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JOURNAL OF THE INTERNATIONAL ACADEMY FOR CASE STUDIES

Instructors' Notes

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TABLE OF CONTENTS

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 affiliated with 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 Instructors' Notes contained in this volume have been double blind refereed, and each was required to have a complete case before consideration. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies. The Case for each Instructor's Note 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 the Allied Academy 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.

INSTRCTORS' NOTES

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.

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 2011-2012, 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.

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.

This case provides an excellent insight into the current issues facing a small private university. One of the first tasks undertaken by the president of the university was to prepare, disseminate, and implement a five-year strategic plan. This plan outlines many opportunities for students to take part in the progress and development of the university. Students will make recommendations in moulding the university into a developmental institution that other African countries can model.

As stated in this case, the challenge confronts the course coordinator of the school of business and entrepreneurship of AUN to support the university as a developmental institution. This case can be used in a variety of undergraduate programs, but the content may be best suited for courses in strategic management, project management, principles of management, and entrepreneurship innovation.

Learning Objectives

The learning objectives may vary according to the instructor's emphasis, but here are a few expected objectives.

Students will be able to

- comprehend the planning function of management;
- prepare a timeline and perform all the necessary steps in completing the assignment;
- develop a well thought-out and sound proposal; and
- work well and comfortably in a group.

With respect to the learning process and engagement, four points can be made.

1) At the beginning of the case, students will need to consider current trends and how developed world models can be applied to the initiatives of a growing and developing institution that extends beyond its campus walls. By the end of the case assignment, students should have discovered some conceptual frameworks

such as the use of growth and development through social entrepreneurial strategies, community service, and student clubs as useful guides to managerial action in a developing setting.

2) Students may compare their solutions to ones that have been initiated by other institutions along with what can be seen at AUN. Students have the opportunity to read the epilogue, which provides some solutions and initiatives proposed by the president, dean, students, and faculty.

3) The participants of this case study will learn that the president's decisions are powerfully impacted by the framework they use.

4) The participants will finally learn a bit about the city of Yola and the state and country of Nigeria along with the small private university that is having a huge impact in the community and Africa.

The Challenge

Three varied tasks 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.

Suggested SWOT Factors

Strengths

- An expanding and emerging Nigerian economy and a younger generation seeking higher education.
- Commitment from the founder to transform the university into a world-class U.S.-style institution.
- A new Board of Directors comprised of renowned Nigerian and international members.
- First university in Nigeria offering American-style instruction and producing bright and skilled graduates.
- Stability in the Yola region, a campus located in natural surroundings offering good social life, high quality facilities and amenities.

Weaknesses

- Lack of adequate financial management and transparency.
- Yola is isolated from the rest of Nigeria and lacks efficient public transportation.
- Harsh climatic conditions most part of the year.
- Insufficient endowment to achieve our strategic goals.
- World economic recession has impacted Nigeria.
- Uncertain political environment in Nigeria.

Opportunities

- Nigeria is waking up to the possibility of introducing new concepts and learning methods in education, especially in the fields of entrepreneurship and information technology.
- The university has a number of financial support mechanisms that can be capitalized upon to generate steady revenue streams.
- AUN is committed to improving and advancing information technology on campus to give students online access to the international faculty and resources.
- A 'wired' campus will facilitate access to electronic books and presentations from across the globe.
- AUN can become a role model for other universities in the country and thereby encourage development in the country.

Threats

- AUN still has to achieve financial stability and self-sufficiency. Presently, we are relying on only one source for our financial needs, and we need to explore more options.
- Economic and political instability in the country can discourage international faculty from coming to AUN.
- Unstable political, currency, and other issues make it difficult to recruit suitable candidates for our educational programs,
- Other private universities are establishing campuses in Nigeria,;
- AUN as a brand is not yet known and established.

The students may be expected to follow a set template that the teacher distributes for the strategic plan and syllabus. A sample syllabus has been provided (see Appendix 1).

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 create a solution for each of the social issues. Brainstorm on how the university can participate in the resolution of some of the most pressing issues. Discuss the benefits and drawbacks of each resolution you have highlighted.

The instructor may act as the moderator for the case discussion. The case can be assigned individually or to groups. The discussion can be as a whole or in groups. If groups are chosen, the students should be brought together at the end of class to compare and contrast responses. This may extend class time past one hour.

One student may be selected as the facilitator or leader for the group. The facilitator is expected to fully participate in the discussion. However, the teacher may randomly select students to get their feedback. Here are some suggested answers to the discussion questions:

Brainstorm activity on social issues:

- security issues with the recent development of Boko Haram conflict;
- high illiteracy rate;
- drug abuse problems;
- high unemployment among youths;
- children roaming the streets begging;
- electricity provided only a few hours a day;

- rubbish litters the streets, park areas, gutters;
- health concerns that include malaria, HIV, typhoid;
- deforestation;
- corruption penetrates all areas and levels of business; and
- ethnic/religious tensions.

Opportunities that address these social issues may vary. Here are a few potential discussion points:

- set up literacy programs;
- AUN sets up a compulsory community service initiative;
- set up student run clubs and organizations to address issues;
- sponsor events;
- offer scholarships;
- set up training facilities; and
- employ a CSR policy

Benefits and drawbacks of opportunities may vary. Here are a few talking points:

- leadership priorities;
- cost;
- resources (space, human capital, technology);
- logistic issues (space, transportation);
- sustainability;
- impact;
- measuring ROI (return on investment);
- justifying costs and use of resources;
- selection criteria (who takes part in the programs);
- developing the local area;
- raising the standard of living; and
- increasing the profile of AUN.

Presentation

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

Also each group can make a presentation on 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 students may be instructed to use a formal presentation style format with PowerPoint slides and/or to use the whiteboard.

Materials

These materials can support the case study lesson. One copy of the case study should be provided to each student, along with access to research materials. Specifically, materials are needed for the challenges.

A) The first challenge is to prepare the strategic plan. Depending on the level of students, the instructor may wish to provide an outline or a template that is specific to the course's curriculum.

B) The second challenge gets students to create a 'new' course and therefore will also require specifications such as course objectives, learning outcomes, evaluations, and grade breakdown.

C) The third challenge is for students to design a syllabus; here the instructor may use the current syllabus as a guide outlining specifications that are required of all syllabi.

This case study is designed to be introduced during one class session of from 50 to 75 minutes, with two hours of student preparation and research time and two hours to complete the task for a total of just over four hours. However, these four hours are expected to occupy the team outside of class time, not necessary during class.

This case study is recommended as a group activity for the planning function of a management lesson. Depending on team size and composition theories, the optimal size of groups could be from four members to 12. Belbin (2010) suggested that fewer than five members results in decreased perspectives and diminished creatively. More than 12 results in increased conflict and greater potential for subgroups to form.

The team may be considered the project team, meaning that the members of this team might belong to different groups, but will be assigned activities for the same project. In this way, setting up a team facilitates the creation, tracking, and assignment of a group of people based on the project in hand (Wheelan, 2010). In terms of composition, all teams may have elements of homogeneity and heterogeneity. The more homogeneous the group, the more cohesive it will be. The more heterogeneous the group, the greater are the differences in perspective and increased potential for creativity, but also the greater potential for conflict (Belbin, 2010).

To ensure that everyone in the group is contributing and to reduce loafing, the following suggestions are made:

Each group is to assign a role for leader, secretary, researcher, editor, etc. Weekly evaluations can be carried out in many forms. Each member can evaluate each others' performance, the leader can assess his/her team mates, members can evaluate themselves, and the instructor can put in place benchmarks that can be used for weekly evaluations. Each member in the group can keep a journal and record his or her thoughts and processes as another means of increasing and maintaining full participation.

EPILOGUE

The president sees an emerging trend of universities collaborating with communities whereby all benefit. The reality of the current dire economic situation in Adamawa is serious, but progress and development have been steady. Enrolment of students has increased, and there is more dialogue and discourse on behalf of the immediate community. Such initiatives have been started and are ongoing examples of how AUN strives to apply theoretical in-class knowledge to dealing with real-life issues that face its community.

A Peace Committee is an example of an initiative that has been started to support peace and harmony within Adamawa state. For more details, students can go to http://americanuniversitynigeria.org/blog/?p=290&utm_source=rss&utm_medium=rss&utm_campaign=aun-spearheads-adamawa-peace-council.

Various community service opportunities are organized by the charity department: http://svc.americanuniversitynigeria.org/.

By accessing the website at www.aun.edu.ng, students can read about the initiatives at AUN. The administrators, faculty, staff, and students are actively engaged in developing AUN as a model of community development so other institutions may follow its example.

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APPENDIX 1

Syllabus Sample

ENT 201
Entrepreneurship II
American University of Nigeria
Spring 20XX
COURSE SYLLABUS

Course Information

Course Title: Entrepreneurship II
Course Number: ENT 201 section 2
Pre-requisites: ENT 101,
Term: Spring 2013
Meeting Times: 1:45-3:15pm
Location: Room B04

Instructor Information

Name: Ms Volpi Dorm
Office: Building: EE Room: E7
Office Hours: Monday & Wednesday 10-12pm; Tuesday & Thursday 2-4pm
Email: xxxx.xxxx@aun.edu.ng

Purpose of the course: The purpose of this course is to introduce the student to the entrepreneurial world. We will spend time on what it requires to be an entrepreneur. We will cover developing a successful business idea, and then creating an entrepreneurial firm to implement that idea. Finally we will spend some time on managing and growing the entrepreneurial firm. The primary tool for accomplishing this will be the creation of a business plan complete with financial models for the students own entrepreneurial firm.

Course objectives: By the end of the course, each student will have been required to …

Learning Outcomes:

Upon successful completion of the course, students should be able to:…

University/Program Objectives:

The overall goal of the business program is to provide students the opportunity to develop advanced professional training in business and entrepreneurship. Specific objectives of the program include providing students opportunities to participate in solving business problems by utilizing case study and innovative lecture approaches in teaching. This course hopes to prepare students to be applied and practical by promoting critical thinking, problem solving and effective communication skills.

Learning Process:

Substantial emphasis will be put on collaborative discussions. Students are expected to participate fully in all class discussions and should come to class prepared. In class assignments, home work, group projects and presentations are an integral part of the learning process.

Required texts:

Course requirements:

Individual class participation	22%	220
Case Studies	20%	200
Milestones	16%	160
Business Plan and Presentation	42%	420
Total:	100%	1000 points

Grading scale:

Grade	
A	95-100%
A-	90-94.99%
B+	86-89.99%
B	83-85.99%
B-	80 - 82.99%
C+	76 - 79.99%
C	73 - 75.99%
C-	70 - 72.99%
D+	66 - 69.99%
D	63 - 65.99%
D-	60 - 62.99%
F	Below 60%

Individual class participation: This part of your grade will be based on your level of contribution to class discussions. You will be expected to bring two questions about material in the two texts, which will be covered usually during the first half of the class. These questions must be emailed to me 24 hours prior to class. In general each regular class is worth 20 points: 10 for being there and participating, 15 for active participation and emailing questions, and 20 for a meaningful and significant contribution. If you miss a class and submit your questions prior to class, you can still receive 10 points.

Case studies: During the semester you will be asked to read and be prepared to discuss in class case studies. These will be an integral part of the learning process. Failure to read and analyze the assigned cases in detail will make it very difficult to achieve a satisfactory grade. You will also be given case questions prior to class, which are to be answered and submitted electronically to me prior to class. Late case questions will not be graded and you will receive a zero for the second half of that particular class. If you cannot attend class, you can submit your answers prior to class and receive half credit. Each set of case questions is worth 20 points

Milestones: During the course you will be required to meet several milestones. These milestones are designed to keep you on track for the successful and timely completion of your business plan. These milestones will be submitted to me electronically prior to the class that day.

New Venture Screening: Due February 15th-The first part of creating your business plan will be to analyze the opportunity to see if it has the potential to support an entrepreneurial business. This should include an analysis of the industry and competitor analysis, and an overview of the business product or service and how it fits into this niche. This will be an in class presentation with feedback from your peers and myself about the feasibility of the opportunity.

Industry, Customer, and Competitor analysis: Due February 29th- This is the first component of your business plan, and flows from your VOSG work. It sets the stage for the rest of the plan.

Marketing Plan: Due March 14th- This is the core of your business plan. It describes your target market, product service strategies, pricing strategy, distribution strategy, advertising and promotion strategy, and sales strategy.

Operations Plan: Due March 28th- This is the most overlooked part of most business plans, and is where you will describe how you will do what you will do.

Financial Plan: Due April 18th- This is the final section of your business plan. Here you will show the financial implications of your business model.

All but the first milestone will be graded, and will each be worth 30 points. They will be graded for effort and intent, as well as content. If you need more information for a particular section just indicate what you will do to develop that data. As the semester goes on I will raise my standards in grading these sections. The financial plan will be expected to be complete in content, but it may not yet balance. These milestones will be presented in class the next class after they are due.

You will submit electronically to me your final business plan prior to the class on the night of **December 1st**. On that night we will explore the focus of a short form pitch and discuss what works and doesn't. You will all give a short pitch (Elevator Pitch), present your slides for the final presentation, and receive feedback from the class and myself.

On **December 6th and during our scheduled finals period** you will present your business plan. You will have eight minutes to make your presentation, and may use any support material, media, or props for your presentation. The 42% of your grade allocated to your plan will be spread out in this manner:

1.	Executive Summary	4%
2.	Industry, Customer, and Competitor Analysis	4%
3.	Company and Product Description	3%
4.	Marketing Plan	5%
5.	Operations Plan	5%
6.	Development Plan	3%
7.	The Management Team	3%
8.	Critical Risk Factors	4%
9.	Offering	3%
10.	Financial Plan	8%

I will have already graded your plan the night of your presentation. Based on the quality of your presentation I will add or subtract up to 10 % of your grade for your presentation. Perception and delivery are sometimes all that separate those who get the money and those who don't.

Course Schedule:

Date	**Entrepreneurship Text**	**Case Study**	**Other Material**	**Milestones**
Week 1	FIRST WEEK OF CLASSES (no class)			
Week 1	Introductions			
Week 2	Chapter 1&2	R&R Case	#1	
Week 3	Chapter 3	Beta Golf		VOSG
Week 4	Chapter 4	Anasazi Case		
Week 5	Chapter 5	Profit Logic		Ind. Anal.
Etc….				

Course Policies

It is extremely important to attend this class on time. The instructor has the right to disallow you to attend the class if you are late for more than 5 minutes …

You are expected to spend approximately 12 hours per week on readings and assignments. **DO NOT DEPEND UPON CLASSROOM DISCUSSIONS ONLY TO FULFILL THE REQUIREMENTS OF THIS COURSE**. Study text materials are not only to be read but understood. Readings are to be made before the scheduled class as indicated. Although a major portion of class time will be devoted to lectures and in class activities, time constraints will prevent review of all the assigned readings.

The homework assignments should be typed and ready for submission on the due date. Each homework assignment must be prepared in a separate document. Only one homework assignment from each chapter will be collected on a random basis. Late homework assignments **will not** be accepted.

Academic Honesty and Integrity Policy

Over the years, a number of questions have been raised about whether or not working together on homework assignments is considered cheating. The following should serve as a **guideline. If you have any doubt, ask your professors as soon as possible.** Please note that other courses at AUN may have slightly different guidelines. What your roommate is allowed to do does not necessarily apply to you.
You may work together on homework assignments. Homework assignments are a learning experience, and one of the best ways to learn is to work with others. **HOWEVER, the work you submit must be your own.** Here are a few examples of how this policy translates in practice.

You may do the following things:

- Ask a friend to *explain* how he or she *approached a* problem.
- Show your homework to a friend while asking him or her to listen to and critique your explanation of what you have done. Do not allow your friend to copy and hand in your results as his or her own.
- Work together with a friend to get the answers to a problem. **However, if you do this, you MUST then put aside or destroy the work you did together and, for submission, separately and individually recreate the work you had done.** We understand that pressure often exists to omit this second step, and we urge you not to try to sneak one by

us the one time you're short of time -- it's much better to take a zero on an assignment than to have to face the College Judicial Board.

