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LETTER FROM THE EDITORS

Welcome to the *Journal of the International Academy for Case Studies*, the official journal of the International Academy for Case Studies. The IACS is affiliated with the Allied Academies. Both are non profit associations of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The purpose of the *JIACS* is to encourage the development and use of cases and the case method of teaching throughout higher education. Its editorial mission is to publish cases in a wide variety of disciplines which are of educational, pedagogic, and practical value to educators.

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

If any reader is interested in obtaining a case, an instructor's note, permission to publish, or any other information about a case, the reader must correspond directly with the Executive Director of the Allied Academies: info@alliedacademies.org.

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

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Herbert Sherman, Long Island University

ALICE CHEUNG: THE CASE OF THE CHEATING STUDENT

Harsh K. Luthar, Bryant University
Shirley Wilson, Bryant University

ALICE CHEUNG: THE CASE OF THE CHEATING STUDENT

Professor Kumar Sethi sat in his office troubled and thinking about the young woman, Alice Cheung, who had just left his office. For the first time in his six-year teaching career, Professor Sethi had encountered a suspected case of cheating. Did his student Alice Cheung actually cheat? Would the evidence against Alice hold up in front of a review committee?

Various thoughts and doubts raced through Professor Sethi's mind as he reflected on the tense and rather stressful encounter he had just had with Alice. Professor Sethi wondered whether he should give Alice more benefit of the doubt. Further, he thought about his conversation with Professor Patty Mcbride, the Department Chair, on this matter and wondered how strongly she would support him. His talk with Professor Juan Gonzalez, who had faced a similar cheating incident a few years ago that had not ended well, was also on his mind.

Professor Sethi discussed the suspected cheating incident in detail with a trusted and tenured senior department Colleague, Professor Helen Cobble. She advised Professor Sethi to write everything down and make detailed notes about the incidents with Alice Cheung from the beginning to the end. Professor Sethi agreed and felt that a documented history of everything that had happened would help support his decision if he proceeded to formally accuse Alice Cheung of cheating. The notes written by Professor Sethi are referred to throughout the case. In these notes Professor Sethi talks in the first person.

PROFESSOR KUMAR SETHI

Professor Kumar Sethi is a popular professor of East Indian descent. He was born in Delhi, India and moved to the United States at the age of fifteen with his parents and siblings. He earned his undergraduate and master of business degrees from well-known universities. Following his graduate education, he taught math and statistics at several community colleges before deciding to pursue a doctorate. Upon completion of his Ph.D. in Human Resource Management, Professor Sethi accepted a tenure-track position at Eastern University. Professor Sethi is now coming up for tenure and is quite busy putting together his tenure package for submission to the Department.

Tenure is awarded to faculty members who are positively evaluated by their peers and supervisors in three areas: teaching, research and service. Teaching is measured by student evaluations and other criteria such as class observations, course syllabi, and the quality of student assignments. Research is evaluated by a review of the faculty member's publications in scholarly journals, books, and conference presentations. Service is measured by positions held on University committees, service to the community, and service to one's profession. Gaining tenure at a university or college is a major milestone for professors and it allows them a high level of job security, and the freedom to pursue research interests of their choice.

Professor Sethi is known as a knowledgeable teacher who cares deeply about his students. He takes the time to learn all of his students' names, speaks to them when he sees them in the dining hall or around campus, and spends many hours working with students individually, beyond the required office hours. A man of deep moral convictions, Professor Sethi is known for being tough but fair. Even when students earn poor grades on assignments, they still regard him highly, giving him positive ratings on course evaluations. Students enjoy his lectures and class discussions.

Professor Sethi's record of research and publication is exceptional and contributes to the national reputation and accreditation of the College of Business at Eastern University. He regularly publishes with other faculty in his department and has mentored several new department members. He has also published papers with some of the senior members in the department. In addition, he serves on several visible University committees. As a result, Professor Sethi is highly respected by his colleagues and superiors. Based on his teaching, research, and service, Professor Sethi is considered to be an excellent candidate for tenure and his colleagues expect him to breeze through the process without any problems.

