DC. If successful, this internship would virtually guarantee her a starting position in corporate or public accounting after graduation next year. All those plans would have to wait, however, because Margo had just been given her most challenging project of the summer.

The SEC had been studying for some time the question of whether to require U.S. companies to begin using International Financial Reporting Standards (IFRS), which differ from United States Generally Accepted Accounting Principles (GAAP). Late yesterday, Margo's supervisor asked her to analyze the impact of IFRS on the balance sheet of a typical company, Indira Corporation.

Indira Corporation at December 31, 2011 has $80 million in total assets, and claims outstanding as show in the balance sheet below. All securities were issued at par or face amount, and preferred stocks have a liquidation preference equal to their par value. Indira's redeemable preferred stock is reported in the mezzanine section of the balance sheet. To stay within IASB concepts, which specify only two categories for claims, the redeemable preferred would have to be moved into the liability section. Margo's task is to analyze the impact of such a move on the representational faithfulness of Indira Corporation's balance sheet categories. Margo reviewed the concept of representational faithfulness in the intermediate accounting textbook she had brought from home, and decided the essence of the idea for her purpose is as follows: it is the extent to which a financial statement category contains items which are similar in nature. Stated another way, a financial statement category containing dissimilar items exhibits something less than perfect representational faithfulness; and, to exhibit a minimum degree of representational faithfulness, all the items in a category must have at least one common characteristic. Margo's specific requirements, as received from her supervisor, are as follows.

> 1. (A) IF THE REDEEMABLE PREFERRED SHARES WERE INCLUDED IN LIABILITIES, WHAT IS THE EFFECT OF THIS ON THE REPRESENTATIONAL FAITHFULNESS OF THE LIABILITY CATEGORY – CONTRAST THE DEGREE OF REPRESENTATIONAL FAITHFULNESS BEFORE AND AFTER THIS CHANGE. (B) DOES THE LIABILITY CATEGORY, WITH THE PREFERRED STOCK INCLUDED, STILL POSSESS A DEGREE OF REPRESENTATIONAL FAITHFULNESS? WRITE A MEMO FOR THE SEC STAFF SUMMARIZING AND EXPLAINING YOUR FINDINGS REGARDING (A) AND (B). DISCUSS DETAILS OF THE INSTRUMENTS, AND RELATE THEM TO essential Characteristics OF DEBT AND EQUITY.

2. Some commentators have suggested that regulators (e.g. FASB, IASB) should officially sanction a middle capital category on the balance sheet. With the goal of having the highest possible representational faithfulness, how should the items on Indira's balance sheet be reported: which instrument(s) should be included in liabilities, the middle category, and owners' equity? Since there are four instruments and three categories, one category must contain two instruments. Analyze all four instruments and decide which two are most similar, and indicate under which balance sheet category they should be reported. Present your conclusion as follows. First, provide headings and show all the instruments and where they should be reported:

Liability Capital

List instrument(s) to be reported under this heading

Middle Capital

List instrument(s) to be reported under this heading

Ownership Capital

List instrument(s) to be reported under this heading

Second, write a narrative explaining your conclusion. You should explain why you have combined two instruments, identifying important characteristics the two have in common. Also explain your choice of category for these two instruments.

INDIRA CORPORATION	
Liabilities, Redeemable Shares & Stockholders' Equity	
December 31, 2011	
LIABILITIES	**AMOUNT**
SECURED DEBT carrying an annual interest rate of 5%. Interest and principal payments are guaranteed by a lien on operating assets with a fair value of $25 million. If an interest payment is missed, the property must be immediately sold and the proceeds used to repay the bonds plus interest due.	$ 15,000,000
UNSECURED BONDS carrying a 7% annual interest rate. Two years ago Indira was experiencing cash flow problems and informed bondholders that it would be unable to make a scheduled interest payment. Negotiations with bondholders resulted in a settlement whereby Indira was allowed to make up the missed payment at the next scheduled interest payment date, making a double payment at that time. The bonds are due December 31, 2013.	20,000,000
TOTAL LIABILITIES	$ 35,000,000
REDEEMABLE PREFERRED STOCK, $100 par value with a 7% annual cumulative dividend; 30,000 shares issued and outstanding. Shares may be redeemed at par, at the option of the holder, any time on or after December 31, 2013; any dividends in arrears must be paid at the time of redemption. As of December 31, 2011 there are no dividends in arrears. Over the past 3 years Indira has skipped the annual dividend once, making up the arrearage in the following year.	$ 3,000,000
STOCKHOLDERS' EQUITY	
COMMON STOCK, $10 par, 3 million shares issued and outstanding.	$ 30,000,000
RETAINED EARNINGS	12,000,000
TOTAL STOCKHOLDERS' EQUITY	$ 42,000,000
TOTAL LIABILITIES, REDEEMABLE SHARES, & STOCKHOLDERS' EQUITY	$ 80,000,000

CASE B – A PROJECT FOR THE NEW STAFF ACCOUNTANT

It was Friday afternoon, and Neil Danford, a new staff accountant at Extua Corporation, had mixed feelings about the memo he just received from the controller of Extua Corporation. Next week he would begin working on a project that could have an immediate impact on the financial position Extua would report to investors and other outside parties. While he was proud to be given such an important assignment, he considered it a bit advanced given that he had only been with Extua Corporation for six months.

Neil was surprised by the esteem his superiors had for him. A circumspect person, Neil felt the other new staff accountants at Extua, who were socially outgoing, would surpass him in climbing the corporate ladder. But his superiors seemed to like his demeanor, and they would sometimes stop by his cubicle to chat, speaking to him as an equal, an intimacy they did not share with the other college graduates.

This new project involved classification of a special type of common stock Extua issued to acquire a company that had previously been one of Extua's suppliers. Negotiations resulted in an agreed price of $5 million, and the previous owners accepting Class A common stock as payment for their company. Further details about these shares, and other aspects of Extua's financial structure, are as follows.

At December 31, 2011 Extua Corporation has various forms of debt outstanding including secured bank loans and debentures. Extua has no preferred stock, but has two types of common shares outstanding, Class C and Class A. There are one hundred million shares of Class C common stock outstanding. Each share entitles the holder to one vote on ballot items at the company's annual meeting. The shares are transferable without restriction and are actively traded on the New York Stock Exchange. In addition, Extua had the following Class A Common shares outstanding:

<u>$5 million - Class A Common Stock (100,000 shares of $50 par value stock outstanding)</u>
The shares are non-voting, do not share in dividends, but have liquidation rights at par with the Class C common shares. The shares were issued December 31, 2011 and are subject to mandatory redemption on December 31, 2013 at $57.245 per share, or a total of $5,724,500. The shares will be accreted[1] to their redemption value using the effective interest method. The company may, at its option, pay the $5.7245 million redemption amount in cash, shares of Class C common stock (based on the market price for the common stock at the time of redemption), or any other form of consideration deemed appropriate by the board of directors of the company.

[1]Accretion is the process of increasing the carrying value of a security over its term. It is similar to increasing the carrying value of a note or bond through discount amortization. Using a 7% annual rate, the Class A common will have its carrying value increased from its initial issuance amount of $5,000,000 to $5,724,500 over its two-year term.

Extua Corporation officials would like to report the Class A Common stock in the stockholders' equity section on the December 31, 2011 balance sheet. They reason that since the stock is issued in the form of common shares, and since they may discharge their obligation without payment of any cash, it is therefore justified to report these shares as part of stockholders' equity. They cite the FASB Concept Statement which defines a liability as an obligation to "transfer assets or provide services."

1. Obtain access to the FASB codification and apply existing authoritative literature to this financial instrument (see instructions below). Write a memorandum to Extua Corporation officials explaining your decision, based on the authoritative rulings, as to whether the Class A common shares may be reported in stockholders' equity. Explain the application of authoritative rulings to the Class A Common Shares, making specific connections between wording in authoritative rulings and features of the shares. Use quotes and references when drawing upon the authoritative rulings. A suggested format for your memo is provided below.

MEMORANDUM

To: Extua Corporation Management
From: Intermediate accounting student (your name)
Re: Classification of Class A Common Shares

Dear Extua Corporation Management:

Add the text of your response using 12-point times new roman font. A well done response, including quotations from the authoritative literature, should be approximately 300 words.

Instructions to access the codification:

● Go to http://asc.fasb.org/login and sign up for free Basic View access to the codification.
● Once in the codification, on the topics area arranged by balance sheet category on the left, click on Liabilities and follow the path:

480 – Distinguishing Liabilities From Equity
10 – Overall
25 – Recognition
Once in section 480-10-25, page down to paragraphs 4 and 14:

Paragraph 25-4 Mandatorily Redeemable Financial Instruments. Note: you do not need to concern yourself with Transition Guidance; this deals with the effective date of the ruling for certain entities.

Paragraph 25-14 Certain Obligations to Issue a Variable Number of Shares. Read the main paragraph and sub-part (a). Note: the main paragraph contains wording that relates to an entity's possible involvement with option and future contacts: "or a financial instrument other than an outstanding share that embodies a conditional obligation" and "(or an asset in some circumstances)". You need not concern yourself with these aspects because you are dealing with a financial instrument that is an unconditional obligation, and is an outstanding share.

2. Extua Corporation officials are aware that the United States Securities and Exchange Commission (SEC) is planning to require international financial reporting standards (IFRS) at some date in the future, and may permit voluntary adoption in advance of that date. Extua officials have heard that IFRS are "principles-based," relying on conceptual guidelines, rather than specific rulings which are the basis of U.S. GAAP. Extua officials would like your opinion as to how the class A common stock would be viewed on a purely conceptual basis.

Suppose the FASB and IASB have eliminated all previous rulings concerning classification of financial instruments and replaced them with a principles-based approach. The principles are the ESSENTIAL CHARACTERISTICS OF DEBT and ESSENTIAL CHARACTERISTICS OF EQUITY. Under this approach, companies have the responsibility to determine the proper classification of financial instruments they have issued. A financial instrument must be analyzed in terms of the principles and a judgment made as to whether the overall nature of an instrument is more equity-like, or more debt-like. Extua Corporation officials have given you the task of performing this analysis for the Class A Common Shares.

Write a memorandum explaining whether the Class A Shares should be reported as a liability or equity on the December 31, 2011 balance sheet. Use the same formatting guidelines as above in part 1. A well done memorandum, including references to essential characteristics and explanation of their application to the Class A shares, should be approximately 300 words in length.

GLOSSARY

Capital Structure The mix of debt and equity financing that a company employs. An optimal capital structure balances the tax benefit of debt (interest expense is tax deductible), against the possibility of bankruptcy costs associated with debt (see Legal Debt).

Financial Instrument The various claim certificates that companies issue to obtain money from outside parties. Claims may reflect ownership interest, or contractual rights to receive cash or other benefits from the issuing company.

Legal Debts Financial instruments which entitle the holder to sue in a court of law if the company does not deliver contractually promised benefits. The right to sue implies that the company faces the threat of bankruptcy costs.

Liquidation Preference The fixed amount preferred shareholders can receive in liquidation proceedings of a company. The amount is paid only after all debts have been satisfied, and must be fully paid before common shareholders can receive anything.

Mandatorily Redeemable Financial Instrument A financial instrument where redemption is mandatory. It is not an option for either the company or the holder of the financial instrument: redemption is required to occur.

Mezzanine / Mezzanine Financing Companies' financing activities may involve issuance of hybrid instruments that combine features of debt and equity; because these instruments do not fall neatly into the category of either debt or equity, they are frequently reported on the balance sheet in a middle area, commonly referred to as the mezzanine.

Redemption Right The right (i.e. option) of a financial instrument holder to present his or her certificate to the issuing company for a known or determinable amount of cash or other benefits. The holder surrenders his or her certificate, and the relationship with the company is ended.

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CARSON'S DEPARTMENT STORE: WHEN TO STAY AND WHEN TO GO

Charles M. Carson, Samford University
Carol J. Cumber, South Dakota State University

CASE DESCRIPTION

This case is designed for use in undergraduate courses with a focus on entrepreneurship such as Small Business Management and Family Business Management.

CASE SYNOPSIS

This field researched case focused on a small town long-standing department store. Chuck and Pam Carson are a husband and wife entrepreneurial team that has owned and operated a retail clothing store in Northeast Mississippi for over thirty years. Chuck has found success in another business venture and is pressing Pam to make some very difficult decisions regarding the future of the business. These decisions are complicated by the fact that there is no available family successor to take over the business. Another important issue is that these long-time marriage and business partners have different levels of emotional connection to the business and are not united as to what should be the store's future.

CARSON'S DEPARTMENT STORE

As Chuck Carson unlocked the back door of Carson's Department Store and walked into the office that he and his wife Pam had shared for over 30 years, many thoughts ran through his mind. He saw the desk that he once occupied that was only four short feet away from his wife's. He thought back to all of the hours and years that they had worked side by side in that cramped office and out on the store floor and he smiled. Owning and operating a retail clothing store in a small town had proven to be a challenge, and ultimately a source of immense pride for Chuck and Pam. As Chuck stated, "We raised a family out of this store, and didn't miss many meals along the way." That statement hung there because everyone who heard it knew that Carson's Department Store, at least with someone from the Carson family running it, might not be in existence much longer.