If you have worked with a friend, you MUST acknowledge your collaboration on the assignment. Failure to do so is considered to be cheating.

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.

INSTRUCTOR'S NOTES

Case Questions

1. Should Joe believe Frank Baylor's theory that the Save-More's target-market had cannibalized Real Grocer's market share?
2. Would it be better if Joe followed John's advice and just closed the under-performing Real Grocer? Or should he spend more time and money marketing this Real Grocer to the local market?
3. Is Frank's recommendation of transforming the Real Grocer into Save-More worth taking a chance on?

Answers To Case Questions

1. **Should Joe believe Frank Baylor's theory that the Save-More's target-market had cannibalized Real Grocer's market share?**

    Joe Paterson should not believe Frank Baylor's analysis of why a specific Real Grocer is under-performing. Frank suggested that the Save-More stores were cannibalizing the Real Grocer's market share. However, Frank is a CPA and not a grocery market-expert --- he did not conduct any research on the targeted markets of the two business models. The two business models are completely different --- they are both targeting markets that have unrelated buying behaviors. Real Grocer targets the higher upscale market while Save-More targets a lower socio-economic group who rely heavily on staples. As illustrated in Table 2, the failing store neighborhood profile does not match either the successful Real Grocer or Save-More Neighborhood profiles. Additionally, the high incidence of food stamp usage in the under-performing store is a significant indication that this location is not ideal for a Real Grocer operation. Another tip-off is the launching of the Dollar General store. Dollar General has a rigid (and specific) location policy. They would not be opening a store in this location if significant lower-income customers did not occupy its trade area.

2. **Would it be better if Joe followed John's advice and just closed the under-performing Real Grocer? Or should he spend more time and money marketing this Real Grocer to the local market?**

    It would not be advantageous for Joe to continue investing marketing resources for the under-preforming Real Grocer --- he would be marketing to the wrong market. It would be wiser for Joe to listen to John and close that Real Grocer. The financial information indicates that this particular store is a serving market that is very different from the other Real Grocer stores. For example, sales are much lower --- indicating either hyper-competition or lack of store demand. Next, the mix of sales between cash and food stamps is skewed. More customers are using food stamps at this store than is typical. This impacts margins and profits for this store. The lack of sales and lower margins given the higher fixed costs and high wage structure guarantees that this store will under-perform. It cannot succeed in this environment.

3. **Is Frank's recommendation of transforming the Real Grocer into Save-More worth taking a chance on?**

    When analyzing the weekly Income Statement(s) of an average Real Grocer, a poor performing Real Grocer, and an average Save-More, a lot of observations can be made. The main reasons for the underperforming Real Grocer are the lack of sales (either due to low-demand or less likely hyper-competition) and lower gross margins due to the high mix of food stamp customers. The Real Grocer's food stamp margin (50%) is much higher than the average (33%). This in turn drives the COGS margin up (78%), because Real Grocers rely heavily on their specialty foods (Bakery, Deli, Produce, Meats, etc.). Most food stamp customers are not utilizing the specialty foods section at the poor performing Real Grocer --- whereas an average Real Grocers the COGS margin is down (65%) because specialty foods bring in a much higher margin than grocery items. The instructor can help students analyze similarities between financial statements to understand market trends and the buying behaviors of the two segmented markets. Save-More's thrive in a high food stamp margin area which is shown in the income statement of the average Save-More. It would take a little less than a year for a franchised Save-More to break even and begin to turn profit. Can the under-performing Real Grocer be turned into a Save-More? The short answer is ---- yes, but because of the size, infra-structure costs, and such the fixed costs will push-back the break-even point beyond three years. Joe Peterson is currently trying to convert the store to a Save-More store after failing to find a suitable buyer for the location. The major competition is a new Giant Grocery store, which is doing very well. Currently there is not an Acme or Aldi store near this location, but that could change.

MAGIC CARPET RIDE
A FINANCIAL REPORTING CASE

Larry Watkins, Northern Arizona University
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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

This case requires students to identify several financial reporting issues and research them in the professional pronouncements literature. Students should be able to identify the issues presented by the case and conduct the necessary research assuming they are familiar with the *Accounting Standards Codification.* If the instructor desires, the four questions presented at the end of the case can be omitted providing more ambiguity to the assignment. This may be appropriate for graduate students. The authors' preference is to require a professional memo detailing the students' recommendations. Oral presentation of the case results by individual students or small groups followed by questions from classmates and the instructor also is an approach that has been successfully utilized.

The materials used for this case came from internal corporate documents supplemented by interviews with a senior executive of the company. Minor details have been modified to enhance the decision usefulness of the case and the names of the company and its officers are fictitious.

Case Overview

Magic Carpet was a project undertaken by Mecca Media to expand into online entertainment. The project was relatively costly given that Mecca is a small public company with $100 million in annual revenues. At the direction of the CEO, Mecca has invested millions in intellectual property rights, property, plant and equipment, and (TV) set-top boxes, in addition to entering into a multi-year consulting agreement. Now over a year into the Magic Carpet project, the CFO has concerns regarding the cash flows associated with Magic Carpet and has made her concerns known to the CEO and the Board of Directors. She has suggested a specific course of action to pare down the project significantly thereby reducing the negative cash flow consequences. The Board has requested information on the financial reporting implications if her suggested course of action is pursued. Students are required to identify the possible reporting issues related to the CFO's suggestions: asset impairment, costs of terminating the consulting contract; classification of the set-top boxes as inventory or property, plant and equipment, environmental disposal fees, and discontinued operations. Both preliminary and revised cash flow projections as well as discounted cash flow amounts are provided in case exhibits to provide adequate information for impairment determination. Students must also conduct research in the FASB's *Accounting Standards Codification* and use the results of their research efforts to analyze their findings and decide on the appropriate accounting actions that should be taken. The case is well suited for requiring students to write a professional memo or an executive summary of their findings providing reinforcement of technical writing skills. This case has been successfully utilized at the end of the sequence of intermediate accounting courses and in a graduate financial reporting case course.

Questions

Although specific questions follow, some instructors prefer a more ambiguous approach. This may be especially appropriate for graduate courses. For those wanting a more challenging task for students the listed questions can be deleted and students instructed instead to respond to the following:

A. Determine the financial statement implications for MMI if Ms. Hutchinson's proposals are adopted by the Board. Be certain to document your findings using the Accounting Standards Codification.

B. Are there any other financial reporting issues that need attention?

Case Questions and Solutions:

1. What assets, if any, are impaired?

All of the long-lived assets (asset group) utilized exclusively for Magic Carpet must be tested for impairment. This would include the intangibles, property, plant and equipment, and the inventory of set-top boxes. According to the FASB's Accounting Standards Codification (ASC)

"[f]or purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities." [ASC 360-10-35-23]

Other sections of the Codification go on to state that:

"[s]eparately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another." [ASC 350-30-35-21]

From the information provided it appears that Magic Carpet is operated as a single asset. There is also no cash flow information provided at a level lower than the Magic Carpet project level. This would support treating the intangibles, property, plant and equipment, and the set-top boxes as an asset group for the purpose of impairment testing.

The determination of impairment and the measurement of the impairment are made in accordance with ASC 360-15-35-17. This section requires a two-stage testing procedure. First the carrying value of the asset (or group of assets in this case) is compared to the undiscounted cash flows expected from the asset group. If the carrying value exceeds the undiscounted cash flows the asset group is impaired. To measure the impairment the carrying value is compared to the fair value (or the discounted cash flows if fair value cannot be otherwise determined).

Proceeding with the impairment testing of the group of assets, the analysis would be as follows:

Unexpired cost of intangibles, website, and software	$900,000
Unexpired cost of fixed assets	500,000
Carrying value of set-top boxes	320,000
Carrying value of asset group	1,720,000
Undiscounted cash flows anticipated	930,000
Carrying value exceeds anticipated cash flows by	$790,000

Since carrying value exceeds anticipated cash flows, impairment exists. To measure the impairment an analysis comparing fair value of the asset group to carrying value must be completed. Since no active market exists for the asset group the expected discounted cash flow from the asset group will be used for fair value. [Note that the present values are based on a risk adjusted weighted average cost of capital provided to MMI by an independent third party valuation firm.] Below is the analysis:

Unexpired cost of intangibles, website, and software	$900,000
Unexpired cost of fixed assets	500,000
Carrying value of set-top boxes	320,000
Carrying value of asset group	1,720,000
Discounted anticipated cash flows	651,090
Measurement of impairment	$1,068,910

This analysis indicates an impairment loss in the amount of $1,068,910 must be recognized on the Magic Carpet assets during the current period. Additionally the impairment loss must be allocated to the long-lived assets in the group of assets on a pro-rata basis consistent with guidance in ASC 360-10-35-28. This revaluing of assets will change the subsequent annual depreciation and amortization of the fixed assets and intangibles affected.

Some students may note that Hutchinson's plan for scaling back called for a redeployment of fixed assets currently used by Magic Carpet to other segments of MMI. Although no information regarding anticipated incremental cash flow from the redeployment was provided if any were anticipated this would change the impairment measurement somewhat.

SET-TOP BOXES

It is appropriate to mention that students often believe the set-top boxes are inventory since the term is used when discussing the units in the case. However, it does not appear that they have the characteristics of inventory. [ASC 330-10-05-1] Instead the boxes are more appropriately classified as property, plant, and equipment (PP&E) since they have useful lives of greater than one year and are used to distribute MMI's services. [ASC 360-10-05]

However, if students did consider them inventory they should have accounted for them at the lower of cost or market per ASC 330-10-35-1.

> "A departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as their cost. Where there is evidence that the utility of goods, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the difference shall be recognized as a loss of the current period. This is generally accomplished by stating such goods at a lower level commonly designated as market."

Regardless whether the set-top boxes were considered inventory or PP&E (property, plant and equipment) there must be a write-down of the assets and a liability recognized for their disposal (see response to question 4 below).

2. How are the costs associated with cancellation of the consulting agreement treated?

The $262,500 cost to terminate the multi-year consulting agreement is a contract termination cost per ASC 420-10-25-11. This should be recognized as a loss and a liability when it meets the definition of a liability provided in FASB Concepts Statement No. 6, *Elements of Financial Statements*. This occurs with the termination of the multi-year consulting agreement if it leaves MMI "little or no discretion to avoid the future transfer" of assets. [ASC 420-10-25-2]

3. Should the termination of Magic Carpet be treated as a discontinued operation?

Magic Carpet should not be treated as a discontinued operation as it has neither been disposed of nor is it held for sale. [ASC 205-20-05-1 and 360-10-45-9] Students can readily make this determination by reviewing the flowchart provided in ASC 205-20-55-25.

4. What is the appropriate financial reporting treatment of the environmental disposal cost of the set-top boxes?

Regardless of whether the set-top boxes were considered PP&E or inventory the $25 cost per unit for disposal cannot be ignored. Asset Retirement and Environmental Obligation [ASC 410-20-15-2] states:

> "The guidance in this Subtopic applies to the following transactions and activities:
> Legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and (or) the normal operation of a long-lived asset, including any legal obligations that require disposal of a replaced part that is a component of a tangible long-lived asset."

ASC 410-20-30-1 goes on to state that the determination of a reasonable estimate of fair value of the asset retirement obligation is determined by using "an expected present value technique". This requires that the liability be measured at the discounted "expected cash flow using a credit-adjusted risk-free rate." Given the information provided in the case it appears that the $250,000 disposal fee is the present value of MMI's obligation and that amount is the appropriate measurement of the liability.

It should be noted that using asset retirement obligation treatment requires the set-top box assets be written up to $570,000 which will increase the corresponding impairment loss by the $250,000 amount.

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.

INSTRUCTORS' NOTES

Theoretical Frameworks

The author thinks three bodies of literature are relevant in the analysis of this case:

1. Governmentality studies and its focus on the conduct of conduct: the bank's possibility to conduct Feem as well as other non-profit organizations through the technique of micro-finance. While allowing the bank to access a new market niche, it also permits the bank to govern the small organizations. Further, micro-

finance appears a technique to move responsibility for marginalization from society to the marginalized individual.

2. Frame analysis and its focus on the way various layers of meaning are superposed on each other, shaping the reality of the actors involved. Examples in the case are the bank's framing of micro-credit as similar to a previuosly existing loan, which allows the bank to surmount the legal difficulties of loaning to high-risk customers. Further, Feem rebels the bank's efforts to govern their conduct by framing those efforts along the ethnic line.
3. Social capital and its focus on networks: two types of networks are highlighted in the case. First, bridging social capital, ties that connect individuals from a diversity of groups. Bridging social capital is established throughout Linda's efforts to set up the micro-finance initiative. Second, bonding social capital among participants in the pilot non-profits, particularly Feem. The case shows also the benefit of looking at the role played by weak ties to facilitate the flow of information across different social groups. This would be in line with Granovetter's argument in "The strength of weak ties", American Journal of Sociology.

Of particular interest in the case is that it highlights the way in which these three bodies of theories complement each other

The Role Played by Framing Efforts in Transforming the Recognition of Social Capital

1. Framing the ethnic other as marginalized without access to established financial institutions sets the problem that needs to be solved. This is an example of a diagnostic frame – one that identifies the problem and assigns blame. The very conflation of the groups included in the pilot project (ex-convicts, former drug-addicts, and immigrant women) tells of the view on the ethnic other (not as an expat, but as a resourceless "immigrant").
2. The suggested solution to the so framed problem is micro-finance. This technique allows for a change in the relationship with the vulnerable groups, more particularly with Feem and the group of ethnic minorities it represents. That is, outsiderness in general, and ethnic outsiderness in particular, becomes attractive to the savings bank as it opens up a new market niche. Thus, the social capital that Feem holds within the community of ethnic minorities is transformed into a resource attractive to the bank.
3. Further, "micro-finance for the poor immigrant" allows Feem to extend its social capital beyond the reduced circle of outsiders to the sphere of savings banks. That is, the micro-finance frame allows Feem to create bridging social capital.

Frame and Governmentality Studies

Frame and governmentality studies are supplementary in two senses. First, the role played by a particular frame in introducing and establishing a particular technology for the government of conduct. Second, the way a particular frame is used to resist the efforts by others to conduct one's conduct.

1. The need of coping with the high-risk involved in granting micro-loans to individuals with no securities, that is, the need to reduce the high-risk of micro-finance pushes the bank to wanting to control the organization and activities of the non-profits. In this way, while allowing the bank to access a new market niche, micro-finance also gives the bank a way to govern the conduct of the non-profits.
2. Further, through the frame of micro-credit for micro-enterprise, micro-finance offers a frame that translates a social problem into a personal one. Responsibility for a place outside the labour market does not longer lie in an unjust (ethnic) organization of society, but on the individual who does not succed in her own entrepreneurial efforts.
3. Framing used by the non-profit (Feem) to resist the efforts addressed to coduct their conduct. Accusing Linda of acting like a "white woman" efficiently resist the bank's efforts at increase their control over the non-profit. The very frame that opened the way to introduce micro-finance in Sweden (people of foreign background are discriminated in the financial market due to their ethnicity), is also mobilized by Feem to resist any movement by the bank to govern the organization and management of the non-proft.

Governmentality and Social Capital Studies

Finally, governmentality and social capital studies inform us of the way by which the efforts to conduct the conduct of vulnerable groups and individuals focus on the network of those groups and individuals.

1. Yasta's entrepreneurship course is a case in point, as the potential micro-loan takers are made to take contact with a variety of Welfare State Agencies before the loan can be discussed. Further, the course works well to control the sort of connections they build to their potential future business accountant.
2. We can also see the efforts at governing social capital in the attempt by the project leader, in the leading group meetings, to establish a working collaboration between the non-profits and the Welfare Agencies. This is to such an extent that

we could ask the question of whether social capital is the new object of government.

The intersection of the three bodies of theory could be summoned up by conceiving micro-finance as a technique for the government of framed groups.

CASE ANALYSIS

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

Mobilization and Generation of Social Capital

In order to understand the introduction of micro-finance in Sweden it is important to understand both the project leader (Linda Sandberg) and her "academic coach" (Fredrik Winbladh), as well as the character of their collaboration.