Alice Cheung

Alice Cheung is a junior at Eastern University, where she is majoring in Human Resource Management and Psychology. In addition to carrying a heavy course load of 16 credits, she works part time in one of the University's administrative offices and participates in several extracurricular activities, including the swim team.

Alice often feels stressed and overworked. She spends a couple of hours most mornings in swim practice before classes. In order to fit in all of her requirements, she takes both day and evening classes and works her campus job around her class schedule. The evenings she is not in class are usually spent in the library to maintain her hard-earned 3.8 GPA.

Alice's parents run a very successful dry cleaning business and have worked hard all their lives. Alice's older brother works in the family business as well. The whole family encouraged Alice to go to the University. However, Alice is constantly reminded that Eastern University is very expensive and the entire family is making a sacrifice to pay her tuition, room and board. Although her classes are very challenging, Alice is determined to graduate with honors and make her family proud.

Alice regards Kumar Sethi as one of her favorite professors. She feels comfortable confiding in him when she feels pressured or stressed. She has also sought him out for career advice, and enjoys talking to him about her trips to China, Singapore, Hong Kong, and India during University vacations. She finds Professor Sethi to be a good listener who enjoys learning more about other cultures.

PROFESSOR SETHI'S CLASSROOM MANAGEMENT

At the beginning of each semester Professor Sethi explains to students that cheating in any form is unethical and can seriously hinder their learning and character development. In addition, he warns about the academic consequences of cheating. This warning is contained in his syllabus, which is read aloud in class on the first day. Students have to sign an honor code at the beginning of the semester which Professor Sethi collects and keeps on file during the semester. The honor code requires students to agree that all work submitted for a grade is their own and they did not receive any unauthorized help on papers, presentations, or exams taken both inside and outside of class.

Professor Sethi goes to great lengths to explain consequences of cheating and says, "At the very least, it can result in a zero on the assignment; at its worst, a damaged academic reputation and even expulsion from the University". As a result of Professor Sethi's vigilance, he has not been aware of a single incident of cheating in all of his years of teaching.

First Incident of Suspected Cheating with Alice Cheung

The first incident of suspected cheating occurred during Professor Sethi's Monday evening class that meets from 6:30 to 9:20 pm. As is customary, Professor Sethi's first exam is multiple choice, and is administered during the second half of the class period after the students have had their break. Professor Sethi has a firm policy that students are not allowed to leave the classroom during the exam unless there is a medical reason. If students leave the classroom during the exam without approval from the professor, they are not permitted to return to the classroom to continue the exam.

Professor Sethi typically sits at the front of the room and observes the students during the exam. He seldom moves from the front of the room, since the room contains long tables and space is limited. Professor Sethi feels that careful observation is sufficient to guard against cheating.

However, at the end of the first midterm exam a female student approached Professor Sethi and shared, "Professor, I feel funny telling you this, but you should know. During the exam I saw Alice Cheung texting on her phone. The phone was in her lap and I wouldn't have seen it, except I was sitting next to her. She would send a text, then wait a short while and fill in the answer sheet. I can't be sure, but I think she was getting answers through her iphone."

Professor Sethi was shocked. He respected Alice as a hardworking and conscientious student and thought highly of her. He had enjoyed their conversations on international travel. It was hard for Professor Sethi to believe that Alice would have cheated. However, from what the other student had told him it did seem like Alice was using her iphone during the exam. Using any smartphone or a similar device was against the exam rules. Professor Sethi wondered whether Alice was getting answers during the test. Since Professor Sethi did not personally see Alice texting, he felt that it would be unfair to make an outright accusation of cheating. However, he could not ignore what he had heard either.

MEETING WITH ALICE CHEUNG AFTER THE FIRST INCIDENT

After giving the matter some thought, Professor Sethi asked Alice to meet him in his office the next day. After the usual greeting, Professor Sethi told Alice that she had been observed by other students using her smart phone and texting during the exam, and asked her for an explanation.

Alice explained that she had had the cell phone on as her grandmother in Hong Kong is in the hospital and she was waiting for news on her surgery. Alice admitted that she had sent three text messages and also received several text messages from her brother and cousins about her grandmother's condition. Professor Sethi expressed his sympathies but said that it is explicitly stated in the syllabus that all electronic devices must be turned off before any exam and that is the standard policy across the University.