BACKGROUND

Chuck and Pam Carson bought Dendy's Department Store on May 30, 1975 from the widow of the store's prior owner / operator who had died approximately one year earlier. Mr. Dendy's wife had tried to continue on with the business that had been a fixture on the town square of tiny (approximately 4,000 residents) Houston, Mississippi for 21 years but she had grown weary of the retail clothing business. Houston was the county seat of Chickasaw County in Northeast Mississippi and was approximately 45 minutes from larger shopping cities such as Tupelo (home of the Barnes Crossing Mall) and Starkville (home of Mississippi State University). Chuck and Pam had recently moved to Mississippi from North Carolina where Chuck had worked in furniture manufacturing and Pam worked as a school teacher. Pam's parents, Howard and Ann Miskelly, had a successful retail clothing store (Howard's) located approximately 20 miles from Houston, in the town of Okolona, Mississippi. Their expertise and advice proved extremely beneficial to Chuck and Pam during their early years of business. Chuck had intended on continuing as a plant manager in furniture manufacturing following the move to North Mississippi; however the opportunity to "be his own boss" intrigued him. With Pam's parents offering support and guidance, Chuck and Pam seriously began considering making an offer to the Dendy family to purchase their business.

After examining the inventory and financial records of prior years, the Carsons borrowed money from the local bank ($40,000 for the business and $10,000 for working capital; Chuck and Pam later agreed that this was "not enough") and purchased the business from the Dendy family. Chuck and Pam deemed the location of the store as an important selling point. The building was located on the west side of the town's square, only two businesses away from the town's largest bank and surrounded by other thriving retail businesses such as a jewelry store, dress shop, and drug store. As part of their purchase agreement, the Dendy family kept all receivables as well as all prior debt. In essence, Chuck and Pam bought inventory and goodwill. Chuck and Pam also negotiated to operate the store as Dendy's Department Store for purposes of a Going Out of Business (GOB) sale. Their GOB sale lasted for three months and provided the new entrepreneurs with a much needed infusion of cash, which they used to restock their merchandise with new clothing items. According to Chuck, "If we had not had such a high level of success with our Going Out of Business sale, we would have had a hard time getting off the ground and through that first year of business. The sale allowed us to get rid of a lot of our old inventory and take that cash and replenish it with new inventory." The Carsons expanded their product lines (e.g. Levis, Chaps, Ruff Hewn, Volatile, Central Falls, Nike, Fila, Reebok, Clark's) with their cash infusion above the level that the Dendys had previously offered.

The business opened under the Carson's banner in October of 1975 following two weeks of being closed for interior remodeling. Initially the Carsons bought a great deal of their merchandise through Howard's due to their lack of buying history with some of their suppliers. They were able to keep many of the product lines that Dendy's had sold. During the early stages of the enterprise the Carsons wrote all of their creditors that Dendy's would still be responsible for any pre-accrued debt but that Carson's wanted to keep those lines.

The store's previous owner, Mr. Dendy, was a promoter who was always running big sales. The Carson's philosophy was different; set a fair price and allow the customer to decide if they were willing to pay that price. This was a departure from what the community was used to. Many customers echoed the refrain that, "Mr. Dendy did not do it that way." What Mr. Dendy did was engage in "horse trading, haggling, or negotiating" over prices. This change in policy alienated some customers, but was seen as a necessity due to Chuck and Pam's lack of retail experience; it also simplified the sales process for their two person sales force that they "inherited" with the store.

The Carsons were quick learners. They were aided by their division of labor which had Chuck handling customer service, inventory control, pricing, and billing, and Pam taking care of buying, marketing, and selling. When asked what he learned during the first few years Chuck quickly replied, "How to work long and hard all day and most of the night. I wrote all of the checks and paid all of the bills. We went to market once a month to buy for our men's, women's, and children's departments. Shoe peddlers would come around monthly…now you have to go to shoe market as well." Chuck added, "I never questioned whether we could make it or not. Houston was a good business town, the best in the county for sure and one of the best in North Mississippi." The business did face down several significant challenges after surviving the early years of operation. Those challenges included a changing local economy, and the arrival of Wal-Mart.

CHALLENGES

CHANGING LOCAL ECONOMY

The local economy of Houston and Chickasaw County was heavily dependent on manufacturing. The garment industry was especially important in the 1970s and early 1980s. This industry employed a great many female employees who had more disposable income than their family had been accustomed to. Many of those females were loyal customers to Carson's. During the 1980's all of those factories closed, with the jobs going to Mexico. This shift placed increased emphasis on skill in buying – Pam's specialty. Because of the closings, many of those customers could only afford to shop at the "new" Wal-Mart, thus cutting Carson's customer base significantly. The arrival of Wal-Mart was a challenge –one that is explored in more detail later.

An additional strain on Carson's was the opening of Barnes Crossing Mall in Tupelo, Mississippi (45 minutes from Houston and the entertainment draw for many area residents) that opened in the early 1990s. The stores in the Mall, e.g. McRae's, JC Penny, Belk, and Parisian (in other parts of the country this was equivalent to a Kohl's type department store) sold many of the same type of items that Carson's was trying to sell. An unrelated change also impacted

Carson's ability to reach new and existing customers. The local FM radio station was sold to a group of investors and was also moved to Tupelo. Chuck and Pam now had to rely on Houston's weekly newspaper, the *Times-Post* and local AM station WCPC-940 as their only realistic means of advertisement.

WAL-MART

Before Wal-Mart came to Houston there were nearly a dozen retail clothing stores in town. When it was announced that Wal-Mart was coming to town many of them simply locked their doors and closed their businesses. Pam commented, "When Wal-Mart came we made a conscious decision to upscale our merchandise. We used to carry clothing and shoes basically for anybody in Houston. We had the least expensive items that we could find and we had the upper end items because we were selling to everybody in town. What we did was eliminate the lower end products because we could not compete with Wal-Mart pricewise. We moved our product line up a category. We carried moderate and higher end products; no lower end. Wal-Mart could sell Hanes underwear cheaper than we could buy it. Of course it was not the same underwear…it just had the same label and name, it was not the same product, but you can't convince the public, so we just eliminated those items." Pam continued, "We tried to find our niche while not bumping heads with them (Wal-Mart). Our buying was the key…what were the hot item(s)…we had the ability to be very agile and opportunistic with our buying."

Carson's adapted to meet the economic and competitive challenges that it faced. Their ability to adapt resulted in thirty three years of success. Chuck and Pam had three children, each of whom had stated their intentions not to continue the family business. The two oldest children had relocated to Alabama and their youngest was a college student. There was an outside chance that their youngest son would want to continue the business, but that chance was "very slim," according to Chuck.

Chuck had often dabbled, with mixed results, in outside business opportunities (a "branch" of Carson's in a neighboring county, a furniture manufacturing firm, and a retail shop specializing in blouses to name a few). He finally found success when he purchased G & O Supply Co. in 1999. G & O Supply was a distributor of metal and polyethylene culverts and other drainage system construction materials. G & O quickly expanded its operations beyond Houston and into other Mississippi markets (Tupelo, Byhalia, and Jackson), becoming the largest drainage pipe distributor in the state of Mississippi. This new endeavor changed the dynamic of Pam and Chuck's successful business partnership. Pam commented, "He was not in the store nearly as much and that affected our business (see Exhibit 1 for Profit and Loss statements). He was in the office and he took care of what he could in the back, but he was pretty much tied up with G & O. He started trying to 'wean' me to more and more work. I had to limit my time working on the floor selling and had to do things that I did not know how to do such as marking goods. He always took care of pricing and all of the middle things. Basically before I was the buyer and the seller and now I had to handle all of the supplies, customer service, bills, and returns."

Chuck finally moved out of their cramped office space in 2006. He and G & O occupied two offices less than 100 yards away from the back door of Carson's. This move, while not very far in terms of distance, was a symbolic end to Carson's as originally conceptualized. Chuck made no secret to Pam or anyone else in the family that he would be happy with closing Carson's or trying to find a buyer so that he could concentrate all of his efforts on growing G & O. This, however, would leave Pam with no outlets for her buying and selling talents (she had no role with G & O) – and more importantly she would be giving up something that she truly loved; something that had been a very significant part of her life for over 30 years.

CONCLUSION

When asked what they would do without a family successor, Pam replied, "Since our youngest child has finally decided that he does not want to be involved with the business going forward, I can see two choices; we can either sell out (to a buyer) or we can have a GOB sale and close our doors." When asked if anyone had ever tried to buy Carson's, Pam defiantly said "Never" with the clear understanding that it was never for sale and if she had her way it would not be for sale for a long time to come. Chuck jokingly replied, "No, they better not, unless they are serious…of course it has never been for sale…and I don't know…well, it would be hard to sell it with the type of inventory we have…it would take a lot of money for someone to buy it." Chuck and Pam looked at each other and smiled. Pam concluded, "I don't know how we could begin to put a price tag on what we did together." It was clear that they were both proud of their accomplishments, but that they also wanted to examine what the future might hold for the business. As they closed up for the day and headed out the door, Pam, with her hand on the light switch, turned and glanced back at the store she and her husband had run for over 30 years. Her head told her it might be time to move on. Her heart wasn't so sure.

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Exhibit 1
Carson's Department Store - Profit and Loss Statements 2000-2006

	2006	2005	2004	2003	2002	2001	2000
Income							
Sales - Regular	480497	511851	443781	490008	479256	504395	625277
Sales - Wholesale	1650	1193	0	6050	1420	5633	10709
Sales - Out of State	1683	5115	3586	3548	5387	1698	3458
Sales - Charge Cards	17605	65726	95375	72272	66826	102193	73963
Total Income	501435	583885	542742	571878	552889	613919	713407
Cost of Sales							
Purchases	325915	384621	360654	383946	373384	420150	510318
Freight & Postage	4982	3652	4431	4602	5747	3504	5792
Refunds, Bad Checks	1613	1325	2039	2402	2537	1996	2439
Total Cost of Sales	332510	389598	367124	390950	381668	425650	518549
Gross Profit	168925	194287	175618	180928	171221	188269	194858
Accounting & Legal	1438	2340	1383	1570	1622	1487	2518
Advertising	5790	8024	9210	10972	12104	10332	10643
Bank Charges	619	645	827	868	701	402	227
Cash O/S	881	-1	1	0	0	-10	-15
Depreciation	400	0	0	0	0	0	0
Donations, Public Rel	543	165	668	1129	460	733	635
Dues & M'ships	750	832	1122	987	1098	973	819
Insurance	7384	4928	4475	5391	5386	3872	3758
Insurance - Life	0	222	0	0	0	0	0
Interest	1662	2296	2038	1950	2204	3781	1841
Misc Expenses	713	2074	191	366	1073	556	154
Rent	10800	10800	10800	10800	10800	10800	10800
Repairs & Mtce	7006	4593	3824	1923	1460	3273	2986
Salaries	38151	45877	46370	37906	33817	36934	40369
Salaries - Stockholders	20400	20800	21200	20300	36200	30400	35200
Supplies - Other	7296	6991	6638	6897	6902	3162	6917
Taxes	54719	59484	52054	54392	64250	60387	62308
Travel & Market	9661	10807	3858	7296	6545	1885	6471
Utilities	9615	9980	8794	10285	7814	7725	8287
Vehicle Expenses	47	0	618	2018	0	934	459
Total Operating Expense	177875	190857	174071	175050	192436	177626	194377
Net Profit (or Loss)	-8950	3430	1547	5878	-21215	10643	481

CREATIVITY, INNOVATION AND ENTREPRENEURSHIP: THE CASE OF H. WAYNE HUIZENGA

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CASE DESCRIPTION

This case focuses on one of the most successful entrepreneurs in the U.S. during the 1980s and 1990s, H. Wayne Huizenga. Huizenga amassed a fortune of $2.3 billion, but was still seeking out new ventures. Several questions are located at the end of the case. Students are expected to answer these questions based on the content in the case. However, at points, students may have to gather their own information when necessary, outside of the case. The case was written primarily for undergraduate students in entrepreneurship and business strategy. This case can be best used either in the startup or growth stage of entrepreneurship curriculum. The course can be taught in one hour and twenty minutes and students should spend four hours of research preparing for the case.

CASE SYNOPSIS

The case begins with the background and personality of H. Wayne Huizenga, the 546th richest man in the world. Huizenga was the only person in history to build three Fortune 1000 companies and the only person to build six NYSE-listed companies. He was also the only person to ever own three professional sports teams in a single market. Huizenga created and grew Waste Management, Inc., Blockbuster Inc., and Republic Industries along with the countless other businesses that he invested in during his career (e.g., security alarms, professional sports franchises, hotels, portable toilets, lawn care, bottled water, pest control, billboards, and machine parts washing service). Students will have the opportunity to learn about Huizenga's background, keys to success, and strategies used to start and grow some of his businesses. Furthermore, students are required to make recommendations to Huizenga based on today's economic environment to expand Huizenga's business empire.

INTRODUCTION

On April 9, 2010 in South Florida where famous businessman H. Wayne Huizenga lived, Huizenga was listed as the 546th richest man in the world with a net worth of $2.3 billion according to *Forbes Magazine* (2011). Huizenga was a self-made entrepreneur who made his fortune in garbage hauling, video rentals, automobile sales and rentals, security alarms, professional sports franchises, hotels, portable toilets, lawn care, bottled water, pest control, billboards, and machine parts washing service (Fridson, 1999).

His career started with a single garbage truck in 1962, from which he was the only person in history to build three Fortune 1000 companies and the only person to build six NYSE-listed companies. He is also the only person to ever own three professional sports teams in a single market (Carmichael, 2009).

Despite all of these accomplishments, Huizenga was getting the entrepreneurial itch once again. He was contemplating what opportunities were available in today's economic environment. After all, he had a net worth of $2.3 billion dollars.

H. WAYNE HUIZENGA

H. Wayne Huizenga was born on December 29, 1937 in Evergreen Park, Illinois, a suburb of Chicago. Huizenga referred to his childhood as miserable, chaotic, and dangerous. His father Harry was the son of a Dutch immigrant named Harm Huizenga. His grandfather, Harm, founded the first garbage-hauling business in Chicago in 1894. Huizenga's father Harry declined to enter the family's garbage business and became a carpenter and homebuilder.