Fredrik Winbladh was recognized and well-connected in the sphere of non-profit organizations in Sweden. For over 15 years he had collaborated with a variety of civil society organizations, coaching them on issues related to organizational strategy and governance. His long-standing collaboration with Yasta became pivotal in establishing the micro-finance initiative. Further, and of great importance for the adoption of microfinance by a established financial actor, Fredrik was the Scientific Secretary for the Swedish Association of Savings Banks. Fredrik is a key link letting information about possible collaborators and funders flow from one cluster of actors (the non-profit sector) to another (the financial sector). He personifies Granovetter's argument on the strength of weak ties.

Suggested literature regarding the flow of information across a diversity of actors:

1. Granovetter, 1973. Granovetter can be used to explain the importance of an information flow across clusters of actors that never meet, and the role played by acquientaces and weak ties in maintaining that flow of information.

Linda Sandberg was passionate about micro-finance, as well as an active person with connections to other young, passionate, well-connected, newly graduated students. Her background at the Stockholm School of Economics is one of the factors giving her both an extended network and a symbolic recognition. This made it possible for her to quickly pull in a variety of actors interested in contributing to the project. Yasta's entrepreneurship course shows both the breath of her network as well as the speediness with which she was able to mobilize it.

"Linda and Karin found each other" – A relevant factor worth considering when discussing Yasta's entrance in the micro-finance project and Linda's serious consideration of Yasta as the non-profit taking the relay from Feem is the instant recognition between Karin and Linda. Both young Swedish women with a similar educational background. Bourdieu's discussion of role played by the various forms of capital in maintaining social hierarchy emphasizes the recognition of each actors' cultural and symbolic capital, something that can be seen in the relationship between the two women.

Besides Yasta's entrepreneurship course, the leading-group meetings were also occassions in which network was built and extended. Actors had the chance to present themselves, get an insight into each other's work, and evolve together in their understanding of the new idea of micro-fiance. In this way, these were occassions for building up trust for each other, something that was central given the high risk of the potential loan takers.

Suggested literature regarding the generation and extension of social capital:

1. Putnam, 2000. Putnam's theory of bonding and bridging social capital is relevant to understand the role of social capital in maintaining healthy collaborations. Also important are the prerequisites Putnam has identified for the generation of social capital.
2. Bourdieu, 1986. Bourdieu's more sophisticated discussion of the various forms of capital can contribute to highlight the role played by social, symbolic as well as cultural resources.

Finally, another organization that mobilized its network was Feem. They connected the strength of its network closely to the ethnic boundary. They raised up their knowledge of the situation at the margins of society as well as their contacts among immigrant women as their strong resource. In this way, Feem effectively transformed ethnicity from a handicap in the wider society into ethnic capital attractive to, among others, the savings bank. That is, they framed ethnicity as a form of social capital. Theirs was of the bonding form.

Suggested literature regarding framing processes:

1. George Lakoff, 2004. Lakoff's discussion of the role of supperposing various layers of meaning when framing a debate is relevant in understanding the varied meanings of ethnicity in the micro-finance project, and the role of framing in positioning the various actors in relation to each other.
2. Benford and Snow, 2000. For further reading of framing in mobilization processes.

The Conflict of Logics

The variety of actors that came to be involved in the micro-finance initiative brought with it a variety of logics, not necessarily complementary.

Although savings banks stress the importance of contributing to the growth of the local community, their everyday work and the legal system within which they operate force them to cultivate a market-based logic. The bank aims at reaching out to new market segments, such that have been considered “non-bankable” before. As a result, they lump together ex-convicts, former drug-addicts and women of immigrant background into the target group of micro-finance. A group, however, with a high risk for the bank. To cope with that risk, the bank collaborates with non-profits aiming at those particular groups.

Non-profits, on the other hand, do make distinctions between the groups that the bank lumps together. Although their focus seems to be at the individual level – preparing, training and coaching the new entrepreneur in her current and future entrepreneurial endeavours –, their approach is a wider, social, one. Techniques such as reaching out to women of immigrant background and organizing awareness groups among them tell of the efforts to raise consciuosness among them for their shared situation, and thus for their social subordination as a group. Further, and at least for the organization that concerns the case, Feem, the goal is to change the bank’s (and by extension society’s) attitudes towards women of immigrant background by forcing them to see competence where the bank could not.

Savings banks and non-profits follow, as it were, two seemingly opposing rationalities. The first regards micro-finance as a tool to reach to a new market niche. The second highlights the need to change the social categories shaping actors’ perceptions of the marginalised individual. The implicit theory of social change in the first goes through individual financial inclusion. For the non-profit, however, the theory of social change implied goes through identification, empowerment and mobilisation of a group. Accordingly, micro-finance is for the first a product (micro-credit for micro-enterprise), a way to offer financial inclusion to the individual while reaching out to a new market niche. Whereas for the second it is a larger process of community building which leads to individual empowerment. In sum, the first espouses a market-like rationality, whereas the second endorses a communitarian one. The first builds on controlling the risk of the addressed market niche, the second on developing trust among the collaborating partners.

The conflict of logics is well illustrated in the disagreement between the bank and Feem concerning the quality of the first two potential loan-takers presented by the non-profit. Whereas the bank argued the business ideas were not up to the level, Feem considered the bank unable to perceive competence when it came from an ethnic other. Need to change the bank’s way of perceiving the marginalized group. The project leader’s attempt to mediate between both parties only backfired, as she was seen by the non-profit as siding with the bank and lacking trust in Feem.

This conflict of logics is also expressed in Feem's perception of somewhat colonialist attitudes in both the savings bank and Linda. This perception is visible in Jazmin's accussation to Linda of thinking like a "white woman" as well as on her feeling that the bank was too controlling. Accordingly, Linda's suggestion of employing a loan officer within Feem was interpreted as an indication of Linda's (and the bank's) lack of trust in Feem; the accusation of plagiarism pointed towards Feem reading in Linda a behaviour of superiority.

Furthermore, although Feem considered the source of the exclusion of people of immigrant background from the labour market a social problem, that is, discrimination due to wider social forces, micro-finance was being introduced in Sweden as a tool to work individually with economic exclusion. As a consequence, micro-finance focused on ex-convicts, former drug-addicts and immigrant women, conflating within the target group a wide diversity of situations at the margin of society. Or as Linda put it, "Even if the problem leading to outsiderness is different, the solution to the problem is the same!"

Such is the characteristic of a market logic: attempting to stardardize the solution and impose it onto single individuals. And that is the characteristic that did not suit the empowerment oriented, community-building approach of Feem. It is this conflict of logics that Feem denounced as common to "white women," thus insinuating the colonialist will to perpetuate the extant balance of power.

The Frame Alignment Process Set in Motion by Micro-Finance

Linda, the project leader, successfully introduced micro-finance as a way to bridge between the bank's and non-profit's conflicting logics.

Inspired by Mohammad Yunus, Linda and Fredrik published a chapter within a booklet edited by the Swedish Association of Savings Banks about the potential of micro-finance to achieve both individual and social change. This framing bridged the individualist approach of the bank's market-like rationality with the social change goal of the non-profit's logic. It proposed and articulated a solution to the problems faced by both the bank and the non-profit, addressing the question of consensus and action mobilization. The non-profit had another tool to work with community building of its target group, while the bank was given a tool to reach to a new market segment. In this sense, micro-finance was presented as a prognostic frame.

Suggested literature regarding alignment processes:

1. Snow, David A. et al, 1986. This article is helpful in understanding the role of framing processes in developing collaborations between actors and groups with different missions.

Further, this framing made it possible for the bank to use micro-finance as a technique to govern the conduct of the non-profit and, in that doing, manage the high-risk of its potential customer. In order for the bank to be able to offer a micro-finance product, they needed to manage the perceived risk of the potential loan-taker. For this, they took support from the market-like rationality, forcing the non-profit to follow a series of steps that would allow the bank to indirectly conduct the conduct of the loan-taker. These included identification, supervision, support, coaching, and follow up of the entrepreneurs.

In practice, these requirements involved the bank controlling the everyday work of the non-profit, and Linda's suggestion to Feem to hire a loan officer within the organization was seen by Feem as another attempt to control their activities.

Further, as a response to the bank's requirement to the non-profit to act as a warrant of the quality of the potential entrepreneur and her business idea, the non-profit offered courses and workshops on a variety of entrepreneurial competencies as well as personal coaching to potential entrepreneurs. This was already the normal way of working for Yasta, but it was new to Feem.

Common to these three techniques is their aim at disciplining individual loan-takers, at imbuing a particular mode of conduct into each and every individual. It is in this sense that we can talk of micro-finance as a technique for the conduct of individual conduct – for self-provision through entrepreneurial initiative has to come from within everyone and each.

Such is the key innovation of micro-finance in a developed welfare state: To link the calculative and financial capacities of banks to the government of individual conduct and social life. Micro-credits for micro-enterprise were used as a machinery for surveillance and regulation of personal conduct of the problematic groups of society. The bank governs the individual entrepreneur through mediation of the non-profit whose conduct it directly governs. Something that the non-profit felt weary about.

Suggested literature regarding the extension of the conduct of individual conduct beyond the sphere of the State:

2. Nicolas Rose & Peter Miller, 1992. This article will help students understand the role taken by actors other than Welfare State Agencies in disciplining individual conduct. It contributes to a discussion of the extension of government power to actors such as savings bank and non-profit organizations.

SUGGESTED STUDENT ASSIGNMENT

Introducing Micro-Finance in Sweden

What are the difficulties facing the introduction of micro-finance in Sweden?
What are the initial resources used to introduce micro-finance?
How are such resources mobilized in the attempt to introduce micro-finance in Sweden?

Collaborating Partners

What are the interests of the actors involved in the micro-finance initiative?
How are these interests met by the micro-finance initiative?

Potential Of Social Change

Has the micro-finance initiative the potential to achieve social change?
How does collaboration with Feem and/or Yasta influence this potential?

WHAT HAPPENED "IN REALITY"?

Linda decided to let time go and don't make any fuss of Feem's conflictual approach to the collaboration. The micro-finance project culminated with a one-day conference on the potential of micro-finance with which the Swedish Association for Savings Banks formally ended the initiative.

One year after the formal end of the project:

1. Both Feem and Yasta were working with micro-finance. Feem had started Sweden's first MFI, although was unable to give loans of their own due to lack of resources. Yasta, on the other hand, had obtained a large funding for the European Social Fund (ESF) to develop micro-finance Yasta!, which works with Sörmnland Sparbank has been asked by the bank to co-operate with Feem in setting up micro-finance..
2. The micro-finance product had been extended both by the Savings Bank of Sörmland and by the Savings Bank of Roslagen to include also unemployed youth.
3. Jazmin Nkoya, Feem's initiator and director, had been appointed member of the board of directors of the Swedish National Employment Agency.
4. Despite the low number of micro-loans granted to entrepreneurs coming from Feem, Jazmin Nkoya has been awarded the price "Entrepreneur of the Year", awarded by Veckans Affärer, a major Swedish business magazine.

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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?

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

This case was written by the authors to require students to put themselves in the shoes of a small business owner. Students are required to integrate all of their knowledge of planning and decision making to help choose the "best decision." To justify their "best option," students will be required to incorporate their knowledge of accounting, economics, and management.

Before assigning the case, it is suggested that the instructor spend class time ensuring that their students have a basic understanding of planning, goal setting, and decision making. It will be very difficult to have a productive and beneficial classroom discussion if students have not read over the case as well as put in enough time to work through each of the options. We recommend that the instructor assign the questions that follow at least one class period before the discussion, ensuring that students will have adequate time to prepare their decision, supported by numbers. . It could also be beneficial to require each student or group to conduct some industry research to understand the processes, margins, etc. of the industry.

Here are a couple recommendations to ensure that all students have prepared for the class. One option is the instructor could have the students turn in their answers. Another option is to break the class into groups and assign one group of students to lead the discussion for one part of each question. A third option would be to randomly draw a couple of students' names on the day of the classroom discussion to help lead the dialogue. This option would force all students to be prepared, not knowing if today will be their lucky day.

Assignment Questions

1. Using the Cash Receipts and Disbursements Statement (Table 1) provided in the case, determine how much would be spent over a five-year period in each of the three options?
2. What factors might affect Anna's decision other than direct costs? Why?
3. Which option should Anna choose? Why?

1. Using the Cash Receipts and Disbursements Statement (see Table 4 – TN at the end of the case) provided in the case, determine how much would be spent over a five-year period in each of the three options. Possible answers include:

Option 1 (see Table 1 - TN) - costs could run from a minimum of $15,000 and up depending on the continued reliability of the old machine. The existing machine has many hours and impressions on it, so the maintenance costs will continue to increase. As seen in the following table, an annual total of $3,000 was added to the expense account "Repairs Associated with Existing Machine".

Option 2 (see Table 2 - TN) - Costs could run higher than normal because the company will be forced to pay whatever pull charges the outsource company currently charges plus any shipping costs and possibly cost of replacements when mistakes are made in printing. As seen in the following table, an annual total of $52,512.00 was added to the expense account "Contract Printing with Outsource Printer". Related expenses were reduced; see the list of assumptions. The outsourcing option would cost $262,560 over five years.

Option 3 (see Table 3 - TN) - the new machine will cost $22,495 plus interest. Assuming 7.5% interest, the new machine will cost $27,045 over the five year payback period. As seen in the following table, a loan in the amount of $22,495 was granted to the company. This cash injection is shown on the spreadsheet by adding the loan amount in the "Beg. Cash Loan Proceeds". The company immediately used the loan amount to purchase the new machine, indicated by the entry in "Beg. Cash Capital Purchase". Based on the assumptions, the loan principal payment and the interest payment are indicated in their respected accounts. These combine to result in the monthly payment of $451.00. The option would cost $27,045 over five years.

Table 1 - TN
OPTION I - REPAIR EXISTING MACHINE
Annualized Cash Receipts & Disbursements Statement
Screen-Printing Department

	2012
CASH ON HAND	$26,336
CASH RECEIPTS	
Cash Sales	699,996
TOTAL CASH RECEIPTS	699,996
CASH PAID OUT (Expenses Assigned to Deptartment)	
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
Repairs Associated With Existing Machine	3,000
Telephone	2,400
Travel (Meals & Entertainment)	600
Utilities	37,000
Vehicle Expenses	2,400
TOTAL CASH PAID OUT	686,160

Table 2 – TN
OPTION II- OUTSOURCING
Annualized Cash Receipts & Disbursements Statement
Screen-Printing Department

	Year 2012
CASH ON HAND	$23,336
CASH RECEIPTS	
Cash Sales	699,996
TOTAL CASH RECEIPTS	699,996
CASH PAID OUT (EXP ASSIGNED TO DEPT)	
Purchases (Merchandise)	465,492
Contract Printing with Outsource Partner	52,512
Gross Wages (excludes withdrawals)	70,000
Payroll Expenses (Taxes, etc.)	6,996
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	689,160

Table 3 - TN OPTION III - BUY NEW MACHINE Annualized Cash Receipts & Disbursements Statement Screen-Printing Department	
	Year 2011
CASH ON HAND	$23,927
CASH RECEIPTS	
Cash Sales	699,996
TOTAL CASH RECEIPTS	699,996
CASH PAID OUT (EXP ASSIGNED TO DEPT)	
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
Interest- yrs, %	1556
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
Subtotal	684,716
Loan Principal Payment	9,618
TOTAL CASH PAID OUT	694,334

2. What factors might affect Anna’s decision other than direct costs? Why

Possible answers include:

If Anna decides to go with option one and stay with the current machine and make the necessary upgrades to allow it to function correctly, there is the possibility that some orders would not be completed as promised to the customer. This could lead to a loss of reputation of the company by others in the community, which in turn leads to a loss of revenue.

Option two could have some nice cost savings for Johnny and Marie’s business. By outsourcing larger orders, Anna could find a company that can produce the screen printed products at significantly lower cost. This could also free Johnny, Marie, and Anna to spend more time and resources focusing on other areas for potential growth and expansion. However, if they are not able to negotiate a great shipping rate with UPS, the cost savings may be eaten away making it unprofitable.