Alice said that she was aware of the policy but that this was an emergency situation and she needed to have her cell phone on during the exam. She started sobbing when speaking about her grandmother and told Professor Sethi that her grandmother had practically raised her. Professor Sethi was not prepared for this reaction and for a minute was at a loss for words. Alice offered to show Professor Sethi her text message history for the last week involving her grandmother, but Professor Sethi felt uncomfortable with that and politely declined.

Professor Sethi, composing himself, told Alice that the policy against using smart phones during the exam is strict and should not be violated. If there is some emergency that requires the use of a cell phone during an exam, the professor should be told that in advance. Alice, still teary eyed, nodded in agreement and said, "I am sorry that my texting was misunderstood but I appreciate and respect your policy and will make sure this does not happen again." Professor Sethi said nothing more but decided to watch Alice more closely during the next exam.

SECOND INCIDENT OF SUSPECTED TEACHING WITH ALICE CHEUNG

The second incident of suspected cheating came four weeks later during the second mid-term exam. The circumstances were considerably more complex. As Professor Sethi explains in his written notes:

"The mid-term is part essays and part multiple choice. Alice Cheung came to my office about fifteen minutes before the exam and requested to start the exam early as she had a migraine and had taken medication for it that causes drowsiness. I told Alice that I may not be able to give her an early start on the exam. I explained to her that I was still in the process of picking the essay questions that were going to be on the exam as I do that at the last minute. The mid-term contains three essays and students must answer two of the three questions."

"I closed my office door, and Alice sat outside my office at the desk in the hall. By the time I finished printing copies of the three essays, it was almost time for class. I collected my exam materials and started walking towards the class and Alice followed."

"When I was passing out the blue books, Alice requested two. This was unusual as most students will wait until they have filled up the first one. When I questioned her, she said that she needed one book to do an outline. Since I encourage students to outline before writing their answers, I found this request to be reasonable and handed her two blue books. However, I noted that Alice was not sitting in her usual seat in the third row with her friend Meghan. Instead she was sitting behind Meghan in the fourth row with another student, John. I found this very curious as students typically sit in the same seat throughout the semester."

"Around the end of the exam period, the students started handing in their multiple choice exams as well as the essays written in the blue books. I was walking around collecting all of the materials, including any extra blue books. After the first incident of suspected cheating, I had tried to move around the room more often to carefully observe the students and had seen nothing that resembled cheating. As I walked by Alice's seat, she seemed to be done with her exam and essays as well. Alice handed in one of her blue books and said that the second blue book on her desk was the one that I had given her for the outline. She said, 'You don't want that do you?' That struck me as an unusual query. I told her that I did want both blue books."

"Before going home for the day, I briefly looked at Alice's two blue books. The one in which she had written the answers to the essay questions looked fine. The other blue book, however, did not contain an outline as I expected. Instead it was filled with information and possible answers to all five of the questions that I had given to class in advance for studying and preparing for the exam the previous week. The blue book which contained her actual answers to the test contained five handwritten pages, while there were thirteen handwritten pages in her 'outline'! Some of the information in Alice's 'outline' pertained to questions I had chosen not to include on the final version of the exam. I was puzzled."

"A few days later, I had a chance to look at Alice's two blue books in more detail. I noticed several things. First, Alice's 'outline' blue book had a slightly different cover than the others from that class. It had a lighter print and it clearly came from a different batch of blue books. Second, Alice's 'outline' blue book contained more information than was required to answer the two questions she had selected. It specifically contained information that would have been relevant if I had asked certain other essay questions that were not on the exam. Third, some page lines within the 'outline' blue book had been crossed out to make them unintelligible. And finally, her 'actual' blue book consisting of 5 handwritten pages that contained the answers to the two essays she selected for the exam looked like that of the other students and had apparently come from the same batch."

"It was my conclusion that Alice had brought a blue book with her to the exam and that Alice's blue book contained pre-written information about all five essays that had been given to the class in advance for study and preparation. Alice must have placed one of the two blue books she requested from me into her backpack and substituted it with the pre-written 'outline' book. Unfortunately, despite my vigilance to keep a closer eye on her this time, I never actually saw her switching the blue books. I certainly was not anticipating anything of this nature."