In his youth, Huizenga went to Dutch private schools. He described his family life growing up as difficult, as his father's quick temper and mother's emotions led to a volatile combination (DeGeorge, 1996, p. 4). His family had financial troubles which contributed to a volatile family life. As a result, Huizenga became independent and intense at a very young age. Huizenga's friend Dick Molenhouse stated, "From the time his folks' problems started, he was basically on his own. He did his own thinking then as he does today" (DeGeorge, 1996). Huizenga was a curious person that had the ability to talk to everyone and anyone.

Huizenga was extremely hard working. At age 14, he helped out in the family business while his father was in the hospital. Huizenga also helped out the family by working at gas stations and driving a truck in high school.

Huizenga's parents fought constantly when he was a teenager. As a result of the physical and mental abuse from his father, Huizenga's mother had a nervous breakdown in 1953. In an attempt to save his marriage, Huizenga's father moved the family to Fort Lauderdale, Florida. South Florida was booming; Huizenga loved the area and his father entered the construction industry. Harry was moderately successful, but faced financial problems when he focused on larger custom homes. This increased the financial stress on the household.

The financial stress peaked when his father attacked his wife, daughter, and Huizenga himself. Following this incident, his wife filed for divorce in July, 1954.

In a divorce petition filed in 1954, Jean Huizenga accused her husband of ongoing mental and physical abuse that eventually landed her in a mental hospital (Almond, 2004). The troubles got even worse after the divorce as Huizenga's father, at times, was unable to pay alimony.

Based on his family's constant financial troubles, Huizenga learned a valuable lesson at a young age; the value of cash and paying your bills. He also learned that you have to learn how to take care of yourself at a very young age. This was the foundation of Huizenga's drive for success.
In Florida, Huizenga attended high school at the private Pine Crest School. He was the poorest student at the affluent school, which was the only preparatory school in the area. Huizenga was not a great student. He needed much assistance with his classes to pass.

During high school he became the class treasurer and business manager for the yearbook and newspaper. He was also the third baseman on the baseball team and linebacker and center for the football team. Huizenga was a perfectionist and had the ability to understand people quickly, which benefited him enormously in business. During summer vacations, Huizenga moved to Chicago to work for family friends, driving a dump truck.

After high school, Huizenga obtained a loan from his Uncle to purchase a dump truck. He used the truck for various projects until it broke down. He then moved back to Chicago to work in construction. After a brief stint at this, he was approached by his Uncle Pete who offered to pay for him to go to college. Huizenga took him up on the offer and attended Calvin College in Grand Rapids, Michigan for three semesters. But he dropped out and moved back to Florida where he worked construction for his father. After this, he served in the Army Reserve to avoid the Vietnam War draft. When he returned from the Army, he got a job working as a manager for a family friend's garbage business.

HUIZENGA AND WASTE MANAGEMENT INC.

At the age of 23 years old, Huizenga married his high school sweetheart, Joyce Vander-Wagon. While he was managing his father's friend's garbage business, Huizenga saw an ad in the paper for a refuse business for sale with $500 a month in revenues. Huizenga met the owner, Wilbur Porter, and said, "Wilbur I want to buy your business but I do not have any money. I bugged Porter for months and he finally said that he would finance me. That was my first leverage buyout" (Huizenga School of Business, 2009). In 1962, Porter sold the young entrepreneur a snub-nosed truck and $500 worth of customers. On February 14, 1962, Huizenga incorporated Southern Sanitation Service with $5,000 he borrowed from his father-in-law to purchase a single used garbage truck and 20 commercial accounts from Wilbur Porter of Porter's Rubbish Service in Broward County, Florida (Huizenga School of Business, 2009).

Huizenga's work habits were epic, as his secretary, Judy Balfoort recalls, "He was always there before anyone else and he was always the last one to leave and in between he just did everything" (DeGeorge, 1996, p. 15). In the beginning, a typical day for Huizenga consisted of him collecting trash from 2:30 a.m. until 12 p.m. He then went home and showered, put on a suit, and went out to build new accounts. His business model was based on two streams of revenue. First he would make money by hauling trash and second he would make money through renting receptacles (bins).

Huizenga's brother-in-law, Harris Whit Hudson once said with respect to Huizenga, "The most important thing to him was the customer . . . you had better do right by the customer. No matter what it took and no matter what it cost you. If you lose that one customer, you are going to lose more customers." Huizenga prided his operation on its sharp appearance, ensuring that the garbage trucks were clean and painted. He also made it a point to have clear communication with everyone, making sure that there were no surprises (DeGeorge, 1996, p. 16).

Huizenga's operation was a success, however his first marriage failed. Huizenga built up his company to 40 trucks by 1968. That same year, Huizenga merged his garbage business with the garbage company of his three widowed aunts and Dean Buntrock, from Chicago. According to Huizenga, "Buntrock became a family member by marrying one of Huizenga's cousins, B.J." (Huizenga School of Business, 2009). Together they created a new company called Waste Management, Inc. Within six months the firm went public at $16 a share and raised $3 million. Over the next nine months, Huizenga was the driving force behind acquiring 100 competitors through stock swaps. Stock swaps entailed buying the competitors with stock from Waste Management, Inc.

In 1972, Huizenga married his former secretary, Marti Goldsby, a widow with two children. Huizenga already had two children from his former marriage. By 1983, Waste Management, Inc. was the largest garbage hauling business in the United States. In 1984, the company had $10 billion in revenues while Huizenga was the COO and president of the company.

In 1984, Huizenga resigned at the age of 46, taking with him 3.7 million shares of stock worth approximately $23 million. He retired for only a few weeks before starting his next venture; he began buying hotels, office buildings, pest control businesses, warehouses, and lawn care services. By the end of 1986, Huizenga and his new company, Huizenga Holdings, had bought more than 100 businesses that generated $100 million in annual income (Alpert, 1987).

HUIZENGA AND BLOCKBUSTER INC.

In 1985, David Cook and his wife, Sandy created Blockbuster Video in Dallas, Texas. Blockbuster competed in the fragmented video rental industry at that time. The Cooks had created a successful concept where their niche was longer hours and a larger inventory of videos combined with a brighter atmosphere than other traditional stores. The store was 6,000 square-feet, had 6,500+ titles in an x-rated free environment, and was a refreshing change from the traditional video business (Huizenga, 1986). Cook expanded to three stores by the summer of 1986.

The company was set to have an initial public offering in 1986. However, before it was able to raise additional capital, *Barron's* Magazine came out with an article questioning the Cook's business skills and the viability of the business. According to Cook, "The article's impact was the single changing point in my life" (DeGeorge, 1996, p. 100). Blockbuster lost $3.2 million in 1986.

In November, 1986, John Melk, a previous employee at Waste Management Inc., contacted Huizenga about Blockbuster. He stated that this was a great investment opportunity that Huizenga needed to investigate. Huizenga finally took him up on the offer and visited a Blockbuster store in Chicago in February of 1987. Huizenga, Melk, and Donald F. Flynn (a Waste Management executive), purchased a 35% stake in Blockbuster for $18.5 million. Cook and Huizenga differed in their philosophies of how Blockbuster would be run, with Cook more interested in franchising and Huizenga seeing growth through corporate store ownership (*Hoovers, Inc.*, 2011). By April of 1987, Cook was bought out for $20 million and the Blockbuster headquarters moved to Fort Lauderdale, Florida (DeGeorge, 1996, p. 108). Huizenga was now in charge. He recognized the potential and followed the growth-by-acquisition playbook honed in his Waste Management days. Huizenga purchased dozens of video chains all over the United States. The stock soared and Huizenga took a $1 salary a year for the first three years. The majority of his income was based on stock options.

Huizenga and his partners bought into Blockbuster when it owned 19 stores. Huizenga grew Blockbuster through aggressive acquisitions and franchising. Blockbuster's philosophy was to purchase local and regional video store chains, and then maintain a familiar atmosphere in the stores (Greenberg, 2008, p. 128). The stores were bright, selling only rentals, candy, soda, and popcorn. The breakneck pace of expansion was in full-gear. Blockbuster had everything needed to build and stock a new store packed in a tractor-trailer. Empty stores to ready ones could occur in just a day. As Richard Nathenson, a former worker once said referencing Blockbuster's efficiency, "It was an amazing company… I'm not saying good or bad, but I'm just saying amazing" (Greenberg, 2008, p. 129). According to Allen Klose, former Vice President of Marketing Research for Blockbuster, "Huizenga was amazing. We would have board meetings in the morning and in the afternoon we would be implementing our strategies."

According to Huizenga, "We broke down the country into eight regions and hired a manager in: marketing, operations, real estate, construction, and regional vice president to oversee each region" (Huizenga School of Business, 2009). Huizenga's goal was to open 250 stores a year. Over the next six years one store opened every 17 hours.

Huizenga wanted to raise additional funding in a secondary offering, but the combination of another negative Barron's article in September of 1987 and the stock market collapse on Black Monday, forced Huizenga to ask his friends and family for additional capital (Alpert, 1987). Huizenga's wife, Marti, noted that this was a turning point for Huizenga. "He felt such a [great] sense of responsibility to the people who invested their money... I think it still would be what it is today, but maybe not in the same time frame" (DeGeorge, 1996, p. 125).

What made the expansion possible was Huizenga's willingness to hire people that were better than him. Huizenga stated, "You always hear about delegation," he says, "but people make the mistake of delegating and not following up. I give authority, but I stay in touch. Otherwise it does not work" (DeGeorge, 1996, p. 125).

Huizenga's legendary 12- to 14-hour workdays were a model for what he expected of others. "This place," said Thomas A. Gruber, a former Blockbuster chief marketing officer, "is run like a presidential campaign, 24 hours a day. We get in early, go home late, travel after hours, have meetings on the plane. Huizenga sets the pace and everybody needs to move at that pace" (DeGeorge, 1996, p. 125).

The Blockbuster culture was very conservative under Huizenga. The company forbade employees to speak to reporters without corporate permission and also forbade male employees from wearing their hair long. Employees at Blockbuster were instructed on how to greet customers and referred customers to printed recommendations instead of their personal video recommendations. Blockbuster dominated the suburbs, but found the urban environment challenging and the rural environment unprofitable. The Blockbuster model changed the video store culture, from one that was a community, to one that was business-like in approach, but making the experience more family friendly.

By 1990, Blockbuster's revenues surpassed $1 billion. Blockbuster generated $89 million in profit on $1.5 billion in sales in 1991 and by the end of that year, there were Blockbuster owned stores in Japan, Chile, Venezuela, Puerto Rico, Spain, Australia, New Zealand, and Guam. By 1993, there were more than 3,400 video stores worldwide, about one-third of them overseas (*Hoovers, Inc.*, 2011). During this year, Blockbuster acquired a one-third, controlling share in Republic Pictures, a movie and television production and Distribution Company (SunSentinel.com). In March 1993, Blockbuster acquired a 53.8 percent stake in Spelling Entertainment for $141.5 million dollars (*NYTimes.com*, 1993). Huizenga bought up competitors Errol's Video Inc., then the third largest video store chain, and Major Video (*Hoovers, Inc.*, 2011).

Though Blockbuster was international and had diverse holdings, Huizenga was worried that evolving technology could make video tape rental obsolete. An exit strategy appeared in January of 1994. Blockbuster was able to sell itself to Viacom Inc. in a deal valued at $8.4 billion. Huizenga's $18.5 million investment in Blockbuster, along with options, was worth $600 million when he stepped down as CEO in 1994. An investment of $25,000 in Blockbuster in 1987 would have been worth $1 million seven years later (Sexton, 2001, p. 41).

HUIZENGA AND PROFESSIONAL SPORTS

Huizenga purchased 15% of the professional football's Miami Dolphins in 1989. In 1990, he purchased 50% of Miami's Joe Robbie Stadium in Dade County, Florida. By 1994, Huizenga purchased all of the stadium and the football team for $138 million. In 1991, Huizenga beat out 10 other cities to gain Major League Baseball's (MLB) newest franchise and the first professional baseball team in Florida history, the Florida Marlins (Huizenga School of Business, 2009). The Marlins cost $95 million in 1993 and within four years they became World Series Champions in 1997. Several months before the championship games, however, on June 27, 1997, Huizenga had announced that he would sell the Marlins and take a $39 million loss, but would not sell them to anyone who would take them away from Miami. In 1992, Huizenga spent $50 million to win Miami a National Hockey League (NHL) expansion team, the Florida Panthers (Huizenga School of Business, 2009).

Huizenga made no secret of his view of sports franchises as businesses and his disappointment over the financial performance of both teams. The man who was a hometown hero for bringing the franchises to South Florida became the object of fan disappointment and anger when the championship teams were dismantled to cut costs.

In 1999, Huizenga sold the Marlins to commodities trader John Henry (the team was later sold in 2002 to Jeff Loria, an art dealer). After expressing interest in selling the Panthers, Huizenga instead took the team public in 1997, folding into the public company four resorts to create a company called Boca Resorts Inc., which owned the Boca Raton Hotel & Club, Hyatt Pier 66, and Radisson Bahia Mar among other properties. In 2001, Huizenga sold the Florida Panthers to ex Cleveland Browns quarterback Bernie Kosar and Alan Cohen at a reduced price. However, Huizenga still owned the building where they played, the BankAtlantic Center. In 2004, he sold Boca Resorts Inc. to the Blackstone Group.

In 2009, Huizenga sold 95% of his stake in the Miami Dolphins to Stephen Ross, a real estate magnate, for $1.1 billion, seven times what he paid for the team in 1994. He still owns 5% of the team.