With option three, there could be some hidden cost that would be associated with getting the machine setup and running. Also, since no one at the business has run this new machine, there is bound to be some mistakes made on some of the initial runs. If these mistakes come on specially ordered items, the business may not be able to complete the order on time. Another item to consider is will the quality of the product be different. Currently, Johnny and Marie guarantee their products.

With running the new machine, the speed of production will increase by 50 percent. This means that the Johnny and Marie's business may receive even more orders. Currently, if someone comes in and wants to place an order, they will have to wait until there is an opening in production. Also, customers would be able to get their products even sooner than now.

Anna needs to consider long-term ramifications of her decision. If more of her orders for screen-printing seem to be trending toward large quantity orders, the correct decision could be to purchase the new machine.

Conversely, if a large percent of the screen-printing business is reliant on small quantity orders, option 1 or 2 could be the better decision.

3. **Which option should Anna choose? Why?** (answers will vary)

From a yearly financial perspective, option 1provides you with the best net income before taxes (within this department) of $13,836. By going with this option, you maintain control of quality and production scheduling.

Option 2 gives you a NIBT of $10,836, but what would happen if the cost of shipping the products goes up. It would eat away at this income. Also, you do not maintain control of quality and production.

If it were not for the hidden cost of all the additional components associated with the upgrade, option 3 would have been a more attractive option. Yes, this option also allows the company to focus on attracting large-quantity orders, but it provides the least NIBT ($5,662).

EPILOGUE

Anna considered all three options. After analyzing and consider all three options to determine the most efficient option and best decision for the company, she has decided to go with option 1. Anna had decided to go with option three, but after more consideration of the increased installation costs associated with the new machine, Anna decided to forgo the potential tax benefits of option 3.

Table 4 - TN **STUDENT WORKSHEET** **Annualized Cash Receipts & Disbursements Statement** **Screen-Printing Department**	
	2012
CASH ON HAND	$23,927
CASH RECEIPTS	
Cash Sales	699,996
TOTAL CASH RECEIPTS	699,996
CASH PAID OUT (EXP ASSIGNED TO DEPT)	
Purchases (Merchandise)	
Gross Wages (excludes withdrawals)	
Payroll Expenses (Taxes, etc.)	
Accounting and Legal	1,800
Advertising	3,600
Dues and Contributions	600
Insurance (General Liability)	3,360
Interest- yrs, %	1556
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
Subtotal	
Loan Principal Payment	
TOTAL CASH PAID OUT	

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

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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.

INSTRUCTOR'S NOTES – IN CLASS EXERCISE

It is suggested that, prior to assigning the cases, the instructor spend one day leading students in an in-class exercise. In this exercise a series of financial instruments are ranked from most debt-like to most-equity-like, and then a key characteristic separating debt from equity is identified. The purpose of the exercise is to instill a conceptual approach in which securities are seen as having a variety of features, some of which draw them closer to equity, some closer to debt. This provides a foundation which allows students to do the Cases independently.

A suggested approach is to do the exercise with groups. Time is allotted for each group to come up with a suggested ranking, then each group's ranking can be put on the chalkboard or overhead, which typically highlights some differences in rankings. Class discussion should lead to a conclusion as to the proper ranking. Next, students must come up with a suggested delineation showing which instruments should be grouped and reported as liabilities, and which as equities. Experience has shown that this can be accomplished in one class period. If desired, the second part can also be done outside of class, either individually or in groups.

The in-class exercise should be done as soon as long-term debt and stockholders' equity have been covered in class. The entire case is distributed to students, and they are assigned to read the background material in INTRODUCTION TO HYBRID SECURITY CLASSIFICATION and INSTRUCTIONS FOR STUDENTS. After the in-class exercise, instructors can assign Cases A and B during the remainder of the semester, and in any order; they are independent, each relying only on the background established with the in-class exercise.

The instructions invite students to submit interrogatory questions to the instructor. This has been found to be helpful for some students. If there is concern about the number of interrogatory questions becoming burdensome, the instructor can establish a limit, for example students can be limited to a maximum of three interrogatory questions per case. In the author's experience, most interrogatory questions involve two issues: (1) the idea of a third capital category on the balance sheet; (2) the relative authority of FASB versus IASB rulings.

The idea of a middle capital category, between liabilities and equity, is new to most students, as it does not fit within the framework they learn in principles of financial reporting. They often ask questions, sometimes insightful ones which stimulate discussion. A sample of representative questions follows.

- Why is the FASB insistent on maintaining a two-way classification scheme?
- Why not have two sub-categories within the stockholders' equity section, one for temporary equity, and one for permanent equity?

- If a middle category were allowed, wouldn't this frustrate persons interested in calculating the total liability to total assets ratio?

Because the classification of redeemable stocks currently reflects a difference between U.S. GAAP and IFRS, students ask questions related to the interplay between the FASB and the IASB. For example:

- Who has the final authority to decide on the proper reporting of hybrid financial instruments, the FASB or the IASB?

- If a middle category were allowed in the U.S., wouldn't this put U.S. GAAP in conflict with IFRS?

- What is the current status of the joint FASB-IASB project on classification of financial instruments?

Some of these questions are addressed in the Suggest Solutions; in other cases questions touch upon broader issues that extend the limits of the issues in the cases. These are addressed in a follow-up session (see below INSTRUCTORS NOTES – FOLLOW UP SESSION).

In-Class Exercise – Suggested Solution

1. The ranking, with a suggested line separating debt and equity, is as follows:

Pure Debt

Secured Bonds
Debentures
Income Bonds
Redeemable Preferred Stock

Cumulative Preferred Stock
Preferred Stock
Common Stock

Pure Equity

Secured Bonds Students should be able to identify secured bonds as an example of pure debt, having all Essential Characteristics of debt (D1, D2, D3, D4). Reference to D1 can be used to justify the rank ahead of debentures – there is more specificity about how payments will be made, i.e. liquidation of assets. Also, it can be inferred that secured bonds have liquidation priority over debentures.

Debentures Students should be able to identify debentures as possessing all Essential Characteristics of debt. Debentures can be contrasted with secured debt as having lower priority (D2).

Income Bonds Income bonds posses all the Essential Characteristics of debt except D3 since their return has a variable element making it somewhat equity-like. Students struggle with the ranking of income bonds and redeemable preferred stock, sometimes placing the preferred stock above income bonds in the ranking. Yet income bonds are legal debt in that annual interest, once determined, represents a legal obligation of the company ranking ahead of payment on share instruments (D2).

Redeemable Preferred Stock The instrument is a hybrid in several respects. The cumulative feature puts pressure on the company to pay dividends, making them similar to interest payments. While they do not have voting rights, preferred shareholders with dividend arrearages, according to Kimmel and Warfield (1993), are frequently allowed a seat on the board of directors to represent their interests. Dividends are a fixed percentage of par value, a debt-like feature; however in times of financial distress the company can skip payments, an equity-like feature. Investors can ask for redemption of par value, much like a callable loan. As a share instrument, the redeemable preferred ranks lower than any debt in liquidation.

Cumulative Preferred Stock Cumulative preferred is the same as redeemable preferred, without the redemption right. Thus, Characteristic 4 (D4/E4) is the key to ranking cumulative preferred below redeemable preferred in the continuum.

Preferred Stock Preferred stock is the same as cumulative preferred without the cumulative feature. Since preferred can only receive periodic dividends after cumulative preferred, it is one step closer to equity based on Characteristic 2 (D2/E2). Although not stated, preferred would normally rank lower than cumulative in liquidation as well.

Common Stock Common stock is the only pure equity instrument with voting rights (E1). All other instruments have priority over common in periodic distribution and liquidation (D2/E2), and are fixed income securities (D3). The common stock does share Characteristic E4 with preferred and cumulative preferred as the later two are perpetual, non-redeemable instruments.

The second objective of the exercise is to have students identify a key characteristic that separates debt from equity.

Students will have different answers to this question. The line drawn above, in the part 1 suggested solution, focuses on Characteristic 4, i.e. whether the instrument involves termination of the investment by return of principal or redemption. The three items below the line are the perpetual instruments that the company never has to redeem. This "return of principal" view has received support from academic commentators, e.g. Weygandt, Nair and Rittenberg (1990). Below are other possible solutions.

Solvency or Legal Debt Approach

This view limits the liability category to traditional legal debts, Characteristic D1. These security holders have the right to bring suit for non-payment, hence the liability category retains its traditional role from a solvency perspective. This view has received support from the American Accounting Association Financial Accounting Standards Committee (FASC). The FASC is alarmed at the introduction of heterogeneity into the liability category and they suggest mezzanine categories to accommodate hybrid instruments such as preferred stock.

Secured Bonds
Debentures
Income Bonds

Redeemable Preferred Stock
Cumulative Preferred Stock
Preferred Stock
Common Stock

Pure Equity Approach

This solution allows only common stock to be classified as equity since it is the only instrument which satisfies all four Characteristics of equity. The solution has merit in that only common stock is truly residual and, as a result, has payments satisfying the return characteristics criteria (E3). The solution also has support from the standpoint of evaluating financial leverage as all the items above the line are fixed income securities which increase financial leverage (AAA FASC refers to this as a [common stock] "valuation" approach to equity classification). The solution is also consistent with the FASB Preliminary Views (2007) which advocates a narrow equity category limited to basic ownership instruments.

Secured Bonds
Debentures
Income Bonds
Redeemable Preferred Stock
Cumulative Preferred Stock
Preferred Stock

Common Stock

INSTRUCTOR'S NOTES – CASE A

The case asks the student to consider the representational faithfulness of the liability and equity categories of an example company balance sheet. The example balance sheet reflects current U.S. GAAP in that a mezzanine exists for shares redeemable at the option of the holder, i.e. puttable shares. The exercise is relevant because students are brought into the dilemma faced by policy makers: which category, liabilities or equity, should have its representational faithfulness compromised by including the hybrid in it? Traditionally the answer was equity, but the trend now is toward using liabilities as a default category for a variety of hybrids.

The case can be done outside of class, either individually or in groups. If a group assignment is used, the groups from the in-class exercise can be maintained. A suggested approach is to allow group interaction but require individual final solutions. Ask the groups to meet outside of class, no later than a designated date, to discuss the requirements of the case. This allows students to answer some of their own questions and discuss possible solutions. If the group has questions, they can submit a group interrogatory. Each student must submit his or her own written solution by a deadline some time after the group meeting.

Case A: Suggested Solution

1. The inclusion of redeemable preferred in the liability category compromises the representational faithfulness of the liability category. Before the change, liabilities contained only legal debts (D1) and was a pure category in this sense whereas after the change liabilities mixes legal debts with a share instrument which does not present the issuer with the same legal consequences for lack of payment. The liability category loses

its interpretation as a solvency indicator, which could lead to confusion and misinterpretation by financial statement users.

The common characteristic retained would be D4 - all three instruments involve return of principal, or potential thereof, and termination of the investor-company relationship. In addition, dividends on the redeemable preferred are similar to interest payments, so D3 is shared by all three instruments.

2. Three possible solutions to this part are outlined below.

Solution 1 (Legal debt approach)	Solution 2 (Economic substance approach)	Solution 3 (Legal equity approach)
Liability Capital Secured Debt Debentures	Liability Capital Secured Debt	Liability Capital Secured Debt
Middle Capital Redeemable Shares	Middle Capital Debentures Redeemable Shares	Middle Capital Debentures
Owner Capital Common Shares	Owner Capital Common Shares	Owner Capital Redeemable Shares Common Shares

Solution 1 (Legal debt approach). This solution can be viewed as a legal debt approach since it combines the two legal debt instruments. Most students choose this approach. It is also a readily apparent solution in that the redeemable preferred stock is already in the mezzanine, so it seems reasonable to suggest this instrument for the new "Middle Capital" category. Students reason that this leaves the liability and equity categories 'clean' with only legal debts and pure equity respectively. This is a reasonable and defensible solution. It relies on the idea that accounting classification for liabilities should follow a solvency perspective. It avoids the mixing of legal debt instruments with a share instrument, the redeemable preferred; missing a payment on a share instrument never has quite the same legal consequence as defaulting on a debt payment.

Solution 2 (Economic substance approach). Insightful students will recognize the economic equivalence of the unsecured bonds and redeemable preferred and suggest both of these be combined and reported in the middle category. The description of these two instruments suggests that, despite their differing legal form, they are for practical purposes equivalent. In times of financial distress subordinated debt may offer the same kind of relief as a preferred share; further, the two instruments bear the same 7% interest/dividend rate. Empirical research supports the notion of economic equivalence. Linsmeier, Shakespeare and Sougainnis (2000) find that unsecured debt is priced like equity for firms in financial distress. Indira's debentures are depicted as offering relief in times of financial distress, an equity-like feature consistent with the finding of Linsmeier et al.(2000).

Solution 3 (Legal equity approach). Few if any students choose this approach. The approach is legalistic in that it classifies as equity any instrument issued in the form of shares. It can be criticized as allowing accounting treatment to follow form instead of substance. Traditionally this was the norm in practice, but as we have seen, companies exploited this by issuing redeemable shares with guaranteed dividends, thus obtaining equity classification for a borrowing transaction. Regulators have become increasingly willing to classify such share instruments as liabilities.

It should be pointed out that adding a middle category has problems from a policy point of view, and has been rejected by the IASB and the FASB. If a middle category were added there would be two delineations to monitor, that between liabilities and hybrid capital, and also between hybrid capital and pure ownership capital. Also, how would the return payments to a middle category relate to the income statement? Would return payments (or amortization of discount) on these instruments be deducted as interest expense? Finally, from a contracting perspective, legal provisions frequently utilize solvency ratios to govern contacts. Adding a middle capital category would frustrate existing contracts and perhaps make the balance sheet generally less useful for contracting.

INSTRUCTOR'S NOTES – CASE B

Case B is a good candidate to be done by students individually. Instructors can modify the requirements in various ways to achieve certain objectives. For example, the order of questions may be reversed to make the assignment more challenging. Having students do part 2 first requires them to make their own judgment before seeing the conclusions of the FASB. To make the exercise easier, instructors can direct students to paragraph B42 of Statement No. 150. This paragraph is in the basis for conclusions section of the statement, and clearly indicates the FASB's decision was based on return characteristics.

Case B – Suggested Solution

1. In this part students consider the financial statement classification of a specific financial instrument, Class A Common Shares. The shares fall under the scope of FASB Statement No. 150 (FASB, 2003) and are adapted from the 10-Q report of Otter Tail Corporation for the third quarter of 2004 (redeemable common shares), and the 8-K of City Holding Company filed on November 21, 2005 (an obligation settleable by issuing a variable number of the issuer's traded shares).

The shares are equivalent to zero coupon debt with two years to maturity. Accretion in carrying value is equivalent to amortization of discount at an effective rate of 7%, and should be classified as financing expense in the income statement. If desired, students can be asked to produce a schedule of accretion and journal entries as an exercise; an assumed market price of the class C common on the redemption date will have to be supplied.

Under FASB 150 the shares would be reported as liabilities. Two aspects of the shares must be addressed: (1) they are mandatorily redeemable; and (2) they may be settled by issuing a variable number of the company's common shares.

Using FASB Accounting Standards Codification (ASC) the reference is under Liabilities (480-10-25-4):

Topic 480 Distinguishing Between Liabilities and Equity
Subtopic 010 Overall
Section 025 Recognition
Paragraph 004 Mandatorily Redeemable Financial Instruments

"A mandatorily redeemable financial instrument shall be classified as a liability unless redemption is required to occur only upon the liquidation or termination of the reporting entity."

And (480-10-25-14):
Topic 480 Distinguishing Between Liabilities and Equity
Subtopic 010 Overall
Section 025 Recognition
Paragraph 014 Certain Obligations to Issue a Variable Number of Shares

"A financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares shall be classified as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any of the following:

(a) A fixed monetary amount known at inception (for example, a payable settleable with a variable number of the issuer's equity shares)"

With paragraphs 4 and 14 (abridged) in hand, students should be able to write an effective memo demonstrating that the authoritative literature requires liability classification for the Class A common shares. An example memo follows in Illustration I.