CONTACTING THE DEPARTMENT CHAIR REGARDING THE CHEATING INCIDENT

Professor Sethi continues in his notes about the incident: "I left voice mail messages for my Department Chair, Professor Patty McBride, at her home and office. That evening, Patty returned my call and I briefed her on the situation. She suggested that I call Alice into my office again and ask her to explain this second incident. However, she cautioned that I should make sure that there is sufficient evidence in case I decide to charge Alice with cheating."

"During the conversation, Patty informed me that two years ago, she had to override Professor Juan Gonzalez, a former colleague in the department, when he flunked a student. Patty added, 'Professor Gonzalez received some complaints from students about his grades. Typically when these complaints reach the Dean, they often find their way into tenure and promotion deliberations. Just giving you the heads up as I would hate to have that happen to you. You have such a good tenure package.'"

TALKING TO PROFESSOR JUAN GONZALEZ

Professor Sethi continues in his notes about the incident: "After Patty and I hung up, I called Professor Juan Gonzalez, still a friend though he'd left Eastern the previous year. When I asked Juan about the incident with him that Patty had mentioned, he was very candid with me. Juan explained that he had caught a student cheating red-handed and had given him an F for the course. The F would have prevented the student from graduating that semester so the student complained to the Chair of the Department, Patty McBride."

"Juan stated that Patty told him that an F for the whole course was too harsh a penalty for cheating on the final exam as the final exam was worth only 15% of the total grade. Patty suggested that the student should get a 0 for the final exam and that the final course grade should be calculated based on that. Juan told me that he felt strongly about his decision and what the consequences should be for cheating, but changed the grade from an F to a D after Patty said quite clearly, "It is important to understand, Juan, that we only give tenure to those faculty members who are student centered as well as collegial and are team players."

"Juan shared the next part of the story in confidence and said, 'After I changed the student's grade from an F to a D, I ran into him and his friends at graduation during the social event. The group was obviously drunk and they openly laughed at me and couple of them shouted obscenities. The student whose grade I had changed from an F to a D shouted loudly, 'up yours Gonzalez' and then raised his arm high and gave me the middle finger. A number of other professors and students and the parents were present at the social event and heard the shouts, looked in my direction, and wondered what was going on. I got away from there quickly but it was humiliating. One of the main reasons I left Eastern University was because of that incident.'"

A SECOND MEETING WITH ALICE

The conversation with Professor Juan Gonzalez did give Professor Sethi some pause and he wondered what to do. However, he felt professionally obligated to act.

In Professor Sethi's own words: "Several days later, I asked our office secretary to contact Alice Cheung and ask her to come in and see me. Alice came to see me at 10:30 am the next day. Without accusing her of cheating, I took out her two blue books and told her that I was puzzled by them as I read her work. I said, 'Alice, I want to respect and trust all of my students. Is there something that I should know or something you want to tell me about the exam?'"

"Looking directly at me Alice said, 'No, there isn't. I don't understand what you're asking.' I pointed out to Alice that the blue book containing her 'outline' version had a lot of information that was not relevant to the two essay questions that she had answered. Furthermore, her "outline" blue book had considerably more pages of writing than the blue book with her actual written essays."

"Alice quickly explained, 'I just get so nervous during exams that I put everything I know down first and this is what I did. Afterwards, I only had enough time to write a portion of it for the actual exam.'"

"Alice said that in Hong Kong where she went to boarding school, this is how she learned to take tests. She also insisted that everything she had put down on the rough 'outline" blue book was somehow relevant to the questions asked. She again talked about how much stress she feels during exams and explained how much this method helps calm her nerves."

"Next I showed Alice that the cover of her 'outline' blue book differed from her other blue book and those of all the other students in the class. She replied curtly, "I don't know anything about that. Maybe a couple of batches of blue books got mixed up."

"The discussion lasted for about 15 minutes. I questioned Alice as to why information about all five essays which were given to the class in advance would be on her "outline" blue book. Should not her blue book have outlines for only the two essays she actually answered for the exam? Alice continued emphasizing how she gets stressed out and puts everything that she knows down before answering the actual questions. Alice said, 'I do a data dump first, before I start writing the essays.' Alice could see that I was having a hard time believing her explanations and that I strongly suspected that she had brought in a pre-written blue book to the exam."