HUIZENGA AND REPUBLIC INDUSTRIES

The next venture that Huizenga entered was a revisit to the sanitation industry. In 1995, he invested $64 million of his own money and raised an additional $168 million and bought the Atlanta-based sanitation company Republic Waste Industries (*Entrepreneur.com,* 2012). Huizenga renamed the company Republic Industries, a small business that was struggling in the garbage and electronic-security industries. In 1995, Huizenga became the chairman of the Board of Directors.

As he had done with Waste Management, he expanded the business and used the cash flow to enter the retail automotive industry. Huizenga's next venture was to create a network of new and used car outlets throughout the United States. Republic began opening AutoNation used car megastores and over a period of six months, he bought 65 auto dealerships with 109 outlets selling 31 brands, opened 11 used-car superstores called AutoNation USA, and purchased three rental-car agencies, including Alamo, National, and CarTemps USA (*Entrepreneur.com*, 2012).
Huizenga propelled the company from $48 million in sales in the early 1990s to over $10.3 billion in 1997. Republic became the nation's largest auto retailer in a $1 trillion industry, owning just shy of 320 new car dealerships, a fleet of over 310,000 rental cars in the United

States, Canada, the Caribbean, Latin America, Australia, Europe, Africa, and the Middle East, 26 AutoNation USA superstores, and had plans to add the 12-outlet Driver's Mart chain to the fold in 1998 (*Entrepreneur.com,* 2012).

In 1999, Huizenga renamed Republic to AutoNation Inc. He had deals to acquire about 400 new-car dealerships and more than 40 used-car stores, and operated approximately 4,000 rental car locations worldwide, making it the world's number-one auto retailer and the United States' second-largest provider of vehicle-rental services (*Answers.com*, 2010). In January 2003, Mike Jackson replaced Huizenga as Chairman of the company.

HUIZENGA'S KEYS TO SUCCESS

Huizenga stated, "My father always said working for somebody else never amounted to anything. You have to be an entrepreneur… I do not want to be just a voice on the phone. I have to get to know these guys face-to-face and develop a sincere relationship. That way, if we run into problems in a deal, it does not get adversarial. We trust each other and have the confidence we can work things out…I do not think we are unique; we are certainly not smarter than the next guy. So the only thing I can think of that we might do a little differently than some people is we work harder and when we focus in on something we are consumed by it. People are what determine your success in the future. Surround yourself with good people and you will not fail… Have a passion for what you do, work hard, have great people with good personalities, enjoy the ride" (Carmichael, 2009). Huizenga grew up in a business where there were no excuses. He was not inclined to give or take excuses and believed in hard work. He overcame hardships and worked around and through obstacles. Huizenga believed that achieving an education was true success. Huizenga had a few rules that he used: keep meetings short and master the executives' areas of expertise and constantly challenge them.

Success in Huizenga's mind was enabled by "creativity, endurance, and a willingness to stick to one's convictions" (Kadlec, 2009). Huizenga would place himself in the other person's shoes when making a deal. He treated them fairly, so it was a win-win situation. Huizenga did not develop companies for money, but for the challenge and excitement. All the jobs that we have created, all the companies that we have created – a lot of people have made a lot of money.
Huizenga stated, "The most important factor is people… Everybody I hire is smarter than I am…I have never been frightened by hiring people who are more intelligent than I am, that are smarter than I am. There is a difference between being intelligent and being smart. People have to have both" (Huizenga School of Business, 2009).

Another key to his success was his ability to delegate responsibilities to others that have greater expertise than he does in certain areas than he does. When he bought into Blockbuster, he saw it as a sort of video McDonald's—a one-product venture that could easily be duplicated and franchised. However, Huizenga had little knowledge of the retail business, so he sought help from the ranks of fast-food giants, where he found and recruited former McDonald's and

Kentucky Fried Chicken (KFC) real estate manager Luigi Salvaneschi (*Entrepreneur.com,* 2012). According to Huizenga, “Salvaneschi was the architect behind the real estate masterpiece of McDonald’s and KFC. He was the President of Blockbuster from 1988-1990” (Huizenga School of Business, 2009). Huizenga recruited top management from some of the best companies offering them more money and perks. He persisted until they would come aboard.

The key to Huizenga's success was a formula that worked time and time again. He focused on service industries that had recurring income: dumpster rental, trash collection, video rental, etc. Even with AutoNation, there was no big manufacturing plant, and an emphasis was on customer service. Most of all, Huizenga focused on finding industries that were not meeting customer needs. Each of his companies set a new standard of highly professional service in its industry.

In an interview about his keys to success with the different businesses he stated, “In each business, there was a customer-service aspect that could be improved. My approach has always been to do those things that keep the customer happy. The opportunity for customer service in waste collection was to pick up the trash at the same time each week and to use clean trucks and equipment. At AutoNation, it was the one-price, no-hassle selling process” (Sexton, 2001, p. 41).

In a more recent interview, Huizenga talked about his management style related to performance, “If there is someone in the bottom 10 percent of the company, they ought to know. I am not looking at the company’s side of it, but the employee’s side. I think the employee needs to know that management thinks they are in the bottom 10 percent. Early on in my career I had a guy named Bill working for me that worked really hard but just did not fit; did not make the right decisions. We kept him around for a while because he was a good guy and we wanted to be loyal to him. We actually did him a disservice by keeping him around. We should have let him go and get a job with another organization where he could rise to the top. I learned from that experience that you have to be fair with the employees and tell them up front” (Huizenga School of Business, 2009).

Some final remarks from Huizenga were, “I am from the old school. The first thing that an entrepreneur needs to do is to believe in what he or she is doing and work hard to sell the business concept. It is hard work, and you must believe in an idea to be able to sell it to others. You must be committed to what you are doing. You should wake up in the morning excited to go to work. If you find yourself in a position where you are not sure or you do not like it, do something else. I could not go to work unless I felt very passionate about what I was doing. I also think you have to be lucky, because timing is everything in life. The key is to be in the right place at the right time. Many people have had a great idea, but at the wrong time. Interest rates may have been too high, or the economy was down. The key is to have the right idea and roll it out as the economy is going up. We cannot dictate when the economy is going to be strong and when it is not. I have been fortunate and lucky. I have been in the right place at the right time, and have been prepared to pursue the opportunity. It is more than just being good it is being good at the right time” (Sexton, 2001, p. 48).

HUIZENGA AND CHARITY AND CIVIC AWARDS

Huizenga has given over $100 million dollars to charity over his life. Huizenga has donated $9 million to Nova Southeastern University's business school, which was named the H. Wayne Huizenga School of Business and Entrepreneurship. Huizenga also donated money to fund a new Huizinga Science Building to his high school, Pine Crest School. In 2009, he gave $1 million to the Martin Memorial Foundation in Florida. Huizenga gave $2 million to the Hurricane Charley relief fund in 2004 and gave $2 million to the Junior Financial Achievement Center in Coconut Creek, Florida to fund educational institutions.

Mr. Huizenga was inducted into the Junior Achievement U.S. Business Hall of Fame in 2006. Huizenga received the prestigious Horatio Alger Association of Distinguished Americans Award in 1992 based on his millions of dollars of college scholarship donations to the National Scholar Scholarships which are presented by the Horatio Alger Association every year. More recently, Huizenga gave $8 million to two churches in South Florida.

HUIZENGA TODAY

Huizenga remains one of the world's richest men. Ironically, money was not his primary motivator. What drove Huizenga was the thrill he got from one-on-one competition between himself and a rival. Today he is Chairman of Huizenga Holdings, Inc., a private money management firm, and is the sole or majority owner of several service businesses. He has numerous real estate interests throughout Florida, including office buildings, warehouses, shopping centers, marinas and underdeveloped real estate acreage. Huizenga also collects antique cars and spends time with his family in Fort Lauderdale and at a Golf Club in Martin County. When asked if he was going to retire, Huizenga retorted, "Are you kidding me! I will never retire. I am in the process of searching for new opportunities. Do you know of any?"

AUTHOR'S NOTE

An earlier version of this case was published in a textbook entitled, "Lessons Learned From Leading Entrepreneurs: Case Studies in Business and Entrepreneurship".

QUESTIONS

1) *Describe the background and personality of Wayne Huizenga. What events happenedduring his youth that contributed to his success as an entrepreneur as an adult?*
2) *How did Huizenga start and grow Waste Management Inc.? What was his businessmodel? How did he grow the business?*
3) *What was the history of Blockbuster Video pre Huizenga? How did Huizenga comeacross the opportunity? What strategies did he use to grow Blockbuster?*
4) *What were H. Wayne Huizenga's Keys to Success?*
5) *What recommendations would you make to Huizenga today? What industry not mentioned in the case would you recommend that Huizenga invest in and why?*

- *Students are free to use any outside information when necessary to answer any of the questions.*

EXHIBIT 1: CHRONOLOGY OF H. WAYNE HUIZENGA

1939: Born.
1953: Moved to Fort Lauderdale, Florida.
1962: Created Southern Sanitation Service.
1968: Renamed Company Waste Management, Inc.
1972: Waste Management, Inc. became largest trash collecting business.
1984: Resigned from Waste Management, Inc.
1987: Purchased Blockbuster Video.
1991: Granted baseball expansion team Florida Marlins.
1992: Granted hockey expansion team Florida Panthers.
1993: Purchased Spelling Entertainment Group and Republic Pictures Corporation.
1994: Sold shares of Blockbuster Entertainment Corporation.
1994: Became sole owner of NFL's Miami Dolphins and Joe Robbie Stadium.
1996: Formed AutoNation
1997: Announced proposed sale of Florida Marlins to Boston Red Sox owner John Henry.
2001: Sold Florida Panthers to Alan Cohen and Bernie Kozar.
2005: Named Ernst and Young 2005 World Entrepreneur of the Year.
2006: Inducted into the Junior Achievement Hall of Fame
2008: Received Norman Vincent Peale Award for his giving scholarship throughout Florida.
2012: Owns 5% of the Miami Dolphins and 5% of Sun Life Gardens Stadium in Miami.
2012: Chairman of Huizenga Holdings, Inc., a private money management firm, and is the sole or majority owner of several services businesses. He has numerous real estate interests throughout Florida, including office buildings, warehouses, shopping centers, marinas and underdeveloped real estate acreage.

SOURCES

Encyclopedia.jrank.org (2012). Huizenga, H. Wayne - Overview, Personal Life, Career Details,Chronology: H. Wayne Huizenga, Social and Economic Impact. Retrieved March 10, 2010 from: http://encyclopedia.jrank.org/articles/pages/6278/Huizenga-H-Wayne.html.

EXHIBIT 2: QUESTION AND ANSWER WITH WAYNE HUIZENGA

1. What do you eat for breakfast?
   Cereal and/or fruit.
2. What was your nickname in high school?
   Wayne.
3. What was your first job?
   A gas station attendant while in high school in Fort Lauderdale, Fla.
4. How often do you exercise?
   Three times a week.
5. Who was your mentor?
   My father, Harry.
6. How many hours a day do you read?
   Approximately two hours.
7. What motivates you?
   Working with great people who make it happen, and seeing the results.
8. What is more important: the idea or the execution?
   The execution, because there are many great ideas, but you must be able to execute to succeed.
9. Worst day of your life?
   The loss of my parents.
10. Do you pray?
    Yes, often.
11. What was your biggest mistake?
    Going into baseball and hockey--although I love the game.
12. Worst business idea you ever heard? (Did it succeed?)
    Heard some doozies, hard to pick just one.
13. What can't you live without?
    Love, faith and family.
14. What is your favorite way to relax?
    Being on a boat--anywhere.
15. What is the best part about being the boss?
    It's like being the quarterback on the team or the head coach. You pick your players, develop the game plan and together, you must execute.
16. What is "success" to you?
    Success is obtaining your goals and objectives. Doing what others do not.
17. What is the best investment advice you ever heard?
    Cash flow.
18. Is there any reason to get an MBA?
    Yes, education is the most important thing to obtain the edge.
19. If you could be anything else, what would it be?

I really would not change anything.

20. What is your advice to young entrepreneurs?
Have a passion for what you do, work hard, have great people with good personalities, enjoy the ride, but balance work and family.

SOURCE

Forbes.com (2006). The 400 Richest Americans: The Entrepreneurs: Wayne Huizenga Retrieved May 26, 2012, from: http://www.forbes.com/2006/09/20/ent manage_biz_06rich400_self_made_entrepreneurs _wayne_huizenga.html

EXHIBIT 3: HUIZENGA QUOTES

Harry Huizenga, Huizenga's father once said, "Working for somebody else never amounted to anything. You have to be an entrepreneur."

"I don't think we are unique, we're certainly not smarter than the next guy. So the only thing I can think of that we might do a little differently than some people is we work harder and when we focus in on something we are consumed by it. It becomes a passion."

"The enormous potential of the AutoNation concept will complement Republic's strategy of building a diversified group of growth businesses in highly fragmented industries."

A friend said, "He (Wayne) was always a perfectionist, whatever he got into he would carry through on it."

SOURCE

LTBM.com. (2012). Entrepreneur's Hall of Fame: Wayne Huizenga, Retrieved May 26,2012 from: http://www.ltbn.com/hall_of_fame/Huizenga.html

“We’re looking for something where we can make something happen: an industry where the competition is asleep, hasn’t taken advantage. It’s going to be hard to find another Blockbuster, but that doesn’t mean you can’t have three good companies growing. The point is, we’re going to be busy.”

“I don’t want to be just a voice on the phone. I have to get to know these guys face-to-face and develop a sincere relationship. That way, if we run into problems in a deal, it doesn’t get adversarial. We trust each other and have the confidence we can work things out.”

“I busted my butt all my life building companies. I have a friend who’s my age, and the last thing we say when we hang up is QTR – quality time remaining. I don’t know how many years I’ll be able to play golf, so I’m going to enjoy every minutes of this.”

“Overcoming hardships and working around and through their obstacles to achieve an education is what I call a true success. People are what determine your success in the future. Surround yourself with good people and you won’t fail.”