See Illustration I at the end of the document

The material which the above ASC sections draw upon is in the following paragraphs of FASB 150: paragraph 9 addresses the mandatorily redeemable feature (basis for conclusion in paragraph B20), and paragraph 12 (a) addresses settlement using a variable number of shares (basis for conclusion in paragraph B42).

The fact that the instrument may be settled by issuance of class C common shares may cause students to question liability classification. Indeed, the current definition of liabilities in FASB Concepts Statement 6 discusses future sacrifices of economic benefits, but does not discuss an obligation to issue shares. This is addressed in the opening Summary of Statement 150, where it is asserted that Concepts Statement 6 will be amended: "This statement requires that certain obligations that could be settled by issuance of an entity's equity but lack other characteristics of equity be reported as liabilities even though the obligation does not meet the definition of liabilities in Concepts Statement 6. The board expects to amend Concepts Statement 6 to eliminate that inconsistency in the next phase of this project."

2. In part 2 students must argue using the principles in ESSENTIAL CHARACTERISTICS. The Class A Common stock entails a fixed return on investment (D3) and redemption on a specific date (D4). An example memo for this part follows in Illustration II.

See Illustration II at the end of the document

INSTRUCTOR'S NOTES – FOLLOW UP SESSION

It is useful to spend one day later in the semester as a follow up after students have completed the cases. The follow up session can be used to review the cases, compare possible solutions, and provide feedback and/or evaluation. Table I illustrates a seven-point Likert scale instrument that was used to elicit feedback from students.

See Table I at the end of the document

The follow up session may lead to discussion of broader issues that go beyond the case and its solutions. The following 'talking points' provide additional background that can assist the instructor in leading these discussions.

Mezzanine Financing and Optimal Capital Structure

• Students sometimes ask how a company's financial leverage is evaluated when hybrid securities are included in the capital structure. An excellent resource is "The New Wave of Hybrids, Rethinking the Optimal Capital Structure," by Ryan, Ross and Yen (2007). The article explains how rating agencies analyze companies' financial leverage by assigning 'equity credit' to hybrids depending on their degree of subordination, term to maturity, and interest deferral provisions. The process is similar to that used by regulators when calculating a bank's regulatory capital.

• Another issued related to mezzanine financing is how companies structure hybrids to retain interest deductibility for tax purposes. Trust preferred securities are the vehicle used to obtain a combination of financial flexibility, and a favorable IRS ruling that 'dividends' are interest payments for tax purposes. A resource for instructors here is "Multiple Motivations and Effects: The Case of Trust Preferred Stock," Frischmann and Warfield (1999).

• With the background above, instructors can provide students with enhanced understanding of the optimal capital structure topic covered in standard financial management courses. Instructors wishing to emphasize this link can direct students to their glossary which includes definitions of legal capital/ bankruptcy costs, and optimal capital structure. As the discussion develops, instructors can add background from Ryan et al. (2007) and Frischmann and Warfield (1999).

Does Classification Matter: Empirical Evidence

• Another issue worthy of discussion is why classification matters. One could argue that classification should not matter, that analysts 'see through' the balance sheet label and can unambiguously determine the substance of securities. An alternative view is that analysts do not know the substance of securities, and look to the financial statement categorization to infer the nature of items. The studies outlined below allow the instructor to inform the discussion with the results of academic research.

• There is evidence that corporate financial managers think classification matters. A study by Engle, Erickson, and Maydew (1999) examined 44 instances in which corporations issued trust preferred stock (TPS) and used the proceeds to immediately retire debt. The transactions incurred direct issue costs of $10 million each and had no apparent motivation other than to re-classify an item from the liability section of the balance sheet.

• Financial statement users may be influenced by balance sheet classification. If so, classification is a substantive issue and classification of a security at odds with its economic substance may lead to misinterpretation. Hopkins (1996) studied whether analysts were influenced, in an experimental task, by the location of redeemable preferred stock. When reported as a liability, analysts treated the stock as if it were a liability, and when reported in the equity section they treated it as equity. Gunderson, Chiao, and Swanson (2010) however were unable to detect similar effects in market prices, using the release of FASB Statement 150 as an opportunity for quasi-experimentation. In 2003 Statement 150 caused mandatorily redeemable stock to be moved from the mezzanine into the liability section; however, Gunderson et al. did not find an expected change in market pricing of the securities as a result of the change. Whether financial statement users are influenced by classification is an open issue.

Updates on the Joint FASB / IASB Project

Current developments about financial instruments can be found on the FASB website under Projects/ Technical Plans and Project Updates. The joint FASB/IASB project for Financial Instruments has three sub-topics: Classification & Measurement, Impairment, and Hedging. In the minutes to a May 4, 2011 meeting, the board indicated its current thinking concerning the nature of a debt instrument:

> There is an amount transferred to the debtor (issuer) at inception that will be returned to the creditor (investor) at maturity or other settlement, which is the principal amount of the contract adjusted by any discount or premium at acquisition.

Here, we can see the reliance on feature D4, Return of Investment. This shows the durability of the teaching approach in preparing students to understand future development in the accounting for financial instruments.

ILLUSTRATION I
MEMORANDUM

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

Dear Extua Corporation Management:

I have concluded that our $5,000,000 Class A Common shares must be reported in the December 31, 2011 Balance Sheet in the liability section. The terms of this instrument state that these shares must be redeemed on a specific date: "the shares…are subject to mandatory redemption on December 31, 2013." The Financial Accounting Standards Board (FASB) has clearly addressed mandatorily redeemable instruments in code section 480-10-25-4:

> "A mandatorily redeemable financial instrument shall be classified as a liability unless redemption is required to occur only upon the liquidation or termination of the reporting entity."

Clearly our Class A Common shares fall under this guidance as they are subject to mandatory redemption on a date specific which is unrelated to any liquidation or termination of our company.

Secondly, as to the possibility that we may discharge our redemption obligation by issuance of our traded shares rather than cash, the FASB has also ruled on this aspect in code section 480-10-25-14:

> "A financial instrument that embodies an unconditional obligation…that the issuer must or may settle by issuing a variable number of its equity shares shall be classified as a liability…if, at inception, the monetary value of the obligation is based solely or predominantly on any of the following: (a) A fixed monetary amount known at inception (for example, a payable settleable with a variable number of the issuer's equity shares)"

Applying this guidance to our Class A common, we can see that the fixed redemption amount of $5,724,500 is known at inception. The fact that we may provide this redemption value through issuance of a sufficient number of our traded Class C shares does not change our responsibility to report these shares under the liability heading in our balance sheet. The ruling makes clear that, whether paid in cash or shares, our obligation to convey $5.7245 million in value is unchanged and therefore a liability exists.

Sincerely yours,

Intermediate accounting student

ILLUSTRATION II
MEMORANDUM

December 31, 2011
To: Extua Corporation Management
From: Intermediate accounting student
Re: Classification of Class A Common Shares

Dear Extua Corporation Management:

I have concluded that our $5,000,000 Class A Common shares must be reported in the December 31, 2011 Balance Sheet in the liability section. Based on ESSENTIAL CHARACTERISTICS OF DEBT AND EQUITY, our Class A common shares have more of the characteristics of debt than equity as follows.

● The Class A common share do not have voting rights, and therefore do not participate in control of the company, an equity characteristics (E1).

● Our Class A common shares are junior to our secured bank loans and debentures, and have liquidation rights at par with our Class C common; on the surface this may seem consistent with equity classification (E2). However, with only two years to maturity, liquidation rights are an insubstantial issue. Further, the terms of repayment are specific in terms of timing and amount, making the Class A shares are more debt-like (D1).

● The Class A shares have a fixed limited rate of return of 7% (D3).

● The Class A shares have a specific date on which investor principal is to be paid. It is possible that if investors receive their payment in the form of shares, and if they choose to hold their Class C shares, there will be a continuing relationship between investors and the company. However, the payment in shares terminates the creditor-debtor relationship between the company and investors. If investors choose to hold their shares, it is a choice they make no different than if the redemption were in cash and investors used the proceeds to purchase equity shares. Regardless of the form of payment, the due date terminates the initial debtor-creditor relationship (D4).

Conclusion: although issued in the form of shares, the Class A stock is equivalent to highly subordinated debt. The overall character of this instrument is more debt-like than equity, and the financial statement classification must follow this conclusion.

Sincerely yours,

Intermediate accounting student

Table I: Results of Student Survey (n=52)				
	Mean	Median	Range	p-value for t-test of Ho: mean=4
1. The Liability-Equity exercises made me aware that a diversity of financial instruments exists	6.10	6	4-7	<0.0001
2. The Liability-Equity exercises demonstrated that financial instruments can be ranked on a continuum from most debt-like to most equity-like	6.31	7	1-7	<0.0001
3. The Liability-Equity exercises caused me to think about the distinction between debt versus equity	6.31	7	4-7	<0.0001
4. The Liability-Equity exercises increased my understanding of what it means to talk about the representational faithfulness of balance sheet categories	5.94	6	2-7	<0.0001
5. The Liability-Equity exercises demonstrated that balance sheet categories may not always possess perfect 100% representational faithfulness.	6.31	7	4-7	<0.0001
6. The Liability-Equity exercises helped me understand what it might be like to work with principles-based accounting rules	5.62	6	3-7	<0.0001
Response scale: completely disagree = 1 to completely agree = 7 (4 = neutral)				

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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

INSTRUCTORS' NOTES

Case Learning Objectives

Following class discussion of this case, students should be able to identify some of the challenges of family businesses, succession issues, exit strategies, and entrepreneurial decision making challenges. Specifically, the objectives include:

- To identify the major issues facing Carson's Department Store
- To identify key considerations that Chuck and Pam should examine when deciding their next steps
- To explore the working relationship between the husband-wife team of Chuck and Pam Carson

- To address issues of succession inside and outside of the family
- To devise a potential exit strategy for the firm

THEORETICAL LINKAGES

The Entrepreneurial Personality (see Katz and Green: *Entrepreneurial Small Business* 2e) or The Entrepreneurial Perspective (see Kuratko and Hodgetts: *Entrepreneurship: Theory, Process, & Practice 6e)* are two of many examples of Entrepreneurship texts that dedicate a chapter to describing “ideal” characteristics of entrepreneurs. Katz and Green, in particular, offer an informative figure that illustrates the history of entrepreneurial personalities and types.

The Organizational Life Cycle, a concept made popular by the work of Alfred Chandler (1962) is also relevant for this case. While other writers have adopted varying names for concept (e.g. Venture Life Cycle, Business Life Cycle, Small Firm Life Cycle) the basis for the cycle is the same (terms taken from Katz and Green and Kuratko and Hodgetts): firm’s progress through various stages during their lifetime (development / emergence, startup / existence, success / growth, maturity / stabilization, decline / innovation).

In relation to succession plans, many versions exist. The authors chose to use the work of Gregory Amundson, for he presents a straightforward seven step presentation. There are a number of excellent articles in *The Family Journal: Counseling and Therapy for Couples and Families*, and the *Family Business Review* journal regarding issues relevant for family owned businesses. For example, Cole discusses understanding family business relationships with suggestions on how to preserve the family in the business, Friedman explores sibling relationships and inter-generational succession in family firms, and Lambrecht and Lievens talk about “pruning the family tree” in relation to family business continuity and family harmony.

Exit strategies are also addressed in the case. Carson’s is faced with the same alternatives that all entrepreneurs at the end of their involvement with a business must address: what do we “do” with this business. There are many end-game options (see Katz and Green for a detailed explanation of each option listed) for the entrepreneur to consider: harvest (selling of the business), initial public offering, consolidation with another business, employee purchase, transfer of ownership to other person or entity, or termination (bankruptcy, walkaway and workout are three forms of terminations).

RESEARCH METHODS

Data sources included field interviews, participant observation, archival financial records. The events are real; the names of the participants and organization have been disguised. One author had no previous experience with the case participants; the other knew them.

SUGGESTED TEACHING PLAN

Students are expected to analyze the case after having received class direction and exposure to the areas mentioned in the theoretical linkages section. The first two questions are self-standing and require the students to take their knowledge of the conceptual areas of entrepreneurial characteristics and organizational life cycles and apply it to this case; the following two questions build upon each other. The final question requires students to apply their knowledge of exit strategies to the case. The combination of self-standing and interrelated questions was intentional, for it gives instructors flexibility based upon their desire to emphasize or deemphasize certain components within the case to suit their individual teaching objectives.

- Question 1 immediately encourages the student to relate to the protagonists by having them focus on characteristics successful entrepreneurs possess, and whether the protagonists possess these characteristics.

- Question 2 requires the student to explore Organizational Life Cycles and determine how this applies to Carson's Department Store.

- Question 3 compels the student to tackle the issue of a business successor, including identifying similarities and dissimilarities in approach when looking for a "family" versus "non-family" successor.

- Question 4 is a follow-up to Question 3. The focus is on taking the information the student has amassed in Question 3 and determining the steps one needs to take in making a succession plan happen.

- Question 5 requires the student to identify and analyze the desirability of various exit strategies.

List of Discussion Questions:

1. What are some characteristics that you would associate with a successful entrepreneur in a small town retail clothing business?
2. Discuss Carson's Department Store's position in relation to the Organizational Life Cycle.
3. The Carson's had hoped to have a family member take over their family business.
    a. What steps are needed to identify and groom a successor?
    b. How would this differ in family versus non-family firms?
4. What steps should be followed in a succession plan? Is it important to follow a specific order?
5. Discuss the exit strategies available to the Carson's, and the pros and cons of each.

DISCUSSION QUESTIONS WITH STUDENT RESPONSE

1. **What are some characteristics that you would associate with a successful entrepreneur in a small town retail clothing business?**

   Students are encouraged to identify a number of characteristics traditionally recognized in entrepreneurs.

Katz and Green describe a Contemporary Classic Entrepreneur as: a hard worker, self sufficient, socially connected, fast learner, wealth-seeker and risk manager. These are qualities and characteristics that would appear to describe the Carsons. Students should be encouraged to find other characteristics that describe the Carsons as well as small town entrepreneurs.

Students may also debate whether or not the Carson's would fall into any of Katz and Green's other Entrepreneurial Personality Types:

Idea Person: hard worker, loner (but could team up), socially isolated, fast learner, fame seeker, risk taker

Small Business Owner: hard worker, loner, socially isolated, average learner, average income seeker, risk averse

Salesperson Entrepreneur: hard worker, team player, socially connected, fast learner (socially), average learner (technologically), acceptance seeker, risk averse

Managerial Entrepreneur: hard worker, team player, socially connected, fast learner, wealth seeker, risk averse

2. **Discuss Carson's Department Store's position in relation to the Organizational Life Cycle.**

   Students should be able to quickly identify and justify which stage of the Organizational Life Cycle Carson's Department Store finds itself.

There may be some legitimate discussion as to whether or not the business is in the maturity / stabilization (e.g. flattening sales, saturation of the market, increased competition) or the decline / innovation (either a reinvention / reinvigoration / rebranding occurs or most firms begin the fall towards termination of business activities) stage. Most will likely point towards the decline stage but there could be an argument that based on their strategic positioning, customer loyalty, reputation, and sales that the firm could be seen in the maturity / stabilization stage. Few traditional small businesses progress from "success" through maturity up through takeoff and into a high-growth venture.

It should be obvious, based on the age of the company and information provided in the case that the firm is not in the development / startup / growth type stages of the Life Cycle.

3. The Carsons had hoped to have a family member take over their family business.
a) What steps are needed to identify and groom a successor?
b) How would this differ in family versus non-family run firms?

Students should be able to identify some of the following considerations in choosing the appropriate successor.

As noted by Kuratko and Hodgetts, in their chapter on Developing a Succession Strategy, the owner-manager should be involved in the processes of identifying a successor. This person should aid in either identifying the person or the characteristics needed to have success in the position. Many firms, especially family firms, are wary of the succession topic due to the fact that succession is often associated or necessitated by the death of the businesses owner / manager / family member, a topic that many families are hesitant to address in any depth or frankness.