"I could see that Alice was very upset and that she realized that she may be formally accused of cheating. However, Alice did not admit to doing anything improper. Although the evidence that she cheated seemed overwhelming to me, her complete denial created a little doubt in my mind. By the end of our discussion, I was visibly irritated with Alice and told her that an outline is an outline and it is meant to help students organize their thoughts for the essays. I made it clear to Alice that her "outline" blue book did not appear like an outline to me. I strongly recommended to her that she not use this approach in this or other classes in the future and she agreed. "

"I concluded the meeting by telling Alice that I would have to think about our discussion and that we would have to meet again in the next few days. I further told Alice that she would be required to sit in the front row in a specified seat for the Final comprehensive exam. Alice readily agreed to that without protest."

"After Alice left my office I graded her exam and she had earned a grade of 'C'. Did she cheat and still get a C? I kept wondering."

"Later in the evening (during my office hours), about an hour before class started, Alice came in again. She wanted to know her grade for the exam which I showed her. She wanted to go over the multiple choice portion of the test, so I explained what the right answers were to the questions she missed."

"After I was finished, Alice started to talk again about how she gets stressed from her exams and how her parents create a lot of stress for her. I told her that it was natural to have stress in life and all of us have to deal with it. I told her that it is my belief that any student can excel in academics with the right time and effort."

Alice continued to speak of the stresses in her life. I expressed sympathy and told her that I understood the stresses students face. Because I wanted to end the conversation, I indicated to Alice that I needed to start getting ready for class. Alice was polite and respectful throughout and seemed to be genuinely grateful for my listening and talking with her."

"Overall, I was not comfortable with this whole exam incident. In the past, I have enjoyed talking with Alice, advising her, and hearing about her vacations in the Far East. Now, there is doubt in my mind whether Alice is being honest with me and that has left a bad taste. Alice is clearly under a lot of stress from her family and perhaps she puts a lot of pressure on herself as well to maintain high grades. But this is not an uncommon situation for a student to be in. Did Alice cheat or not? This question haunted me."

CONSULTING WITH PROFESSOR HELEN COBBLE ABOUT THE DILEMMA

Professor Sethi's concluding written notes continue: "Because Alice's denial that she had done anything improper was so strong, I started to doubt and question myself."

"I consulted with a trusted colleague, a senior professor in the department, Helen Cobble, on this matter. After a long discussion with Professor Cobble, I requested that Professor Cobble look at Alice's two blue books and assess them and evaluate this situation."

"Professor Cobble carefully reviewed all the materials and Alice's two blue books and came to the same conclusion that I had. Professor Cobble said that there was a 99% chance that Alice Cheung had brought in the extra blue book with the written material already in it to help her during the essay portion of the exam, and that Alice had, in fact, cheated. Professor Cobble's strong statement gave me more confidence in my judgment regarding the Alice Cheung matter."

"Professor Cobble suggested that I make detailed notes about this incident and record them as the facts are fresh and clear in my mind right now. Also, this documentation is important in case there are future repercussions from this situation or if there is another cheating incident with Alice during the final exam."

WHAT TO DO? A PROFESSOR'S DILEMMA

In his concluding notes, Professor Sethi states, "I have carefully recorded all of the facts, but I am still left with doubts about what to do now. Talking with the Department Chair and Professor Juan Gonzalez has given me some pause and I wonder what the right way to proceed is. Should I give Alice the benefit of the doubt and simply require her to sit in the front row for the Final Exam and watch her like a hawk? Or should I proceed with formal charges of cheating against Alice Cheung and let the chips fall where they may?"

FIRESTONE AND ROBERTSON: "MAKE MINE A DOUBLE!"

Marlene C. Kahla, Stephen F. Austin State University
Robert M. Crocker, Stephen F. Austin State University

CASE DESCRIPTION

The Spirits industry is one of the fastest expanding industries in the United States, and Leonard Firestone and Troy Robertson wanted to become a successful part of that industry. There are only 250 micro-distillers in the United States (www.360westmagazine.com). From Fort Worth, Texas, Firestone and Robertson had been friends for a few years, but never knew the other had the same dream about getting into the business of distillation.