“I really would not change anything. Have a passion for what you do, work hard, have great people with good personalities, enjoy the ride.”

SOURCE

Carmichael, E. (2009, February 24). Working for Someone Else Never Amounted toAnything, *youngentrepre-neur.com, Retrieved May 26, 2012 from:* http://www.youngentrepreneur.com/ blog/modeling-masters/ working-for-somebody-else-never-amounted-to-anything-wayne-huizenga/

EXHIBIT 4: KEY THOUGHTS FOR ENTREPRENEURS BASED ON WAYNE HUIZENGA

Find a niche that interests you. Then do your homework. While Huizenga looks to play the big niches, we can each look in our local areas for opportunity. And who knows where it can go with passion and hard work?

Wayne is an instinctual driver that doesn't stop until he's done. Sure he's brash, aggressive and thick skinned but that's what it takes. As one of his original employees once said, "He was always there before anyone else and he was always the last one to leave and in between he just did everything".

He is prepared to put in the time and the dollars to make things happen. His partners and financiers trust him implicitly for his character, ability, and performance.

As you might guess, Huizenga was not without hard times. As a child of divorced parents, he had great difficulty often denying himself a paycheck in the early years. He was accused of having connections to the mafia and even accusations of illegal disposition of harmful toxins (later disproved) while at Waste Management.

It is a long and hard road that your spouse, family and employees need to understand. Huizenga is known to use the word "we" often as it is only with the assistance of others that great things can be accomplished. People such as Huizenga are driven to succeed at everything they attempt. And if they don't, NEXT!!!

SOURCE

LTBM.com. (2012). Entrepreneur's Hall of Fame: Wayne Huizenga, Retrieved May 26, 2012 from: http://www.ltbn.com/hall_of_fame/Huizenga.html

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PRICING REI MEMBERSHIPS: THE USE OF SEGMENTATION AND VALUE ESTIMATION PRICING

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CASE DESCRIPTION

The primary subject matter of this case concerns value estimation pricing in a cooperative setting. Secondary issues examined include strategy in pricing, value creating and its role in setting price, and the cooperative business model. The case has a difficulty level of three, appropriate for junior level and four, appropriate for senior level. 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

Throughout the past decade, Corporate America has developed a tarnished reputation. Scandals and investigations such as those surrounding Enron, Fannie Mae and WorldCom have fueled suspicions regarding how businesses operate. More than ever, consumers are wary of being exploited and have learned to place greater emphasis on the value of integrity in business. As a consequence, the cooperative model of business has grown in popularity over recent years.

Recreational Equipment Incorporated (REI) is one of the nation's largest consumer-owned cooperatives. Founded in 1938 by a group of 23 mountaineering friends, today REI is America's largest consumer cooperative, operating more than 110 retail stores nationwide in addition to a strong online and direct sales operation. REI is a business operation founded on a passion for the outdoors—to inspire, educate and outfit people for outdoor adventure and stewardship. At its core is a commitment to get people outside and leading healthy active lives, caring for our planet by protecting shared natural spaces, and engaging others in making a difference. Members share this commitment and, in return for their loyalty to REI, receive an annual dividend. In 2010, through a 10% dividend on purchases, REI returned $94 million to members, retaining $30.2 million in net income to re-invest in the company while supporting the great outdoors with $4.3 million in community grants (REI.com, 2011).

Membership in the REI co-op is voluntary. Those who shop with REI are encouraged, but are not required, to join. The challenge for REI is in pricing their memberships in such a *way that the member believes there is value in belonging to the cooperative—that membership provides a distinct advantage over shopping at REI without owning a membership share. This case study discusses alternatives for pricing co-op memberships in a challenging economic environment.*

THE COOPERATIVE STRATEGY

Cooperatives have existed in the United States since 1752 and have thrived in part because the concept is so fundamental and universally appealing—people or businesses banding together to form an independent business entity to serve the needs of the collective membership, customer base, employees or other user group. Consumers gravitate to the cooperative business model due to several core concepts—community involvement, economic savings, democratic control, and social responsibility (International Co-operative Alliance, 2007).

Recreational Equipment Incorporated (REI) has been a trusted retailer of outdoor gear since 1938 and is now the nation's largest consumer co-op. What began as a group of 23 mountain climbing buddies now boasts more than three and a half million active members and more than 110 retail stores nationwide in addition to a strong online and direct sales operation. The company provides the knowledge and confidence to explore and discover new adventures through frequent educational clinics and expert advice from REI staff who share members' passion for outdoor recreation. Their focus is a convenient and seamless shopping experience, whether at an REI retail store, online, by phone or by mail order. REI also offers adventure trips in the outdoors through REI Adventures, their travel division. And it's not just the members who benefit, REI has been named to FORTUNE magazine's list of the "100 Best Companies to Work For" since the list was first published (REI.com, 2011).

REI's purpose is simple—to inspire, educate and outfit people for outdoor adventure and stewardship. At its core is a commitment to get people outside and leading healthy active lives, caring for our planet by protecting shared natural spaces, and engaging others in making a difference. Members share this commitment and, in return for their loyalty to REI, receive an annual dividend. In 2010, through a 10% dividend on purchases, REI returned $94 million to members, retaining $30.2 million in net income to re-invest in the company while supporting the great outdoors with $4.3 million in community grants. These monies support conservation efforts nationwide, and send scores of volunteers to build trails, clean up beaches, and teach outdoor ethics to children. Through responsible business practices, REI strives to reduce their environmental footprint. The board of directors is the voice of the membership, working with co-op management to ensure that members' best interests are served. While REI realizes that the company must be successful and profitable, leadership also defines success by the value added to the lives of members, their communities and society overall (REI.com, 2011).

Because businesses such as REI are member-owned, member-controlled, and generate member benefits, there is a sense of accountability against measurable and public goals.

Member benefits ensure that the profits made by the cooperative are being returned to the members. These profits are not returned based on the investment the members made in the cooperative, but rather the amount of business that members conducted with the cooperative throughout the year.

Why is the cooperative model successful for REI? The company measures its efforts—the board holds itself accountable for making continuous progress and makes their efforts transparent. Though the challenges and obstacles of running a successful cooperative exist as in any other business model, by answering to its members, maintaining a strong focus on environmental stewardship, community involvement, and what the company describes as a "rock-solid code of ethics," the co-op has continued to grow its membership base year after year (REI.com, 2010).

The Role of Membership within a Co-op

A business, regardless of its legal structure, is concerned with building customer loyalty and consumer-owned co-ops are no different. Consumer cooperatives can only be sustained by an active membership pool and, therefore, growth in memberships becomes the lifeblood of these organizations. For most consumer cooperatives of all kinds, members are the most active of all customer segments and represent the great majority of the company's patronage base. Consequently, co-ops have the advantage of a more explicit understanding of who their customers are, what they buy, and how often. Further, these organizations establish a more formal, contractual agreement of customer loyalty through the membership process. In this sense, co-ops have a significant advantage over other business organizations since co-op membership represents a sustained commitment to the organization over a specified interval.

One of the most significant barriers that exist to the process of converting customers to co-op members is the price to join. Consumers primarily make this decision based on an assessment of the costs and benefits associated with membership. Since the growth in membership rates ultimately determines the success of a cooperative, the strategy of pricing co-op memberships is of paramount importance to the organization's overall success. As in all forms of business, *the ultimate goal in pricing decisions is a close alignment of value with price* (Nagel et al., 2010).

Value Drivers of Coop Membership: Tangible and Intangible Benefits

The greatest pricing challenge that all businesses face lies in setting prices that capture the true value of a product or service (Nagle et al., 2010). The types of benefits that REI offers to members can be separated into two categories: tangible and intangible benefits. The tangible benefits are most readily quantifiable and represent a financial savings over the prices paid by non-members. These tangible monetary benefits are often the primary reason that consumers join cooperatives. However, several significant intangible benefits are available to members as well. These include the sense of belonging and ownership conveyed to owner-members. Beyond that, however, some members derive a sense of satisfaction that comes from participating in what they perceive to be a less commercial and more equitable way of doing business. Each individual consumer ultimately makes the decision to join REI based on a unique combination of tangible and intangible factors. However, members with similar bundles of factors and motives can be combined into managerially useful market segments.

The first and perhaps most significant tangible benefit to joining the REI co-op is the patronage dividend. REI members receive a patronage refund or annual dividend in the amount of 10% on all eligible purchases. Only items purchased at a retail discount of greater than 15% are excluded from the patronage refund policy. At a cost of $20 for a lifetime membership, customers who spend more than $200 over their life span will recoup the cost of their membership in full. Patronage refunds are issued during the month of March following the purchasing year. Consequently, members must wait three to fifteen months to receive their refund check for any given purchase.

Another significant monetary benefit is *member-only,* 20% off discount coupons which are available four to five times each calendar year. REI has positioned itself as a reputable, high-end retailer of outdoor gear and apparel and retail-price discounting has not been a substantial part of the co-op's competitive strategy. Since most of its products are offered at a premium price point relative to other retailers, the monetary value of these limited-time discount coupons is significant for many members. The discount coupons are not tied to the promotion of any specific category of goods, although products such as boats, bicycles, and GPS units are often excluded from the offer. It is anticipated that the rate of new memberships will typically increase during these coupon events as non-members decide to join the co-op in order to take advantage of savings on particular items. In essence, anyone who joins the co-op during a 20% off coupon event essentially receives a free membership if the item is $100 or more. If prospective members make a purchase greater than $100 during these event periods, it would actually cost them money *not to join* the co-op.

There are several additional financial benefits to members beyond patronage refunds and discount coupons. REI members get discounted rates on rental gear, including items tents, boats, and backpacks. REI stores also offer reduced bicycle repair shop rates at a significant savings to members. Often, the savings realized from the cost of a basic bicycle tune-up or members' first camping gear rental will exceed the initial $20 membership fee.

There are numerous special features that appeal to different segments within the pool of members. REI Adventures is a more recent addition to the product mix which offers members discounts of up to $350 on a variety of adventure travel trips across the globe. Several REI locations offer an indoor climbing wall with routes appropriate to beginners and experienced climbers alike. The co-op charges $5 per climb but offers unlimited lifetime climbing to members. And REI recently introduced free shipping offers exclusive to members who make purchases exceeding $75 from the organization's website.

Though the financial benefits of membership are clearly evident and easily evaluated by prospective buyers, it is also critical to understand that a substantial number of individuals who choose to join the co-op are influenced to do so by non-monetary benefits. Though more difficult to quantify, these intangible benefits are significant influences on the decision to become a co-op member. This finding is true for REI as well as a wide range of other types of cooperatives throughout the world.

The organizational structure of a co-operative allows its members a democratic voice in decisions that affect the co-op as a whole. Owner-members of the REI co-op receive a voting ballot annually, allowing each member the opportunity to elect Board of Director (REI.com, 2010). Members may also nominate individuals for this selection process. All decisions that affect the overall operations and long-term growth of the co-op are approved by this governing board. For many individuals, having a voice in how the co-op is run is meaningful on several levels. The significance of this has only grown as consumers have become less confident in traditional corporations. Many members are motivated to join because they perceive the cooperative model embodies a relationship of trust, honesty, and authenticity between members and the organization as a whole.

A second intangible benefit that is valued by owner-members is REI's commitment to environmental stewardship. The REI co-op is a collection of individuals who are passionate about the outdoors and this community of recreational enthusiasts believes in taking responsibility for the care of the environment. As one member said of this cooperative, "REI was green way before it was ever popular to be a green business.”. The validity of this statement is evident in the $3 million to $4 million that REI has donated annually to like-minded non-profit organizations since 1976 (REI.com, 2009). Those who are passionate about outdoor activities are also passionate about preserving the land on which they spend time in the outdoors and this is a motive behind the decision to join REI for many people. As it relates to membership benefits, many individuals choose to join REI for the pure purpose of being part of an organization that is making a positive difference in the outdoors.

The final and perhaps most significant intangible benefit to co-op membership involves REI’s 100% Satisfaction Guarantee. Although this guarantee is made available to all patrons, REI members can rely on the co-op’s electronic receipt storage system to return any item they are unsatisfied with dating back to the year 2000. “Our 100% satisfaction guarantee ensures that every item you purchase at REI meets your high standards—or you can return it for a replacement or refund” (REI.com 2010). While most retailers provide strict guidelines, allowing only unused items to be returned within a short, 30-day time period, REI’s Satisfaction Guarantee provides a much stronger promise to buyers. If a customer buys a pair of hiking boots only to find them uncomfortable on the trail, they can return the boots for a full refund even after extensive use in the field. In essence, the value of this guarantee is equal to the amount each customer spends at REI. The guarantee takes a significant element of "risk" out of the buying process and this level of buyer assurance holds tremendous value to members over the long run.

PRICING ALTERNATIVES

Pricing is one of the most important, yet least understood, dimensions of marketing strategy. Despite the growing role of non-price factors in the marketing process, there is no escaping the direct cause-and-effect relationship between pricing decisions and profitability. As increased competition from international competitors and the growing sophistication of buyers have pushed prices down in the market for many goods and services, marketing managers have had to become more knowledgeable in both the art and science of setting prices.

Pricing decisions are always critical to the firm achieving its overall financial goals. In general, there are three approaches to making pricing decisions: cost-based, competition-based and demand-based. More specifically, the process of setting prices must be based on a fundamental understanding of what the organization is trying to accomplish with its pricing strategy. Because REI attempts to attract members by offering them the best value for their dollar, for the purpose of this case the focus will be on demand-based (value-based) pricing.

Demand-based pricing is sometimes referred to as *value-based pricing* since prices are derived from buyers' perceptions of value rather than the seller's cost. This approach to setting prices includes several specific pricing methods that include price skimming, penetration pricing, price discrimination, psychological pricing, price lining, premium pricing and all forms of value-based pricing.