Although no family member is identified in the case as interested in taking over the family business, the instructor may wish to take on a devil's advocate role and ask students to identify issues that could come up if there were children interested. The issues would include such things as the age and hierarchy of the children, their gender, differing levels of experience with the firm, and relevant (and level of) education. Their roles as children could impact how seriously they would be taken as the new owner/manager. Another consideration is who has the ability to finance buying-in to the organization. From the parents' perspective, if they choose to gift, or sell at a discount, to a child interested in the organization, they will need to consider the response of the non-firm children. Specifically, they will need to address "fair" versus "equal." In addition, the parents will need to explore if they would have the ability to "step-away" from the organization. There are numerous examples of children ultimately resenting parents who, although no longer involved in the day-to-day operation of the business, nonetheless still believe that it is their right to "call the shots."

For the non-family firm, succession may be a bit more simplified. Often outside boards or management teams / committees will foresee the need for succession planning and involve current management, potential future mangers, and outside consultants in the succession planning process.

4. What steps should be followed in a succession plan? Is it important to follow a specific order?

Students will be expected to list the basic steps in a succession plan.

1. **Survival** -- Once the business has survived the start-up stage, the owner should consider a business succession plan.
2. **Commitment** -- The owner must be committed to the concept that the business must continue to create opportunity for those to come. This commitment must be communicated clearly, extensively, and often.
3. **Recruitment** -- Recruiting good people always pays dividends and is a key area of importance in succession planning.
4. **Development** -- Investing time in developing family members, key employees, and management team members, and allowing them to exercise authority and control, will be vital to your success.
5. **Selection** -- Having developed a transition plan and recruited the right people, selecting a successor or successors becomes easier. By empowering a broad range of key people, the selection process is simplified and the owners' options are enhanced.
6. **Announcement** -- Once a succession plan is in place, the owner should communicate that plan. Such communication gives key management people and/or family successors a clear understanding of the path to the future, as well as any role they may play in that path. It also allows them to begin setting future goals and objectives for themselves.
7. **Implementation** -- In implementing the succession plan, the owner must be ready to step aside and allow the successor(s) to take over. The owner must be prepared to take on new challenges in retirement, knowing that his or her financial future is secure.

Finally, while not one of the seven steps, selecting qualified advisors, such as an accountant, attorney, insurance agent and financial planner, can help assure that your plan legally, profitably, and affordably considers your needs and objectives.

If seeing your business continue into the future -- without compromising your own retirement needs -- is important to you, this last step may be the most important of all.

As noted earlier in the Instructor's Manual, the above steps are but one of many processes spelled out for succession planning. Therefore, a specific order is not nearly as important as developing a plan for succession and implementing that plan with appropriate transitional time allotted to allow for a smooth transition to the next generation.

5. Discuss the exit strategies available to the Carsons, and the pros and cons of each.

Students are to identify various exit strategies and provide pros and cons of each.

As is often typical of small businesses, financial information is often sketchy as best. In the case of Carson's Department Store, they shared only a profit and loss statement, which lacked completeness and accuracy. This significantly limits analysis in determining the viability of the business and whether or not the financial health of the business would be an enticement or a deterrent for others to take-over or buy-out the business.

Some examples of possible exit strategies include but are not limited to:

a) Have a Going Out of Business (GOB) Sale and afterwards close the doors of the business.

Pros:	Cons:
There is a final resolution	It is the end of an era for the family-owned business
Focus can now fully be on the other business	It is a blow to the community
Pam can now explore other interests	Given the size of the community and state of the economy, they will probably be stuck with a building that is unleasable/unsellable

b) Attempt to persuade one of the three children to re-consider taking over the business.

Pros:	Cons:
The business continues in the family	The business may not financially support the child (and family)
The business continues to support the community	The child may not possess the skills to successfully run the business
Chuck and Pam have a child (and their family) in the community	The same economic challenges the parents faced would be faced by the child
	Chuck and Pam may struggle with a child doing things differently than they did.
	If they "gift" or sell at a discount to one of the children, the non-firm children may consider that unfair

c) Ask family members beyond the three children (cousins, nephews, nieces, etc) if they had an interest in taking over the business through a purchase.

Pros:	Cons:
The business continues in the (extended) family	The business may not financially support the child (and family)
The business continues to support the community	The child may not possess the skills to successfully run the business
Chuck and Pam have a relative (and their family) in the community	The same economic challenges the parents faced would be faced by the relative
	Chuck and Pam may struggle with a relative doing things differently than they did.

d) Advertise the "business for sale" option locally and through word of mouth communication channels.

Pros:	Cons:
Targeting those with a general knowledge of the business	Some of those targeted may not have a positive view of the business
Targeting those who may have loyalty to the store and wish it continued	Loyalty may be a false assumption (as they saw to a degree when Wal-Mart came to town)
Communication channels are low-cost	Communication channels are limited
	"Outsiders" will have greater expectations for full and accurate financial disclosure

e) Contact local business professionals (accountants, attorneys, consultants, etc.) to see if they have clients that may be interested in purchasing the business.

Pros:	Cons:
Targeting those with a general knowledge of the business	Local business professionals will want to know what's in it "for them"
Targeting those who may have loyalty to the store and wish it continued	Clients may not have any knowledge of the store
Communication channels are low-cost	Communication channels are limited
	"Outsiders" will have greater expectations for full and accurate financial disclosure

f) Determine if any of the current or past employees may be interested in purchasing the business.

Pros:	Cons:
Targeting those with a detailed knowledge of the business	Their knowledge may include witnessing that business has declined in recent years
Targeting those who may have loyalty to the store and wish it continued	There is an assumption that their experience at the store was positive
Employees have employment experience in the business	Employment experience does not guarantee that they possess the skills to successfully own/manage the business
	Chuck and Pam may struggle with a employee doing things differently than they did.

g) Enlist the services of a business broker to market the business to potential buyers.

Pros:	Cons:
Get an outsider's objective opinion	Broker may not understand the business's history/position in the community
May interest buyers with whom locals were unfamiliar	May solicit potential buyers who don't know the community, and so do not result in serious buyers
	Would incur broker fees
	There would be expectations of full and accurate financial records

EPILOGUE

While the decision was much more difficult for Pam than Chuck, they ultimately decided to have a Going Out of Business sale, and closed Carson's Department Store. Chuck continues to be active in the management of G & O Supply. Pam, much to her initial surprise, found that she enjoyed the freedom of not being tied down to their clothing store.

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

Todd A. Finkle, Gonzaga University

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.

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

This is an excellent teaching case for the following reasons. First, it gives students the ability to follow the decisions that were made by one of the most successful entrepreneurs of our times. Furthermore, it gives the students an inside look at the troubled youth of Huizenga and how he was able to turn his life around despite a difficult childhood. Students will also examine the different types of entrepreneurship that Huizenga used while building his empire (e.g., startups, franchising, acquisitions). The case is structured so the instructor can ask questions relating to Huizenga's background and how it relates to his drive for success. It then follows with questions focusing on each one of Huizenga's major corporations that he built, Waste Management Inc. and Blockbuster Inc. A focus of the case is Huizenga's keys to success. Students will be asked to identify the keys to success that made him successful.

Unlike most cases that focus on problem solving, this case challenges students to make recommendations for Huizenga to invest in. While specific industries are not discussed in the case itself, it forces the student to think outside of the box to determine what industries Huizenga might be interested in purchasing or starting.

The case can be used in undergraduate and graduate entrepreneurship and strategic management courses. The estimated time to read and answer the questions for the case is between four hours. It is recommended that the case be taught in the beginning stages of an entrepreneurship or business strategy course.

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 business model? 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?

QUESTIONS AND ANSWERS

1) Describe the background and personality of Wayne Huizenga. What events happened during his youth that contributed to his success as an entrepreneur as an adult.

H. Wayne Huizenga was born in 1937 in Evergreen Park, Illinois, a suburb of Chicago. Huizenga's childhood was full of chaos. Huizenga described his youth as dangerous due to the constant physical and emotional abuse within his family. The abuse eventually led his mother to filing for divorce and a nervous breakdown.

His grandfather, Harm, founded the first garbage-hauling business in Chicago's in 1894 however his father Harry did not enter the family's garbage business and became a carpenter and homebuilder.

Much of Huizenga's family's troubles were based on the lack of finances. The family struggled financially which resulted in Huizenga becoming independent at a very young age. His friend Dick Molenhouse was quoted, "From the time his folks' problems started, he was basically on his own. He did his own thinking then as he does today."

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

Huizenga's parents moved to Fort Lauderdale, Florida in an attempt to salvage their marriage. However, 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. The troubles got even worse after the divorce as Huizenga's father, at times, was unable to pay alimony. Based on his father's financial troubles, Huizenga learned a valuable lesson at a young age; the value of cash and paying your bills. He also learned how to take care of himself at a very young age. As a result, Huizenga developed a unique business savvy at a very young age.

Huizenga attended high school at the Private Pine Crest School in Florida. He was the poorest student at the affluent the Pine Crest School, which was the only preparatory school in the area. Huizenga was not a great student, but was on the baseball and football teams. He was even the class treasurer and business manager for the yearbook and newspaper. Huizenga's gift was developing the ability to understood people quickly. This assisted 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 draft. When he returned from the Army, he got a job working as a manager for a family friend's garbage business.

2) How did Huizenga start Waste Management Inc.? What was Huizenga's business model? How did he grow the business? How did Huizenga start Waste Management Inc.?

After getting married to his high school sweetheart, Joyce VanderWagon, Huizenga found a refuse business for sale in the newspaper. The company had $500 a month in revenues

and was owned by Wilbur Porter. Huizenga pursued the opportunity by telling Porter that he wanted to buy his business but he did not have any money. After relentless persistence, Huizenga finally got Porter to agree to finance the business. Huizenga boasted that this was his first leverage buyout. Porter sold Huizenga a truck and $500 worth of customers in 1962. 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 Porter in Broward County, Florida.

What was Huizenga's business model?

Huizenga had two sources of revenue for his business model: (1) hauling trash and (2)
renting receptacles (bins).

How did he grow the business?

A typical day for Huizenga was comprised of collecting trash from 2:30 a.m. until 12 p.m., taking a shower, and then putting on a suit to sell new accounts. Huizenga's attitude was we may not be smarter than the other guy, but we will out work them.

Huizenga's attitude was the customer was always right. You had to listen to their specific needs 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's trucks were always clean and painted. He emphasized communication with his employees.

By 1968, Huizenga built up his company in Florida to 40 trucks. He then merged with a garbage company in Chicago that was owned by three widowed aunts and his cousin, Dean Buntrock. The new firm was called Waste Management, Inc. The firm went public at $16 a share within six months. The company raised $3 million and then acquired 100 competitors through stock swaps over the next nine months.

Huizenga married his former secretary, Marti Goldsby in 1972. Waste Management Inc. was the largest garbage hauling business in the United States by 1983. The company grew to $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 on 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.

3) What was the history of Blockbuster Video pre Huizenga? How did Huizenga come across the opportunity? What strategies were used to grow Blockbuster? What was the history of Blockbuster Video pre Huizenga?

Blockbuster Video was founded in Dallas, Texas by David Cook and his wife, Sandy in

1985. During that period, the video rental industry was a fragmented industry. There was no one dominant player in the industry. The Cooks created a successful concept where their stores were open longer and had a larger inventory of videos. The stores were also very bright, unlike other more traditional stores. A typical store was 6,000 square-feet, had 6,500+ titles in an x-rated free environment. The Cooks expanded to three stores by the summer of 1986.

Blockbuster had plans on having 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 Cooks' business skills and viability of the business. Cook stated that the article changed their life. In 1986, the last year before Huizenga invested in the company, Blockbuster lost $3.2 million.

How did Huizenga come across the opportunity?

In November, 1986, John Melk, a previous employee at Waste Management Inc., contacted Huizenga about Blockbuster Video. He stated that this was a great investment opportunity that he needed to investigate. Huizenga took him up on the offer and visited a Blockbuster Video store in Chicago in February of 1987. Huizenga, Melk, and Donald F. Flynn (a Waste Management executive), purchased a 35 percent stake in Blockbuster Video for $18.5 million.

What strategies were used to grow Blockbuster?

Business Level Strategy: Blockbuster Video began as a startup using a broad differentiation strategy. It differentiated itself from the competition through the bright lighting, large selection of movies, large building, and advertising.

Corporate Level Strategies: Blockbuster utilized related diversification in the entertainment industry due to their focus on video rentals, game rentals, and food (candy, ice cream, and popcorn) at their stores.

The company grew through direct investment in corporate stores domestically and worldwide. The company also franchised and acquired stores from all over the world. The company broke down the U.S. into eight regions and hired a manager in: marketing, operations, real estate, construction, and regional vice president to oversee each region.

Functional and Operational Strategies: Blockbuster differentiated itself through marketing (e.g., selection of products, research, and advertising). The company used stock swaps from an IPO to purchase competitors. Huizenga also recruited top management from leading companies by luring them with big pay and benefit packages. Finally, Blockbuster's hours of operation were open later than other stores.

4) What were H. Wayne Huizenga's Keys to Success? Hard Work and Love What You Do

Huizenga believed in hard work. He stated that 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.

Huizenga also had a tireless work ethic. This work ethic was formulated at a very young age where he had to help out in the family business while his father was in the hospital. He also helped out the family by working at gas stations and driving a truck in high school.

While starting his refuse business, a typical day consisted of collecting trash from 2:30 a.m. until 12 p.m., taking a shower, and then putting on a suit to sell new accounts. At Blockbuster, Huizenga worked 12- to 14-hour workdays. It became a model for what was expected of others. Thomas A. Gruber, a former Blockbuster chief marketing officer quoted, "Blockbuster 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 needed to move at that pace."

Independence

Huizenga's constant family problems led him to become independent at an early age. His father's constant financial troubles taught Huizenga the value of cash and paying your bills. He also learned how to take care of himself as a young teenager. As a result, Huizenga developed a unique business savvy at a very young age, which allowed him the ability to become independent.

Persistence

Proof of Huizenga's persistence can be seen in his first purchase of a business. He wanted to purchase Wilbur Porter's business, but had no money. He bothered Porter for months until he finally agreed to finance the purchase of the business. Huizenga boasted that this was his first leverage buyout. Porter sold Huizenga a truck and $500 worth of customers in 1962. 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 Porter in Broward County, Florida.

Opportunity Recognition

Huizenga had a knack for finding opportunities. His first enterprise was in the refuse industry. He used his prior knowledge about the industry to build his own firm. His next venture, Blockbuster Video, was brought to his attention by John Melk, a previous employee at Waste Management Inc. Melk stated that Blockbuster would be a great investment opportunity that he 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.

Raising Capital

Huizenga used other people's money. He borrowed money for his first business and then grew the company by going public. He used these funds to purchase the competition. Huizenga did the same thing with Blockbuster and Republic Industries.

Hiring Great People, Delegating, and Following Up

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's a difference between being intelligent and being smart. People have to have both."

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.

Another key to his success was his ability to delegate responsibilities to others that have greater expertise than he does. Huizenga stated, "You always hear about delegation but people make the mistake of delegating and not following up. I give authority, but I stay in touch. Otherwise it doesn't work."

Management Style

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." Huizenga talked about his management style related to performance, "If there is someone in the bottom 10 percent of the company, they should know. I'm 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's Keys to Success

Huizenga stated, "Overcoming hardships and working around and through their obstacles to achieve an education is what I call a 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." 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've created – a lot of people have made a lot of money.

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."

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?

A typical case study focuses only on material in the case. We take a more innovative approach in this case. We require students to think outside of the box to come up with an industry for Huizenga to invest in. Students are allowed to do outside research to come up with their answer to this question.

Huizenga has amassed a fortune of $2.3 billion. In 2009/2010, Health Care, Education, and Energy have been major focuses of the government stimulus money. As a result we recommend that Huizenga focus on one of these areas. Huizenga should perform research to see which area would match his expertise.

We recommend that Huizenga continue to focus on what has made him successful in the past; taking a product/service and renting the product (e.g., collecting refuse and renting the receptacles, renting tapes, renting automobiles). We recommend that Huizenga look into the education industry. Specifically, we recommend that he look at the online for profit education industry. Huizenga would sell information online to people. Yet he would maintain the copyrights to the material.

Enrollment at for-profit trade schools expanded about 20 percent a year the last two years, more than double the pace from 2001-7, according to the Career College Association (Goodman, 2010).