As with all approaches to price setting, extreme care and thorough analysis is required. Though price changes are easily executed, the financial and strategic consequences are often substantial and enduring. In light of this, it is essential that all pricing decisions be made with the organization's pricing objectives in mind.

Value-Based Pricing

Companies whose differentiated brands enjoy significant advantages over competing products often turn to economic value analysis and value pricing strategies as a means of capturing greater profitability and market share. Value-oriented pricing recognizes that buyers often make purchase decisions based on perceived value rather than simply on the basis of lowest price. Value represents an assessment by the purchaser of the product's perceived quality or benefits relative to its cost. The goal of value-based pricing is to align the price of the product with the total value it delivers to the buyer. Although value-based pricing is a more difficult strategy to implement, it typically yields greater profits in the aggregate than simpler cost-plus pricing methods.

Among the most widely adopted variants of value-based pricing strategies is Economic Value Estimation or EVE. The fundamental tenets of EVE are straightforward: "A product's *total economic value* is the price of the customer's best alternative (*the reference value*) plus the economic value of whatever differentiates the offering from the alternative (*the differentiation value*). Differentiation value may have both positive and negative elements" (Nagle and Hogan, 2006).

REI Membership Pricing

The cost to join the REI co-op has changed little over the past decade. All members pay a single flat price for membership that lasts for the lifetime of the member. However, in January of 2008, the co-op made a decision to increase the price of a lifetime membership from $15 to $20. Despite the change, the co-op's membership sales continued along its trajectory of steady growth. Total memberships increased at an average rate of 8.3% between 2001 and 2007. Following the 33% membership price increase in 2008, membership in the co-op grew by 9.9% over the previous year as shown in Table 1.

Table 1: REI Membership Growth Prior to 2008

Year	Active Members	Increase Over Prior Year	% Increase
2008	3,680,147	330,147	**9.9%**
2007	3,350,000	248,000	8.0%
2006	3,102,000	293,270	10.4%
2005	2,808,730	259,421	10.2%
2004	2,549,309	173,987	7.3%
2003	2,375,322	165,251	7.5%
2002	2,210,071	132,013	6.4%
2001	2,078,058		
Average Co-op Membership Growth Prior to 2008:			**8.3%**

The sustained growth in membership despite the price increase is particularly noteworthy in light of the challenging and uncertain economic climate of 2008. Most retailers were experiencing substantial declines in patronage for this period (Federal Reserve Board, 2009) and REI was not immune to the downturn. The rate of growth in annual sales slowed significantly, declining by nearly 50% from 2007 to 2008 (Table 2).

Table 2: REI Average Annual Growth (2001-2008)			
Year	**Annual Sales**	**Increase Over Prior Year**	**% Increase**
2008	$1,434,569,000	$92,545,000	**6.9%**
2007	$1,342,024,000	$160,493,000	13.6%
2006	$1,181,531,000	$159,205,000	15.6%
2005	$1,022,326,000	$134,517,000	15.2%
2004	$887,809,000	$82,475,000	10.2%
2003	$805,334,000	$69,975,000	9.5%
2002	$735,359,000	-$4,701,000	-0.6%
2001	$740,060,000		
Average Annual Growth 2001 through 2008			**10.0%**

The contrast between the rates of change in membership growth and sales growth is not an anomaly. Rather, it reflects a perceived increase in the *value* of membership in the co-op in the midst of challenging economic conditions...despite an increase in membership price. This relationship has been observed in similar contexts.

Membership in REI conveys distinctive tangible and intangible benefits to patrons. Table 3 shows how an economic value estimation of REI membership could be structured differentially according to membership benefit. We also could hypothesize that REI membership could be structured according to member type, also known as market segment.

Table 3: REI Membership Benefit Value Estimation by Segment			
Membership Benefit	**Annual Frequency of Use**	**Annual Value of Benefit**	**Lifetime Value of Benefit**
Monetary/Tangible Benefits			
10% Patronage Refund			
Rental Discounts			
Bike Repair Shop Discounts			
REI Adventures Travel Discount			
Member-only Coupons			
Pinnacle Climbing Wall			
Garage Sale Purchases			
Total Average Lifetime Value of Benefits			

Market Segmentation in Membership Valuation

One of the challenges to using economic value estimation involves assigning a monetary value to both tangible and intangible benefits. Co-op members are a diverse group of REI patrons who place varying levels of importance and value on each membership benefit. Though price segmentation is not currently being utilized by the co-op, a detailed understanding of market segmentation may create a case for price segmentation in the future. Alternatively, it may support the desirability of unbundling the whole one-size-fits-all basket of benefits offered to new members in favor of adopting a more custom-fit approach since each segment of potential REI patrons perceives membership benefits at different levels of value. Beyond assessing the value of each benefit differently, each segment may differ on their frequency of using each feature.

Assumptions in Value Estimation

In order to assess the value of co-op membership on a segment-by-segment basis, several estimates need to be made. These include the monetary value of each benefit and the frequency with which each segment will take advantage of each benefit. An additional consideration is that REI co-op memberships are lifetime memberships. Consequently, the value of benefits should be considered on both an annual and accrued lifetime basis.

In 2009, $72,670,000 in dividends was distributed among 3,680,147 active members (REI.com, 2010). The average amount of full-priced merchandise an active member purchased in 2009 was $197.46, or an average annual dividend of $19.75. These values provide a useful baseline against which to assess the relative economic value of an REI membership across different segments of owner-members.

Effective Pricing through Segmentation

If the ultimate goal in pricing is to closely align value with price, REI could develop value-based pricing by pursuing segment-specific policies. The usage rates for different tangible and intangible benefits are at the core of how segment perceptions of value will differ.

One interesting consequence of price segmentation is that certain pricing structures serve to "push" customers toward more expensive options, based on *relative* value. For example, consider a customer who currently pays $88 per month for cable television and Internet service. If he were to cancel the cable service, he would still pay $74/month for Internet only service. It is likely that he would feel compelled to pay the $88 and retain both services simply because the perceived value received for $88 per month is greater than the value received by paying $74 per month for Internet alone. The decision may be based exclusively on the *perceived* relative level of value they receive in comparison to the alternative. This price segmentation phenomenon has several implications to the pricing of REI memberships.

Based on usage profiles, four possible segments emerge—young families, weekend warriors, serious outdoor enthusiasts and active singles. Each group has its own set of value estimates based on demographics and priorities for that segment. Value estimations for the "Young Families" segment include the following assumptions:

1. Average family size is four
2. Recreational activities are limited to two vacations annually
3. Unlikely to travel with REI Adventures at this stage
4. Conservative with items purchased; conscientious of price; concerned with quality

An example of how this information could be used in a value estimate segment is outlined in Table 4.

Table 4: REI Membership Benefit Value Estimation by Member Segment
Young Families

Membership Benefit	Annual Frequency of Use	Annual Value of Benefit	Lifetime Value of Benefit
Monetary/Tangible Benefits			
10% Patronage Refund	1 Dividend	$19.75	$592.50
Rental Discounts	2 Rentals	$18.00	$540.00
Bike Repair Shop Discounts	4 Bike Tune-ups	$80.00	$2,400.00
REI Adventures Travel Discount	N/A	$0.00	$0.00
Member-only Coupons	4 Coupons	$25.00	$750.00
Total Average Lifetime Value of Benefits			$4282.50

Closing

A large part of REI's success is due to their co-op business model and the impact that this structure has on pricing decisions. Yet, as times change, the businesses that survive do so because they constantly review their pricing decisions. For REI, this review includes an analysis of their segmentation and value estimation of their membership pricing. However, in discussing potential membership pricing structures and the economic future of the cooperative, REI marketers must consider the implications of price segmentation and whether a value-based system is the most beneficial to all concerned.

One possible price segmentation strategy centers on the sale of annual memberships versus lifetime memberships. A large number of REI patrons join the co-op for the simple fact that it is cost-effective to do so based on the amount they spent in the store on one given day. These individuals represent a segment of the market that may not join the co-op for any other reason other than the monetary benefit they will receive either immediately or at the end of the year. In fact, some within this group may consider themselves one-time shoppers with REI. That is, they may have no specific interest in the outdoors, environmental stewardship, community involvement or the unique philosophy represented by cooperatives. Many of these individuals may not actually understand what they are *joining* ...or even that they are becoming *lifetime* member-owners of something. Their sole motivation is the cost-effectiveness of purchasing a membership on that occasion.

An alternative price segmentation strategy is rooted in the distinctly different value that individuals receive from membership as compared to families. Given that estimated values differ significantly for each segment, families may be willing to pay more. However, as with all approaches to price setting, extreme care and thorough analysis are required. Though price changes are easily executed, the financial and strategic implications and consequences are often substantial and enduring. Thus, it is essential that all pricing decisions be made with the organization's pricing objectives and corporate future in mind. Some questions for consideration include:

1. How do you think the co-op business model impacts the pricing decision at REI?
2. If REI did not use a demand-based model, what other choices what are their other model could they use?
3. REI has split their target market into several segments—Young Families, Weekend Warriors, Serious Outdoorsmen, and Active Singles. How do their profiles differ? What are the implications of these differences for REI’s overall marketing strategy?
4. Using Table 3 as a template and Table 4 as an example, create an economic value estimate for the following market segments: Weekend Warriors, Serious Outdoor Enthusiasts, and Active Singles.
5. At the end of the case the authors suggest possible segmentation centered on the sale of annual memberships versus lifetime memberships. What implications might this have for REI? And what long term affects might they want to consider with regard to this model?

Answers to these questions must be reviewed in light of the long-term effects on what is currently a successful business model.

ALTOS DE TINOGASTA, ARGENTINA

D.K. (Skip) Smith, Baze University
Carlos Aimar, University Of San Isidro
Gabriel Clusellas, San Isidro Buenos Aires,
Stanley Stough, Southeast Missouri State University

CASE DESCRIPTION

This case challenges students to develop alternatives for (within the next 12 months) very substantially increasing the revenues of the Altos de Tinogasta "productive real estate" company in Argentina. The case is based on data collected by one of the authors in Argentina. The case is appropriate for senior-level undergraduates as well as students in MBA and Executive Development programs. It is designed to be taught in a one hour and a half class session, and is likely to require at least a couple hours of preparation by students.

CASE SYNOPSIS

Mr. Gabriel Clusellas is President of Altos de Tinogasta-La Aguadita S.A., a farming/real estate company located on 3000 hectares in the town of Tinogasta, Province of Catamarca, in Argentina. The business model Altos de Tinogasta (hence, AT) is using, and the results the company has achieved so far, are as indicated below:

1. *The 3000 hectares are being planted in two crops: olives and grapes. The first harvests will be in 2013.*
2. *The hectares being planted in olives have been divided up into 216 parcels of 10,000 square meters each; these parcels are being offered to investors at a price of $27,000 per parcel. The hectares being planted in grapes have been divided up into 208 parcels of 2,500 square meters each; these parcels are being offered to investors at a price of $15,000 per parcel.*
3. *Of the 104 parcels planted in grapes so far, 81 (that is, 78%) have been sold. Of the 108 parcels planted in olives so far, 40 (that is, 37%) have been sold. However, the trend in sales is not reassuring: After a very strong performance in 2010 (a total of 71 parcels were sold that year), only 22 parcels were sold in 2011 while in the first half of 2012, only 8 parcels were sold. To continue developing its infrastructure and to continue planting additional parcels with olives or grapes, AT needs to substantially increase its revenues.*

4. *The objective Mr. Clusellas has set for the company is to generate revenues of at least $2,000,000 within the next 12 months; this would be a very substantial increase in the total revenue of approximately $500,000 generated by sales of plots in 2011.*
5. *Mr. Clusellas has invited Professor Carlos Aimar to develop (within 30 days) a set of alternatives for achieving the above objective, that is, that over the next 12 months, AT should generate at least $2,000,000 of revenue.*

Additional data and information in the case include:

1. *Regarding Argentina: Historical overview, a sample of recent demographic statistics from the World Bank, (and for benchmarking purposes, comparable statistics for the United States), plus information on the economy of Argentina.*
2. *Regarding the company: Business model, current marketing strategy, current performance, and numerous factors impacting that performance.*
3. *Additional information: Information on the activities, interests, and opinions of members of the market AT has targeted, information about competing products (both domestic and international), and information about the real estate industry in Argentina.*

ALTOS DE TINOGASTA

The Situation

Sensing that his meeting with Mr. Gabriel Clusellas, President of Altos de Tinogasta-La Aguadita S.A. was ending, Professor Carlos Aimar gathered up his notes. Although he might, later on, need specific information from those notes, Aimar knew he would have no trouble remembering the challenge Mr. Clusellas had given him, that is, to identify (within the next 30 days) a set of alternatives for (over the next 12 months) generating revenues of at least $2,000,000 for Altos de Tinogasta (hence, AT). Since the inception of the company in 2009, the two "products" which AT has been selling are: 1) 10,000 square meter parcels of land owned by AT and planted in olives; and 2) 2,500 square meter parcels of land owned by AT and planted in grapes. In 2010, sales of plots generated approximately $1,500,000 of revenue for AT. In 2011, however, total revenues from sales of plots fell to slightly less than $500,000 and for the first half of 2012, the total revenue generated by sales of plots has been less than $150,000. Because his teaching schedule was already quite intense, Aimar knew that taking on this assignment meant that for the next 30 days, he would be very very busy.

The Country

At 2.78 million square kilometers (larger than India, approximately 1/3 as large as Brazil), Argentina is South America's second largest (by land mass) country. The country is 3,500 kilometers long (2,170 miles), and 1,400 kilometers (868 miles) wide at its widest point. While the climate ranges from tropical in the north to sub-Antarctic in the far south, most of Argentina lies in the temperate zone. Similarly, while the landscapes range from jungles to glaciers, a significant portion of Argentina consists of fertile alluvial plains covered in grasses and known as "pampas." In the west (that is, in the rain-shadow created by the Andes mountains), these grasslands are quite dry. In eastern Argentina, however, the pampa receives adequate rainfall, is one of the best agricultural areas in the world, and is intensively farmed (soybeans, wheat, corn, sunflower and other grains) and ranched. Other parts of the country support a wide variety of additional agricultural activities, including the growing of fruits (including grapes for wine), tobacco, sugar cane, and vegetables. Patagonia (the southern quarter of the country) has a cool, wet climate, and supports some agriculture plus a large sheep-raising industry. Given all the above, it is no surprise that the production and processing of agricultural commodities accounts for a substantial portion of total economic activity in Argentina.

Institutionally, and as indicated in Appendix 1, Argentina is composed of 23 provinces and the Buenos Aires Federal District. Since 1995, the president and vice-president are elected for 4-year terms and can be re-elected once. The bicameral national congress has 72 senators (three from each of the above areas) serving 6 year terms. The lower house has 257 deputies, proportionately elected and serving 4 year terms. Because greater Buenos Aires makes up more than 40% of Argentina's total population, the city's influence on the lower house is very large. There is a federal judiciary system, and a nine-person supreme court.

In addition to the federal institutions, there are provincial institutions. In Argentina, each province has a governor, a legislature, and a judicial system. Across the country, the major political parties are the Justicialist Party (Peronists), the Radical Civic Union (UCR), the FAP (Frente Amplio Progresista); and the PRO (Propuesta Republicana).

The People

Prior to the arrival of the first Europeans, the area which has become Argentina was lightly populated. Starting in 1506 and continuing for the next 300 years, most of the immigrants coming to Argentina were Spanish. While African slaves were brought to Argentina in the 17th and 18th centuries, they were very susceptible to a variety of problems which disproportionately impacted the poor (wars, yellow fever and other epidemics, terrible living conditions for the poorest members of society, etc.), and relatively few of them survived. Beginning in the late 19th century and continuing on through the first third of the 20th, 3.5 million new immigrants arrived in Argentina, mostly from Spain and Italy. However, many other nationalities are represented in

Argentina's population of approximately 41 million people, including the Welsh (primarily in Patagonia), the British, the French, the German, the Swiss, various Eastern Europeans, and Chileans. Indian peoples make up about 15% of the population. 93% of the population is Catholic (2% is Jewish, and 2% Protestant); yet, at 1%, Argentina has one of South America's lowest population growth rates. A few additional statistical characteristics of Argentine and its people, together with (for benchmarking purposes) comparable figures for the United States) can be mentioned:

	ARGENTINA	**U.S.**
Fertility rate (births per woman):	3.0	2.1
Illiteracy rates (adult males and females:	3%	--
Life expectancy at birth (years):	74	77
Infant mortality rate (per 000 live births):	**10**	7
Primary school enrollment:	100%+	
Secondary School enrollment:	74%	--
% of population living in urban areas:	89%	77%
% of population who are internet users:	67%	78%
% of population, access to improved water	79%	100%
% of roads paved:	29%	59%
% of urban population, access to sanitation:	89%	100%
energy consumption per capita(kwh)	1938	11904

THE ECONOMY (OVERVIEW)

With a nominal Gross Domestic Product (GDP) of $448 billion (Purchase Power Parity-based GDP is $716 billion) and its current population of approximately 41 million people, Argentina has a nominal GDP per capita of approximately US$ 10,945. On a Purchasing Power Parity (PPP) basis, GDP per capita of approximately US$17,500 is the highest in Latin America. Historically, a very substantial portion of this economic activity has been based on agriculture and/or ranching plus related (for example, food and/or meat processing) activities. In 2011, however, and as indicated below, over 60% of Argentina's GNP is services-related:

	Sector	**Percentage Of GDP for this Sector**
Education, health care, other	20.2%	
Government	6.5%	
Finance, real estate, and business services	14.3%	
Transport, communications, and utilities	8.2%	
Commerce and tourism	13.8%	
Construction	5.3%	
Manufacturing (a)	18.9%	
Mining		3.1%
Agriculture, forestry, and fishing	9.7%	
TOTAL	100.0%	
(a) The major manufacturing industries in Argentina include: food processing and beverages; motor vehicles and auto parts; appliances and electronics; chemicals, petrochemicals, and biodiesel; pharmaceuticals; aluminum and steel; machinery; glass and cement; textiles; tobacco products; publishing; furniture; and leather.		

With 2011 exports of $84.3 billion and 2011 imports of $73.9 billion, it is clear that Argentina is heavily involved in international trade. In 2010, Argentina's main export trade partners included: Brazil (21.2%), China (9.0%), Chile (6.6%), and the United States (5.2%). In 2011, major categories of exports from Argentina and the percentage of total exports accounted for by those categories include:

Category	This Category's Percentage of Total Exports
soy and soy products	23.8%
motor vehicles and parts	12.1%
cereals (mostly corn and wheat)	9.9%
chemicals	7.1%
fruit and vegetable products	4.2%
natural gas and petroleum	3.9%
aluminum and steel	3.7%
refined fuel	3.3%
electric machinery	2.9%
gold	2.9%
biodiesel	2.5%
other industrial products	5.9%
all other (mainly agro-industrial goods)	17.8%
TOTAL	100.0 %
Source: CIA World Fact Book	

Regarding imports, in 2010 Argentina's major import trade partners included: Brazil (31.8%), China (13.6%), the United States (10.7%), and Germany (5.7%). In 2011, major categories of imports into Argentina and the percentage of imports accounted for by those categories include:

Category	This Categories Percentage of Total Imports
Capital goods and parts	34.8%
Intermediate goods	29.5%
Refined fuel and lubricants	12.7%
Automobiles and parts	8.4%
Non-auto consumer durables	4.5%
Freight and farm vehicles	4.3%
All other (mostly consumer non-durables)	5.8%
TOTAL	100.0%
Source: CIA World Fact Book	

One could easily believe that a country so richly endowed in natural and human resources should be extremely prosperous. At the beginning of the 20th century, this was true; at that time, Argentina's GDP per capita was the highest in the world. Due to a long history of inconsistent (and sometimes inappropriate) economic, political, and social policies, however, Argentina's economy first deteriorated and then (in the decade of the 1990s) started to crumble. In 2002, Argentina was unable to meet its debt obligations. The debt and debt service levels for Argentina in 2000 suggest the magnitude of the problem Argentina faced; those figures were as indicated below:

Total debt:	U.S. $154.9 billion
Short term debt:	U.S. $28.3 billion
Debt service as a % of exports:	142%

The declaration of bankruptcy in 2002 ushered in a very traumatic period for Argentina and its people. Unemployment rose to 25%, and the Argentine peso (that is, the local currency) lost 70% of its value. As early as 2003, however, based in large part on huge increases in the export of agricultural commodities, Argentina was on its way to economic recovery. Over the period 2003-2011, growth in GDP exceeded (except in 2008) 7% annually. During this period, over 5 million new jobs were created, and by the 4th quarter of 2011, the unemployment rate had fallen to less than 7%. In 2012, however, due in part to internal economic and political developments and in part to challenges associated with continuing global economic uncertainties, Argentina entered a period of fiscal and financial austerity.

Regarding characteristics of the economic situation in Argentina at the start of the new year (that is, 2013), observations which can be made include:

1) As indicated on the next page, while the government denies this, the real rate of inflation experienced by consumers in Argentina is approximately 25%.
2) October 2011, the Fernandez de Kirchner administration imposed stringent foreign exchange controls. People or businesses in Argentina wanting to purchase dollars are now vetted by the tax agency, with many requests being refused. Because property transactions in Argentina tend to be conducted in dollars, the real estate industry has been negatively impacted by this legislation. The government says the restrictions are necessary in order to combat money laundering and stem capital flight; according to figures from the Bank of Buenos Aires, Argentina lost around $30 billion in illicit capital flight in 2011. The new legislation has succeeded in cutting capital flight (from $8.4 billion in the third quarter of 2011 to just $1.6 billion in the first quarter of 2012) and the Central Bank's reserves, which the president has dipped into for public spending, have stabilised, at $47 billion. But this has come at a price: the economy is decelerating fast and the informal currency market (that is, the black market) is booming. Money changers in the center of the capital are now offering 6 pesos to the dollar. The official rate of around 4.50 is unlikely to be sustained much longer; it appears that devaluation of the peso is on its way.
3) The dollar restrictions have sparked a series of “cacerolazos,” that is, “casserole” protests, where demonstrators bang pots and pans in the street. In other words, as

Argentina and Argentinians enter the new year, levels of economic, political, and social tension and unrest are increasing.

THE ECONOMY (BANKING SECTOR)

Argentine banking (deposits exceeded US$110 billion in January 2012) is dominated by the private sector. Private sector banks (half foreign, and half locally-owned) account for most of the 80 active institutions (with over 4,000 branches) and hold nearly 60% of deposits and loans. The largest bank in Argentina, however, is the publicly-owned Banco de la Nación Argentina. All by itself, this institution accounts for about a fourth of total bank deposits and a seventh of total loans in Argentina.

During the 1990s, outstanding loans in Argentina (70% of it to the private sector) increased from approximately US$30 billion to nearly US$100 billion; many of these loans were denominated in U.S. dollars. Despite the large increase in outstanding loans, credit in Argentina is still relatively tight. As for bank deposits (mostly denominated in Argentine pesos) , these increased from less than US$15 billion in 1991 to over US$80 billion in 2000. Partly as a function of Argentina's legacy of economic and political instability, however, Argentines have historically held more deposits overseas than domestically. In 2011, overseas accounts and investments estimated at US$156 billion exceeded Argentina's domestic monetary base (that is, the number economists label "M3") by nearly US$20 billion.

THE ECONOMY (INFLATION)

One of the reasons Argentines are fond of overseas accounts and investments is that high inflation has been a weakness of the Argentine economy for decades. While President Kirchner insists that inflation is not a problem, and while the government has published statistics indicating that inflation is less than 13% per year, unofficial estimates indicated that inflation has recently (2011) been running at approximately 25% per year. In 2010, the legislature established a committee to publish an inflation index based not on estimates but on data (food prices from the marketplace, etc.). Also in 2010, increases in the price of beef outstripped wage increases; one outcome was that in 2010, beef consumption per capita in Argentina decreased from 69 kg (152 lb.) annually to 57 kg (125 lb.) annually. In other words, inflation and the increases in prices it represents have visibly influenced the attitudes and behaviors of consumers in Argentina.

THE REAL ESTATE INDUSTRY IN ARGENTINA

Because real estate investments in Argentina have historically offered both stability (that is, protection against inflation) and consistent returns, real estate has been a very popular option for investors in Argentina. As real estate appreciates in value (it has tended to do this in many places in the world, including Argentina) it offers not only a way to protect savings against inflation but also (because it brings in monthly rent) a source of additional income as well. For these reasons, the purchase (and subsequent rental) of apartments and garages have been popular choices for Argentines trying to protect the value of their savings. In light of recent events, these interests (that is, the desire to protect the value of saving and the desire to earn additional income) are stronger than ever. Despite a lack of credit (that is, a shortage of mortgages from banks), real estate continues to be a growing industry in Argentina, as members of the social classes with high buying power continue to invest their savings in real estate. Other investment options tend to be highly volatile; as indicated above, investing in real estate offers not only the possibility of appreciation but also a monthly return in the form of rent. Profitability from rent alone usually comes in at 5 to 6 percent annually on the capital invested.

As indicated earlier, real estate transactions in Argentina have (historically) been transacted in dollars; this is due to the country's long history of sudden changes in economic policies plus the tradition (in Argentina) that over time the peso will lose value (that is, will be devalued). The exchange controls put in place by the government late in 2011 have impacted negatively not only on the real estate industry in general but also the sort of business in which AT is involved. An additional problem for the real estate market in Argentina is interest rates in the mortgage market: Given Argentina's 25% inflation rate, annual interest rates on mortgages are often very high (they can be higher than 20%).

THE COMPANY: BUSINESS MODEL, CURRENT MARKETING STRATEGY, AND PERFORMANCE TO DATE

Regarding the business model: As a founder of Altos de Tinogasta, Mr. Gabriel Clusellas was the designer of a business model known as "Productive Real Estate." Characteristics of this business model include:

- The model offers investors the possibility to own not only productive farmland land but also a share of (in the case of land planted in olives) the oil factory or (in the case of land planted in grapes) the wine cellar. The model also allows owners to have input on any and all future decisions (for example, sales and/or purchases of land and/or products produced on the land, placement and/or payments of mortgages, etc.). The only restriction on the land is that it must continue to be used either for growing olives and the production of olive oil or the growing of grapes and the production of wine.
- The model offers investors a share of assets like machinery, oil and wine manufacturing facilities, and other fixed assets, in proportion to the number of parcels acquired.
- The model entrusts the management of all operations (farming, processing of crops, etc.) to Altos de Tinogasta (AT); Mr. Clusellas has selected and chosen well-known engineers (with specialized training in vineyards and olive grove management) to manage the

operation. Since the beginning AT has been structured as a production/operation driven organization; the main priorities have always been:

- Earthmoving operations (that is, movement of soil and land preparation)
- Construction of irrigation systems
- Creation of plantations (that is, planting of olive trees and grapevines)

Regarding the marketing strategy which AT is currently using, key elements of that marketing strategy are as indicated below:

Target Market

Since its inception, the primary target for AT has been individuals and families in Argentina in the ABC1 socio-economic categories. Characteristics of these individuals include: High purchasing power, culturally sophisticated, willing to make long term commitments, willing to consider innovative investment & saving options, people who save money on a monthly basis, families who have savings in foreign currency outside the country, people who look for recreation and/or pleasant moments in the mountain, and sophisticated people who make decision in terms of new sensations (wines, varieties, flavor, knowledge, training and education on the testing of wine and olive oil, etc.). In Argentina, 80% of the customers classified in the ABC1 socio-economic categories live in Buenos Aires. While highly productive agricultural land in Argentina can cost as little as 10% of the price of highly productive agricultural land elsewhere in the world, AT has not (to date) targeted overseas investors.