Our second recommendation is for Huizenga to continue to focus on the foundation he created, the Huizenga Family Foundation. Huizenga appears to have a soft spot for education by giving money for scholarships and university buildings. We recommend that he continue to do this. Huizenga can couple his online "for profit" education company, with scholarships as well. This would give disadvantaged or laid off workers an opportunity to retrain themselves.

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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.*

INSTRUCTORS' NOTES

Recommendations for Teaching Approaches

There are several options for using this case. At the most basic level, students can be required to simply answer each of the questions posed. Appropriate fundamental answers are provided at the close of these notes. Using this case study in a more advanced manner will promote a wider array of discussions about the most appropriate approach to price setting in this context as students determine whether cost-based, demand-based or competition based pricing would be most successful. Another approach would be to look at product-price bundling and segment-specific pricing strategies.

Learning Objectives

1. Help students understand the complex situations that organizations face in pricing
2. Familiarize students with a co-op business model
3. Critically examine alternative pricing models for REI
4. Appreciate the significance of value creation and value-added service in setting price
5. Recognize the role segmentation plays in making pricing decisions
6. Complete an economic value estimation pricing scenario based on given segment

End of Case Questions and Answers

Go to the REI website (www.rei.com) and familiarize yourself with the organization. Pay particular attention to the range of products and services offered.

1. How do you think the co-op business model impacts the pricing decision at REI?

Given that REI is a cooperative, they have the advantage of truly understanding their members/customers. This allows them to not only generate revenue from the initial membership fee, but allows them to explicitly understand who their customers are, what they buy and how often they buy. The role of profit is also a key difference between the co-op and traditional business model. Growth in membership rates ultimately determines the success of a cooperative in addition to the fact that a portion of the profit in a cooperative is returned to its members.

2. If REI did not use a demand-based model, what other choices what are their other model could they use?

There are two other models that REI could apply and use successfully.

Cost-based pricing decisions are regarded by some managers as a conservative approach to setting prices since the recovery of all product-associated costs represents a breakeven point where unit revenues match unit costs. In this sense, the cost-recovery or breakeven price represents a price floor or minimum unit price for the product being sold. Marginal analysis and break-even analysis are the two most commonly used methods of analysis in cost-based pricing decisions.

Competition-based pricing decisions are made by organizations in response to the prices charged by competitors. Several different types of company objectives are consistent with this approach. Firms may be pursuing competitive advantage by setting prices below their nearest competitors. Alternatively, they may set a price higher than their closest competitors as a means of positioning their product as a premium brand. Anticipating how competitors will respond to price changes is critical to the effective use of competition-based pricing strategies. Will competitors match the price increase or decrease? Will this negate the intended effect of the strategy? Will they respond with non-price tactics to offset and combat price cuts? Would this reduce the anticipated quantity response to your price change and render the strategy unprofitable?

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.

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

Many co-op members represent growing young families who pursue child-friendly outdoor activities. These individuals may describe themselves as novices when it comes to activities like camping, hiking, and cycling. Nonetheless, their interest and enthusiasm with the perceived level of adventure these outdoor activities represent makes this category a significant segment of the REI market.

The second group of REI customers could be described as active outdoor enthusiasts or "Weekend Warriors." These individuals represent the group of REI customers who spend a significant time pursuing outdoor activities and are concerned with the performance of top-rated outdoor gear and apparel. These individuals tend to build their lifestyles around these activities and find a great sense of identity in the time they spend in the outdoors. They may be young professionals or empty nesters. The membership benefits that are most significant to this group of REI patrons will vary significantly from other segments.

A third group of REI patrons could be described as tenured adventurers or "Serious Outdoorsmen." Since REI's inception in the Pacific Northwest in the 1900s, a large percentage of REI customers are individuals who are involved in outdoor activities as a life style, yet still gravitate toward the culture and community of outdoor enthusiasts. These individuals may have allowed their careers to take precedent over extreme outdoor pursuits. However, this group tends to hold true to some of the more intangible/associative benefits of co-op membership. Their involvement in local community initiatives, environmental stewardship, and an individual say in how the company is governed tends to play a greater role of importance in how this segment views the value of membership.

Finally, a fourth group of REI patrons is one that continues to grow in numbers. These individuals represent the "next generation" of the co-op. As "Active Singles" they are most concerned with membership benefits that are immediately available to them. They take a more critical approach to determining whether what is offered to them is worth more than the price they are required to pay. As the segment that relies on technology the most, this group of potential co-op members is more aware of the competition than most. They are perhaps the most skeptical and most challenging to recruit. However, this group represents the greatest opportunity in growing memberships over the years to come, since this segment of the market maintains a greater influence on potential patrons through methods like social networking and mobile technology.

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.

The sample template provided in Table 3 offers a number of possible membership benefits. After researching the market, students may be able to contribute additional items to this list of membership benefits.

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			

The following demographic information and economic value estimate for Young Families, as provided in the Case Study includes these 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

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

Suggested demographic information on the three new market segments are as follows: Value estimation for the "Weekend Warriors" segment of seasoned professionals or empty nesters includes the following assumptions:

1. Average family size of two (any children are grown)
2. Owns gear, rather than rents

3. Likely to take at least one REI Adventures guided vacations in a lifetime
4. Less price-sensitive; still concerned with value

Value estimation for the "Serious Outdoor Enthusiasts" segment includes the following assumptions:

1. Individual use of the memberships
2. Owns gear, rather than rents
3. More likely to plan their own outdoor adventures, as opposed to a guided REI Adventures trip
4. High concern for the durability and usefulness of gear and apparel

Finally, value estimations for the "Active Singles" segment of next generation REI members include the following assumptions:

1. Individual use of membership
2. Occasional gear rentals
3. High use of coupons/Garage Sale attendance
4. More concerned with the newest, cutting-edge gear and apparel

Student answers may vary based on how they interpret the segmentation demographics. Tables 3b, 3c and 3d give examples of how value estimation by segment may be calculated.

Table 5: REI Membership Benefit Value Estimation by Member Segment Weekend Warriors

Membership Benefit	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	N/A	$0.00	$0.00
Bike Repair Shop Discounts	2 Bike Tune-ups	$40.00	$1,200.00
REI Adventures Travel Discount	2 Trips (Lifetime)	$700.00	$700.00
Member-only Coupons	4 Coupons	$25.00	$750.00
Garage Sale Purchases	1 Purchase	$45.00	$1,350.00
Total Average Lifetime Value of Benefits			**$4,592.50**

Table 6: REI Membership Benefit Value Estimation by Member Segment Serious Outdoor Enthusiasts			
Membership Benefit	**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	N/A	$0.00	$0.00
Bike Repair Shop Discounts	2 Bike Tune-Ups	$40.00	$1,200.00
REI Adventures Travel Discount	1 Trip (Lifetime)	$350.00	$350.00
Member-only Coupons	4 Coupons	$25.00	$750.00
Garage Sale Purchases	4 Purchases	$180.00	$5,400.00
Total Average Lifetime Value of Benefits			**$8,292.50**

Table 7: REI Membership Benefit Value Estimation by Member Segment Active Singles			
Membership Benefit	**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	1 Rental	$9.00	$270.00
Bike Repair Shop Discounts	1 Bike Tune-Up	$20.00	$600.00
REI Adventures Travel Discount	N/A	$0.00	$0.00
Member-only Coupons	4 Coupons	$25.00	$750.00
Garage Sale Purchases	4 Purchases	$180.00	$5,400.00
Total Average Lifetime Value of Benefits			**$7,612.50**

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.

ANSWER: Student answers will vary.

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ALTOS DE TINOGASTA, ARGENTINA

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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.*

INSTRUCTORS' NOTES

As indicated in the case, the situation faced by Prof. Carlos Aimar is that he has been invited by the President of Altos de Tinogasta (AT) to identify (within the next 30 days) a set of alternatives for achieving the objectives which the President of AT has set, that is, to generate revenues of at least $2,000,000 within the next 12 months. As regards lessons and/or information which students should learn from this case, at least four points can be made:

1. At the beginning of the case, students will need to consider the extent to which developed-world models and conceptual frameworks can be applied to challenges and opportunities in the developing world. By the end of the case discussion, they will have discovered that some conceptual frameworks (for example, turnaround strategies) can be useful guides to managerial action not only in the developed world but in the developing world as well.

2 Students will be able to compare their alternatives to the ones developed by the hero of the case, that is, Prof. Carlos Aimar; also, they will also be able to see the feedback from the President of AT on alternatives suggested by Prof. Aimar.

3. Students will discover that the conceptual framework of managers and/or consultants (in this case, a "turnaround strategy" model developed by Sheth 1985) powerfully impacts the nature of the process and/or options used to address managerial challenges and/or opportunities. Specifically, a "turnaround strategy-based" approach to increasing

revenues is likely to differ considerably from an approach to increasing revenues based on a different conceptual framework (for example, "marketing strategy").

4. As they work through the case, students are exposed not only to the challenge faced by Prof. Aimar but also to a bit of information on an important South American market (Argentina).

DISCUSSION QUESTIONS

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

1. Solicit from students the details of the case, including information about the macroeconomic environment at the time of the case; information on the company; information on the competitive environment; information on customers, information on strategies the company has used over the years, and information on how those strategies have been implemented. Usually, we write much of this information on the board, so that if questions on "facts of the case" arise, we will have much of that information in front of us.

2. Ask an individual student or the class as a whole to address a very specific series of questions. Those questions, and comments relating to three possible solutions to the case, are as listed below:

1) What is the main problem?

Students usually conclude that Prof. Aimar must identify (within the next 30 days) a set of alternatives for achieving the objectives set by the President of AT, that is, to generate revenues of at least $2,000,000 within the next 12 months. We reinforce the idea that this is a reasonable statement of the challenge Prof. Aimar faces.

2) What kind of problem is this?

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

Marketing strategy.
Turnaround strategy

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

For students concluding that the main problem is "marketing strategy," Perreault and McCarthy (2002) suggest that the key marketing strategy variables are: 1) Target market; and 2) The marketing mix (that is, place, price, product, and promotion). For students concluding that the main problem is the need for a "turnaround strategy," Sheth (1985) suggests there are nine strategies which can be considered: 1) Entrenchment (that is, fight for a larger share of existing uses of products in existing markets); 2) Consider selling to intermediaries; 3) Mandatory consumption (that is, ask government to pass a law requiring the use of a product or service); 4) Go international; 5) Broaden product horizons (that is, don't sell just the computer; rather, sell the computer plus a full set of ancillary products and services); 6) In existing markets, identify new applications for products; 7) In existing markets, identify new usage situations; 8) Repositioning (that is, in new markets, identify new uses for products by changing the image of the product); and 9) Redefining markets (that is, in new markets, identify new uses for products by making functional changes in those products.

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

As implied above (and this is one of the key learning points of the case), the data students present will depend on the main problem they identify. Students believing the main problem is "marketing strategy" will focus on the key variables identified earlier, that is, the target market and the "4 Ps" of the marketing mix; Appendix 1 identifies data from the case which relate to each of those key variables. Students believing the main problem is the need for a turnaround strategy will focus on the nine alternative strategies identified by Sheth; Appendix 2 identifies data from the case which relate to each of those alternatives.

5) What alternative solutions can be identified?

Research suggests we make better decisions if we identify alternatives, assess the advantages and disadvantages of each of those alternatives, and then chose the preferred alternative. For this reason, we require students to identify at least two alternative solutions to the case. Of course, students having difficulties coming up with a second alternative can be reminded that one possible solution is to "do (or change) nothing."

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

"Changing nothing" is unlikely to help Prof. Aimar achieve his objective of identifying a set of alternatives for achieving the objectives set by the President of AT, that is, to generate revenues of at least $2,000,000 in the next 12 months. Thus, students believing the main problem is the need for a new marketing strategy will recommend an approach which focuses (or re-focuses) on the target market and the "4Ps" (that is, price, product, promotion, and place/distribution). Students believing the main problem is the need for a "turnaround strategy" are likely to recommend consideration of one or more of the alternatives identified by Sheth.

It turns out that the alternatives suggested to Mr. Gabriel Clusellas by Prof. Aimar were based on the "turnaround strategy" conceptual framework developed by Sheth (1985). For additional information on the alternatives suggested by Prof. Aimar, and the reactions of Mr. Gabriel Clusellas (President of AT) to those alternatives, please read on.

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

Very few solutions are risk and/or problem-free. Negatives associated with the solution proposed by the class leader and/or other members of the class could include the following: The chosen alternative, if it requires AT to acquire specialized equipment and/or skills the organization doesn't currently possess, could be expensive both in terms of time and money. Also, because the case probably doesn't provide all the data a decision maker would need (in other words, it is likely that some important data is missing), it is possible that assumptions made by the class leader regarding the actual situation faced by AT are incorrect. If so, the proposed solution might be inappropriate.

The third and final step in discussing a case with students is to share with them what actually happened and to discuss with them the implications of that outcome. As indicated above, as he thought about identifying alternatives to increase the revenues of AT, Prof. Aimar's thoughts turned to a turnaround strategy conceptual framework developed by Sheth (1985). Based on the nine turnaround strategy alternatives suggested by Sheth (1985), Prof. Aimar identified (and suggested to Gabriel Clusellas) the following alternatives for increasing the revenues of AT to US$2,000,000 within the next 12 months:

1) Entrenchment-related recommendations. Based on the four entrenchment-related options identified by Sheth (segmentation, specialty markets, heavy users of the product, and multiple channels of distribution), Prof. Aimar identified the following alternatives for increasing AT revenues to $2,000,000 within the next 12 months:
    a. Segmentation: From the full set of all ABC1 consumers in Argentina, identify the subset (or segment) interested not only in protection of savings and generation of income but also believing that owning land in the Andes could enhance the quality of life for themselves and their family. Once members of this subset of all ABC1 consumers in Argentina have been identified, focus an intense promotional effort on that subset. Regarding these promotional efforts: the message could stress the enhanced quality of life theme; as for getting this message to members of the targeted subset of all ABC1

consumers, perhaps AT could partner up with relevant lifestyle and/or environmental organizations (AT could in return offer financial support to those organizations) and (in so doing) get those organizations to help promote (through their publications, events, word of mouth, etc.) AT and its products to their members.

b. Specialty markets: Again, focus on the subset of all ABC1 consumers in Argentina who believe that owning land in the Andes could enhance the quality of life for themselves and their family.
c. Heavy users of the product: From the full set of all ABC1 consumers in Argentina, identify the subset (or segment) who are heavy users of schemes to protect savings and generate additional income. Once members of this segment (that is, the heavy user segment) have been identified, focus an intense promotional effort on persuading members of the heavy user segment that their portfolio of investments should include investing in agricultural land in Argentina and (specifically) investing in "products" developed and offered by AT. For this group (that is, heavy users of schemes to protect savings and generate additional income), it seems likely that the "product" offered by AT should be a sophisticated financial package which includes not only the plots offered by AT but also wraps around those plots a package of financial services designed to maximize the benefits and minimize the risks of purchasing plots from AT. While it is not clear exactly what features this package of financial services should include, it seems likely that low interest loans, tax minimization strategies, hedging of foreign currency exposures, maximizing any tax or development subsidies provided by the provincial or national government, crop protection insurance (if available at a reasonable price), maximizing the attractiveness of Catamarca to other corporate investors and developers (so as to increase the value of productive land in Catamarca and in so doing increase the financial returns to individuals who have purchased plots from AT), and so on. Under this alternative, AT plots become a secondary product; the primary product is the package (includes plots from AT plus a set of sophisticated financial services) designed to maximize the benefits and minimize the risks to investors of purchasing plots from AT.

d. Multiple channels of distribution: The case indicates that to date, AT has done little promotion and/or direct selling and has instead been relying on word of mouth promotion of its products. Prof. Aimar suggests that an alternative approach would be for AT to create a system in which financial institutions (banks, insurance companies, mortgage lenders, etc.) are motivated (using financial incentives provided by AT) to partner up with AT and to promote AT plots (and the related financial services) to their ABC1 customers.

2) Sell through intermediaries-related recommendations. Under this heading, Sheth (1985) recommends that companies re-organize their selling efforts and utilize third parties (in the case of AT, likely 3rd party candidates could include bankers, insurance brokers, mortgage lenders, etc.) to make sales. If banks and/or other financial institutions are able to offer mortgages at preferential rates to prospective buyers of AT plots, that would of course be an additional benefit of partnering up with these financial entities. Because Catamarca is an economically depressed area, perhaps government agencies (provincial and/or national) could offer preferential financing to individuals willing to make investments (including investments in agricultural plots) in the province. If so, this could be another of the benefits in the package of financial services which could be wrapped around (and included with) the plots of land AT is selling.
3) Mandatory consumption-related recommendations. As noted earlier, it seems unlikely that the government of Argentina will pass a law requiring members of the ABC1 socio-economic class to purchase agricultural land in Argentina. However, the government of Argentina could restrict the overseas investments which citizens of Argentina are allowed to make. If this happens, the attractiveness of investing in plots of productive agricultural land in Argentina like the ones offered by AT (especially if AT's plots are wrapped in a package of financial services designed to maximize benefits and minimize risks to investors) could increase.
4) Go international-related recommendations. Sheth indicates that sometimes a company which is failing can rescue itself by pursuing overseas opportunities. This case study clearly indicates that while AT does have a few overseas customers, there is no organized plan to solicit investments by overseas investors. An international-related alternative suggested by Prof. Aimar is that AT promote its plots to those overseas customers with a predisposition to be interested in investments in Argentina (for example, Argentine citizens working overseas). AT could seek out groups of Argentine citizens living outside of Argentina and promote its plots (wrapped in a package of financial services designed to maximize the financial benefits and minimize the financial risks) to members of those groups. Another approach could be to see if there are overseas corporations predisposed to invest in agricultural plots in Argentina and, if so, to promote (to those organizations) the idea of purchasing AT plots. If government (provincial or national) is offering development credits or subsidies, these benefits should of course be part of the bundle of financial services for which AT plots are part of the package.

5) Broaden the product horizon-related recommendations. Sheth (1985) indicates that sometimes a company can rescue itself by adding ancillary products and/or services to their basic product and/or services. The spreadsheet showing the products and services offered by competitors suggests several ways this could be done: an alternative suggested by Prof. Aimar is that AT could begin organizing and offering sports and/or other events and experiences; that it could build a hotel; that it could offer home sites and/or homes, etc. In short, there are numerous ways in which AT would broaden the range of products/services it is offering to consumers. Another alternative already mentioned several times is of course to wrap a bundle of financial services (designed to maximize financial benefits and minimize financial risks) around the plots offered by AT.
6) New situations-related recommendations. Sheth (1985) suggests that sometimes a business can be turned around by putting an existing product or service into new usage situations. The case indicates that the plots offered by AT are being promoted as ways for purchasers to become part of a wine or olive culture; however, it is not clear from the case whether this positioning is especially compelling to prospective purchasers. The trend in sales of plots by AT over the last three years suggests that consumers do not find the current positioning particularly compelling. In any case, a new situations-related alternative suggested by Prof. Aimar is that AT should conduct in-depth interviews with current and prospective owners, to seek out positioning for AT products that prospective purchasers will indeed find especially compelling.
7) New applications-related recommendations. Sheth (1985) suggests that sometimes a business can be turned around by putting products and/or services to work in new and different applications. As the case indicates, at the moment AT has positioned its plots as a way to protect savings, generate income, and enhance the quality of life of buyers and their families. An alternative suggested by Prof. Aimar is that in-depth interviews with ABC1 consumers could identify other benefits (of purchasing plots from AT) that consumers could find more compelling.
8) Repositioning-related recommendations. According to Sheth, this strategy involves redefining a product's image into new usage situations within the same general application context. As indicated above, the case does not provide any evidence to support the idea that the existing positioning is especially compelling to members of the ABC1 socio-economic groups in Argentina. As noted earlier, the sales figures from the last three years suggest that consumers do not find the existing positioning especially compelling. Once again, Prof. Aimar's sense is that this fact reinforces a point made earlier, that the alternative of doing in-depth interviews with current and prospective owners (so as to seek out positioning for AT products which prospective purchasers will find especially compelling) is worth considering.

9) Redefine markets-related recommendations. Sheth identifies four alternative approaches to using this strategy. Those four approaches, and comments relating to them, are as indicated below:
    a. Generic to specialty products: The plots offered by AT are not generic products; this option does not seem relevant to this situation.
    b. Primary to secondary products: As mentioned earlier, it seems possible that AT plots could be re-positioned (and then promoted) to be part of a portfolio of products designed to protect savings, generate income, and enhance quality of life. In other words, the primary benefits to consumers would become the protection of savings, the generation of income, and the enhancement of quality of life; the AT plots would be one of the elements of the product and service portfolio assembled to deliver that set of benefits.
    c. Industrial to consumer products: The plots are already consumer products; this option does not seem relevant to this situation.
    d. Consumer to industrial products: It seems unlikely that industrial organizations would be interested in purchasing products from AT. Readers may recall, however, that the case indicates that if a major corporate vineyard investor moves into a new geographic area (Catamarca, for example), the value of the vineyards in that area and the vine produced from that area could increase substantially. For this reason, one alternative suggested by Prof. Aimar is that AT partner up with government and/or any other interested public and/or private organizations, to promote Catamarca as a place which corporate vineyard investors will find (for a variety of possible reasons, including tax advantages, if there are any) very attractive. Assuming additional corporate vineyard investors come to Catamarca and that (for that reason) both the value of AT plots and the value of wines produced at AT increase, the returns earned by individuals who have already purchased plots at AT should be high and those high returns could be used to promote AT products to prospects.

CONCLUDING COMMENTS

The above comments describe the alternatives identified by (and recommended by) Prof. Aimar to achieve the objectives set by the President of AT. Readers may be interested in the answers to the following questions:

1: Of the suggestions made by Prof. Aimar, which ones did Mr. Gabriel Chusellas find especially useful?

Of the recommendations made by Prof. Aimar, those Mr. Chusellas found especially useful included:

A. ENTRENCHMENT/segmentation. AT is now focusing its attention and efforts on the subset of all ABC1 consumers interested not only on protection of savings and generation of income but also in enhancing the quality of life for themselves and their families.

B. ENTRENCHMENT/heavy users. AT is now focusing its attention and efforts on heavy users of the "product" (that is, schemes designed to protect savings and generate additional income) and then partnering up with third parties (a financial consulting company and an insurance company) to ensure that AT's plots are part of the "protect savings and generate additional income" bundle of financial services recommended by these companies.

C. ENTRENCHMENT/multiple channels of distribution. AT has now partnered up with a real estate broker and a mortgage lender; those companies are now promoting AT and its "products."

D. SELL THROUGH INTERMEDIARIES. See the comments above regarding "ENTRENCHMENT/Multiple Channels of Distribution."

E. MANDATORY CONSUMPTION. Rather than continuing to insist on selling only in dollars (as indicated in the case, real estate transactions in Argentina have historically taken place in dollars), AT is now selling plots not only for dollars but also (because of the new foreign exchange controls) in pesos.

F. BROADEN THE PRODUCT HORIZON. AT has now begun construction of a hotel.

G. REDEFINE MARKETS. As indicated earlier, AT is now working with a financial consulting company and an insurance company, to make sure that AT plots are included in the bundle of financial services which those companies are offering to their customers.

2: Have any of the alternatives suggested by Prof. Aimar been implemented yet? If so, which alternatives have been implemented and what results have been achieved so far?

As indicated above:

A. Regarding "heavy users," AT has now partnered up with third parties (a financial consulting company and an insurance company) to ensure that AT's plots are part of the "protect savings and generate additional income" bundle of financial services recommended by these companies to heavy users of these sorts of products and services. Because these partnerships are very new, there are not yet a lot of results to show; however, AT feels very positive and optimistic about the future of this initiative.

B. Regarding "selling through intermediaries," AT recently concluded selling agreements with a very large real estate broker which provides real estate services not only in every part of Argentina but also in neighboring countries including Uruguay, Chile, and Brazil. Negotiations with another potential 3rd party (that is, another intermediary) are continuing.

C. Regarding "mandatory consumption," and as indicated earlier, AT is now selling plots not only for dollars but also (because of the new foreign exchange controls) in pesos. While there are not yet a lot of results, AT believes that this initiative should do well.

D. Regarding "broaden product horizon," At indicates that a strategic alliance to develop a boutique hotel and spa has been signed and that construction should begin during the second half of 2013. There will be special rates for owners of AT plots wishing to stay at the hotel; the amenities will include a swimming pool constructed around a natural hot spring.

3: Are there other alternatives (that is, alternatives other than those suggested by Prof. Aimar) which have been put into play? If so, what are these additional alternatives and what results have been achieved so far?

Mr. Chusellas indicates that AT has split the olive plots in half, so as to be able to have a "product" to offer to customers who are not able to afford a full-sized plot. He indicates that this initiative has been very successful.

4: Overall, does it appear that AT is likely to achieve its objectives, that is, to increase its revenues to US$2,000,000 within the next 12 months?

Mr. Chusellas indicates that unit sales of both plots planted in grapes and plots planted in Olives have "increased significantly in comparison with previous year." Since June 2012, total revenues generated by sales of plots (both plots planted in grapes and those planted in olives) have averaged approximately $200,000 per month. Assuming sales continue at this level, AT is on track to achieve the stated objective.

5: Are there any other comments and/or observations which Mr. Chusellas would like to make at this time, regarding either the current situation and/or prospects for the future?

As indicated in the case, real estate sales in general have been hit hard by the foreign exchange controls and by the high mortgage rates caused by high levels of inflation. Having said this, however, it bears repeating that AT's sales have increased substantially and that AT appears to be on track to meet the objective of (over the next 12 months) generating $2,000,000 of revenue from the sale of plots.

APPENDIX 1
CASE DATA RELATING TO MARKETING STRATEGY MODEL

Target Market

The case indicates that since the company's inception in 2009, AT has targeted members of the ABC1 socio-economic group in Argentina. Over and above the general characteristics of Argentines in the ABC1 socio-economic categories listed above, the case indicates that 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 money to offer not only financial benefits (yields, appreciation, etc.) but also non-financial benefits and pleasure.
2) Interested in building a legacy for the family 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 case indicates that the 3000 hectares which AT purchased is being planted in olive trees and in grape vines. The land planted in olives have 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 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 case indicates that the land planted in olives has been divided up into 216 parcels of 10,000 square meters each and that these parcels are being offered to investors at a price of $27,000 per parcel. The case also indicates that land planted in grapes has been divided up into 208 parcels of 2,500 square meters each and that these parcels are being offered to investors at a price of $15,000 per parcel.

Promotion

Regarding media, the case indicates that to date, A.T. has purchased very little radio and/or print advertising. Much of the advertising is by word of mouth and/or through friends and family relationships, that is, through satisfied investors sharing their experience and reactions with friends, neighbors, etc. Regarding the message: the case indicates that the benefits AT has offered to investors in the few promotions it has run include:

a. A pro-rata portion of the total revenue generated by sales of the olive oil or wine produced by AT.
b. Increases in the value of the real estate parcel(s) which they own.
c. The enjoyment of owning parcel(s) in the mountains of Argentina.

APPENDIX 2
CASE DATA RELATING TO THE "TURNAROUND STRATEGIES" MODEL

1. ENTRENCHMENT. According to Sheth (1985), this approach involves taking market share away from competitors. He suggests four alternatives which firms may be able to use; those alternatives and data from the case relating to those alternatives include:

   a. Segment the market (and introduce different products, flavors, or brand names for each segment): Regarding the product of interest (that is, plots at AT designed to serve as investments to protect savings, generate revenue, and enhance quality of life): the case indicates that the segment AT has targeted has the following characteristics:

      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.

b. Identify specialty markets: As indicated above, the case indicates that AT has targeted ABC1 consumers interested not only in protecting savings and generating income, but also in enhancing their quality of life.

c. Go after heavy users of the product: The case does not provide information on the characteristics of heavy users of products designed to protect savings, generate income, and enhance quality of life. However, the case does indicate that Argentina's ABC1 consumers hold huge amounts (estimated at $150 billion) of money outside of the banking system and/or outside of the country.

d. Seek multiple channels of distribution: The case indicates that 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.

2. SWITCH TO INTERMEDIARIES. If getting the product into the hands of ultimate consumers is difficult, Sheth suggests that marketers may be able to succeed by selling to intermediaries (wholesalers, processors of agricultural products, etc.) instead. As indicated above, the case indicates that AT is using a small direct sales force to promote and deliver its products to consumers.

3. MANDATORY CONSUMPTION. Sheth indicates that sometimes it is possible to revive a business by getting government (state, local, or federal) to pass a law making in mandatory for consumers to purchase certain categories of products. While the case does not address the issue of mandatory consumption, it seems unlikely that the government of Argentina will pass a law requiring members of the ABC1 socio-economic class in Argentina to purchase plots from AT.

4. GO INTERNATIONAL. Sheth indicates that sometimes it is possible to revive a business by beginning to sell the product in markets outside the home market. The case indicates that while AT has sold a couple of plots to non-Argentines, and that while the price of productive land in Argentina is cheap compared to the price of productive land in

many other parts of the world, AT has not attempted (in any systematic way) to solicit business from purchasers outside of Argentina.

5. BROADEN THE PRODUCT HORIZON. Sheth indicates that this approach often involves focusing on the function that a product performs and then thinking of the product as a component in a system. The case does not appear to consider the question of whether AT plots could be part (but only a part) of a system designed to deliver the benefits desired by consumers (that is, protection of savings, generation of additional income, and enhancement of quality of life. The case does indicate that alternative approaches used by members of the ABC1 socio-economic groups in Argentina to achieve the desired goals include: Safety deposit boxes in banks, savings accounts in banks outside of Argentina, money hidden under mattresses, investments in productive agricultural land elsewhere in the world, treasury bills and/or corporate bonds purchased overseas, and small capitalization stocks purchased overseas.

    1. NEW APPLICATIONS. According to Sheth, new applications usually involve some sort of functional change in the product. He indicates that a good way to search for new applications is to ask consumers how they actually use the product. The case does not provide detailed information on how members of the ABC1 socio-economic groups in Argentina feel about using AT products (as opposed to using other alternatives listed above) to achieve the desired benefits (that is, protection of savings, generation of additional income, and enhancement of quality of life).
    2. NEW SITUATIONS. Sheth indicates that this strategy requires marketers to seek out different times, places, and/or positioning for product usage. The case indicates that AT currently positions purchases of its plots as a way to protect savings, generate current revenue, and enhance the quality of life. While the case indicates that this positioning should be of great interest to consumers in the ABC1 category, it provides little evidence that members of the ABC1 socio-economic groups in Argentina believe that purchasing plots from AT will be the best way to achieve those objectives. In fact, the steep downward trend in sales over the last three years could be interpreted as confirmation that ABC1 consumers in Argentina do not find AT's current positioning especially compelling.
    3. REPOSITIONING. According to Sheth, this strategy involves redefining a product's image into new usage situations within the same general application context. As indicated above, the case does not provide any evidence to support the idea that the positioning AT is currently using is especially compelling to members of the ABC1 socio-economic groups in

Argentina. As noted above, the steep downward trend in sales over the past three years could be interpreted as support for the idea that ABC1 consumers do not find AT's current positioning especially compelling.

6. REDEFINE MARKETS. Sheth identifies four alternative approaches to using this strategy. Those four approaches, and data from the case relating to them, are as indicated below:
   a. Generic to specialty products: The plots offered by AT are not a generic product; this option does not seem relevant to this situation.
   b. Primary to secondary products: The case indicates that the plots AT is selling plus (for consumers purchasing a plot planted in olives) a pro-rata share of the olive oil-related assets and revenues or (for consumers purchasing a plot planted in grapes) a pro-rata share of the vineyard-related assets and revenues are its primary products. The products currently offered by AT are not secondary products.
   c. Industrial to consumer products: The plots are already consumer products; this option does not seem relevant to this situation.
   d. Consumer to industrial products: It seems unlikely that corporate bodies would purchase plots from AT.

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