As indicated above, due to a long history of economic and political instability in Argentina, the amount of money held by ABC1 socio-economic class Argentines outside the financial system and/or the country is very large. One estimate is that currently, the amount of such funds exceeds US$150 billion dollars. Argentines in the ABC1 socio-economic classes hold this money in various ways including:

1. Safety deposit boxes in different banks
2. Saving accounts in banks outside the country (Uruguay – USA – Europe, etc.)
3. Money hidden beneath the mattress

Over and above the general characteristics of Argentines in the ABC1 socio-economic categories listed above, characteristics of individuals and/or families which AT believes are associated with an interest in the sort of opportunity which AT presents include people between 25 and 60 who exhibit the following activities, interests, and opinions (that is, lifestyle characteristics):

1. Interested in investing not only for financial benefits (yields, appreciation, etc.) but also for lifestyle-related (that is, non-financial) benefits and pleasure.
2. Interested in building a legacy for the family and/or a third age retirement insurance.
3. Attracted by the wine and/or olive oil culture.
4. Attracted by the mountain region.
5. Interested in green (that is, good for the planet) investments and/or quality of life-enhancing investments.

Product

The 3000 hectares which AT purchased is being planted in olive trees and in grape vines. The land planted in olives has been divided up into 216 parcels of 10,000 square meters each; as for the land planted in grapes, it has been divided up into 208 parcels of 2,500 square meters each. These plots are being offered for sale to members of the target market. When an investor purchases a plot, the investor acquires not only the land but also (in the case of an investor who has purchased a plot of olive trees) a pro-rata portion of the olive oil processing equipment plus a pro-rate portion of the total revenue generated by sales of the olive oil or (in the case of an investor who has purchases a plot of grapevines) a pro-rata portion of vine-making equipment plus a pro-rata portion of the total revenue generated by sales of the wine produced by AT.

Price

As indicated above, the land planted in olives has been divided up into 216 parcels of 10,000 square meters each and these parcels are being offered to investors at a price of $27,000 per parcel. The land planted in grapes has been divided up into 208 parcels of 2,500 square meters each and those parcels are being offered to investors at a price of $15,000 per parcel.

Promotion

Regarding personal selling: Since 2009, Mr. Diego Torrea has served as manager of sales for AT; at that time, AT did not have any additional selling staff. As for mass media: AT has (over the years) purchased very little radio and or print advertising. Much of the advertising has been by word of mouth and/or through friends and family relationships, that is, by satisfied investors sharing their experience and reactions with friends, neighbors, etc. Regarding the message: over the years, the benefits AT has offered to investors in the few promotions it has run included:

a. A pro-rata portion of the forecasted total revenue generated by sales of the olive oil or wine produced by AT.
b. Forecasted increases in the value of the real estate parcel(s) buyers have purchased.
c. The enjoyment of owning parcel(s) in the mountains of Argentina.

Place (Distribution)

At the time the data for the case was collected, AT was using a small direct sales force (a manager and two agents) to sell its products. As indicated above, Mr. Diego Torrea serves as manager of AT's small direct salesforce.

Regarding the performance to date of the company: Of the 104 parcels planted in grapes so far, 81 (that is, 78%) have been sold. Of the 108 parcels planted in olives so far, 40 (that is, 37%) have been sold. However, the trend in sales is not reassuring: After a very strong performance in 2010 (a total 71 parcels were sold that year), only 22 parcels were sold in 2011 while in the first half of 2012, only 8 parcels were sold. To continue developing its infrastructure and to continue planting additional parcels with olives or grapes, AT needs to increase its revenues.

THE COMPETITION (1): INVESTMENTS WITHIN ARGENTINA

Within Argentina, there are a number of companies in the business of offering (to investors) plots of farmland land planted in olives or grapes. Information on a few of these competitors is provided below. As indicated, some of these companies offer investors plots of farmland only; other companies (including AT) offer investors plots of farmland plus an ownership interest in the equipment used to process olives and/or grapes. As indicated, some companies offer not only plots of farmland but also other amenities including sporting facilities, homebuilding sites, hotel rooms, and so on:

Company	Location	Vineyards	Winery	Olives	Oil Mill	Housing Plots	Hotel	Sports	Promotions	Returns to Investors	Investor satisfaction
Algodon	Mendoza	yes	yes	yes	yes	yes	yes	golf, tennis, polo	good	?	?
Tupungato	Mendoza	yes	yes	no	no	yes	yes	golf, polo	excellent	?	?
Santa Maria de los Andes	Mendoza	yes	yes	no	no	yes	yes	no	excellent	?	?
Cuna de Olivares	Mendoza	no	no	yes	yes	no	no	no	very aggressive	?	?
San Juan de los Olivos	Mendoza	no	no	yes	yes	yes	no	no	good	?	?
ADBlick Agro	Mendoza	no	no	yes	yes	no	no	no	very good	14%	?
The Vines of Mendoza	Mendoza	yes	yes	no	no	yes	yes	no	very good	?	?
Entre Vinas de la Carrodilla	Mendoza	yes	?	?	?	?	?	?	?	?	?
Altos de Tinogasta(grapes)	Catamarca	yes	yes	no	no	no	no	no	?	26.4% forecast	?
Altos de Tinogasta(olives)	Catamarca	no	no	yes	yes	no	no	no	?	17.4% forecast	?

As indicated earlier, real estate (including investments in farmland) has historically been one way members of the ABC1 socio-economic categories in Argentina have attempted to protect their savings from inflation. Productive farmland can of course generate income. Furthermore, if an investor is in the right place at the right time, his or her farmland could appreciate in value: In some twelve month periods, and in some areas of Argentina, the value of prime farmland has doubled. As indicated above, the forecast returns at AT on plots of grapes is 26.4% and the forecast returns at AT on plots of olives is 17.4%. Compared to the returns available on other investments, these returns (especially those for plots of grapes) look very attractive.

Having said that forecasted returns on AT plots look quite attractive, it must be noted that industry experts indicate that the geographical area in which a vineyard is located can have a very large impact on the value of the wine produced by that vineyard. The center of the wine industry in Argentina is Mendoza. The wine produced by vineyards located in less prestigious places (for example, Catamarca) will be less valuable. However, if large companies are moving into a new area and investing in vineyards there, this could (over time) have a positive impact on the value of the vineyards and the value of the wine produced by those vineyards.

THE COMPETITION (2): INVESTMENTS OUTSIDE ARGENTINA

Given the huge amounts of money held outside the country, it is clear that many members of the ABC1 socio-economic categories in Argentina believe that the best way to protect the value of their savings is to hold those savings outside of Argentina. Individuals holding a portion of their savings outside of Argentina have a number of different alternative ways to deploy those savings, including:

1) They could invest in overseas farmland. Having said this, however, it seems worth noting that:
    a. Productive farmland in Europe and/or North America is likely to be much more expensive than productive farmland in Argentina.
    b. Historically, the returns earned on modern vineyards in Sonoma and the Napa Valley have been in the range of 8.4-12%. In other words, the returns on investments in vineyards in these areas of California have not been high enough to offset the rate of inflation in Argentina. Furthermore, it seems worth noting that in several famous wine-producing areas around the world (Bordeaux and Dordogne in France; Montalcino in Italy; the Napa Valley in California; Hawkes Bay in New Zealand), the value of vineyards has decreased (over the last couple of years) by 15% or more.

2) They could invest overseas in short or long term treasury bills or notes, or short or long term corporate bonds. However, the yield on these financial instruments (it ranges from 3.8-6.1%) are far lower than the rate of inflation in Argentina. If prices in Argentina are increasing by 25% per year, investing in assets yielding less than 10% per year is not going to protect savings well.

3) They could invest in small capitalization stocks overseas, which have historically generated returns (dividends plus appreciation) approaching 18% per year. While inflation is higher than this, investing in small cap stocks overseas appears to be a strategy which comes close to protecting the value of savings for members of the ABC1 socio-economic categories in Argentina.

ATTITUDES AND BEHAVIORS OF MEMBERS OF THE ABC1 SOCIO-ECONOMIC CATEGORIES IN ARGENTINA REGARDING FINANCIAL CHALLENGES AND OPPORTUNITIES THEY FACE

Over the last several years, Prof. Aimar has been (using primarily qualitative research-based approaches) working to learn more about the attitudes and behaviors of members of the ABC1 socio-economic categories in Argentina. Regarding financial challenges and/or opportunities members of these categories are currently facing, the data he has collected lead Prof. Aimar to believe that:

1) Regarding first things which come to mind when thinking about products and/or services designed to protect capital, generate income, and enhance quality of life: Members of the ABC1 socioeconomic categories in Argentina are very eager to find financial opportunities which offer both good capital protection and income potential. A financial opportunity which offers (as an additional lifestyle-related benefit) the ability to spend time in the Andes could be quite attractive to some members of these socioeconomic categories.
2) Regarding "a day in their life" within the context of products and/or services designed to protect capital, generate income, and enhance quality of life: Numerous members of the ABC1 socioeconomic categories in Argentina lost money in 2002 when Argentina defaulted on its bonds. Members of these socioeconomic categories who had invested overseas lost money when the international security markets crashed. For members of these socioeconomic categories who experienced such losses, investing in tangible assets in Argentina may now be perceived to be a safer way to invest money. For such people, and especially for those interested in the lifestyle-related benefits of owning property in the Andes, plots offered by AT could represent an attractive investment opportunity.

3) Regarding their earliest memories regarding products and/or services such as those offered by AT (that is, local products and services designed to protect capital, generate income, and enhance the quality of life): As indicated earlier, AT has spent very little money on mass media (radio, TV, newspapers, etc.). Also, the personal selling efforts organized by AT have been very limited. Members of the ABC1 socio-economic categories who are aware of the products AT offers tend to have learned about the company and its products through friends or relatives who have already purchased these sorts of products either from AT or from one of its local competitors.
4) Regarding their experiences with products and/or services designed to protect capital, generate income, and enhance the quality of life: Members of the ABC1 socio-economic categories who have successful experience with the kinds of investments AT is offering indicate that the best outcome achievable is an increase in the yield of their investment portfolio. Members of the ABC1 socio-economic categories who have had unsuccessful experience with the sorts of investments AT is offering indicate that the worst outcomes involve situations where adverse developments (in the case of products and/or services involving agriculture, this could involve weather conditions which seriously damaged a harvest) have caused losses.
5) Regarding pivotal (that is, attitude and/or behavior-changing) experiences with products and/or services designed to protect capital, generate additional income, and enhance the quality of life: Several members of the ABC1 socio-economic categories related stories to Prof. Aimar in which they themselves plus friends and/or neighbors had purchased real estate from local competitors and had benefitted substantially (and positively) from those investments. Other members of the ABC1 socio-economic categories related stories in which they themselves plus friends and/or neighbors had purchased real estate from local competitors and had been disappointed by the benefits they had received from those investments.
6) Regarding ideal experiences with products and/or services designed to protect capital, generate income, and enhance the quality of life: Several members of the ABC1 socio-economic categories who had purchased plots from AT indicated that seeing (in person, on their first visit) real vineyards and real olive plantations and real equipment (in other words, not just pieces of paper) was a very positive and memorable experience.
7) Regarding issues which prevented them from experiencing an ideal experience with investments designed to protect capital, generate income, and enhance the quality of life: Several members of the ABC1 socio-economic categories indicated that fears about social, political, and economic instability and the effects of such factors on the returns earned on investments made in Argentina are serious concerns.
8) Regarding their concerns at this time in their life, not only about products and/or services designed to protect capital, generate income, and enhance quality of life, but also in general: Several members of the ABC1 socio-economic categories indicated to Prof.

Aimar that they were concerned about whether it was still possible to find investment alternatives which would (in today's world, and given the economic crisis) both protect capital and generate income. More generally, several members of the ABC1 socio-economic categories indicated that they were very concerned about the increase of crime and delinquency, the stresses associated with life, inflation in Argentina, and the world economic crisis.

9) Regarding the issues which they were happiest about: Several members of the ABC1 socio-economic categories indicated that they were pleased with their commitments to spiritual issues and to attitudes and behaviors designed to reduce stress. Several members also indicated that they were happy with the development and education of their families. Several members indicated that they have become attached to their land, and are happy about having opportunities to protect capital, generate income, and enhance their quality of life by investing in land and/or products generated on the land.
10) Regarding the objectives they are currently trying to achieve: Several members of the ABC1 socio-economic categories indicated that they are trying to maintain their standard of living, that they believe that investing in "green" business opportunities might be a way to achieve that objective, and that they were also interested in reducing the expenses associated with the investment opportunities they were utilizing.
11) Regarding the question of the one thing they would (if they could) change about products and/or services designed to protect capital, generate income, and enhance their quality of life: Several members of the ABC1 socio-economic categories indicated that they would change the leadership of the country, so as to increase the probability that more benefits would be realized from Argentina's abundant natural and human resources.

THE CHALLENGE

Assume you are Prof. Carlos Aimar. What alternatives will you identify to the challenge posed by Mr. Clusellas, that is, to achieve the objective of generating at least $2,000,000 of revenue within the next 12 months.

APPENDIX 1: MAP SHOWING THE PROVINCES OF ARGENTINA