Each followed his dream to an artisan craft distillery in Kentucky to learn how to establish a business model within the industry and to learn how to distill some of the best bourbon ever tasted. As one of the distillery directors was talking with Robertson, he noted that another fellow from Fort Worth was scheduled to go through the distillery the next week, and he also mentioned that he knew Robertson.

The case unfolds to a crescendo of demand for a blended whiskey that is not yet on the liquor store shelves. The lists of names of people waiting to get a call letting them know that the whiskey has arrived are long. All of "cow town" is ready to wet their whistles with a flavor that is purely great-tasting and founded in Texas.

So many people want the product that before all the bottles can be bought to be filled, the creators of the brew fear that they will never be able to keep up with production. When they consider that they have at least one other product aging in the oak barrels, they are over whelmed by constant demand for their products.

Students will have a natural interest in the case because there is just something intriguing about how the best whiskey and bourbon is made. Couple this curiosity with the elements that build equity for the brand before it even hits the shelves, and you have an exciting dilemma of everyone loving the product, and not enough product to meet demand.

This could be a good problem to have, yet the students will be challenged to determine lead time for production, especially with the pure bourbon, and marketing dollars to support the rapid growth of the new product.

If ever there was a star in the Boston Consulting Group matrix, it is TX blended whiskey. And, it comes with all the benefits and draw-backs of a true BCG star. There is enough material here for discussion of the entire matrix.

CASE SYNOPSIS

"Make mine a double!" really describes the character of the case. Since Firestone & Robertson Distilling Company started business in 2010 as the only artisanal bourbon whiskey distillery in North Texas, the waiting lines for their products have doubled, the production capacity has doubled, and the advertising budget has doubled.

People in the North Texas area are drawn to the unique strand of yeast that is available only in the Firestone and Robertson whiskey. They hired an artisan who knew the original process for developing strains of yeast. As head distiller, he collected over 100 samples of yeast from fruits, nuts and soils native to North Texas. Eventually, he isolated a single strain found in a pecan tree nut grown near Glen Rose, Texas that was suitable for the fermentation of the bourbon and provided the specific flavor and aroma profiles Firestone and Robertson wanted.

As they prepare to roll out the first bottles of blended whiskey, they are faced with addressing demand as it increases.

They want to keep people wanting the product and not turn away customers.

This situation doubles the problems they anticipated when starting their dream. The case that follows presents more of what makes their products unique, and challenges management and marketing student guru's to map a path from Fort Worth to everywhere while holding true to budget.

FIRESTONE AND ROBERTSON: "MAKE MINE A DOUBLE

Troy paced the halls as he waited until he was called to present to the marketing committee. He wore his sport coat, starched jeans, and a button down, no tie. It was January, hardly cold enough for a jacket that day in Austin, Texas. His mind was back in Ft. Worth where all the action was happening.

If he did not present things well today, they may not get the additional money they need to inscribe the bottles. He designed the bottles for the blended whiskey that he and Lenny spent all of their waking hours planning to be the first product in the first distillery in North Texas. He rehearsed his presentation in his mind.

THE DREAM

We want the flavor to be similar to Crown, but we want our whiskey to be the flavor of Texas. That's why I insisted on the silver rim around the bottom of the bottle to represent the silver that all the cowboys wear; the scrap of canvas around the neck of the bottle to represent the chuck wagons on the trail; and, the leather cover on top of the cork to represent all the rest of the west—boots, belts, saddles, and more.

M. L. Leddy and Sons Boot Makers help us enter the market with brand equity on top of our product. Yes, each bit of boot leather on top of each cork is unique, can be exotic hide, and comes from M. L. Leddy and Sons who have been making boots in Ft. Worth, Texas since 1922.

The marketing committee for the state needs to understand how strongly we feel about our product and the bottles that it comes in. I definitely will tell them the story behind each item on the bottle. This is one case where what is on the bottle is just as important as what is in the bottle.

Everything is our dream. From the choice of selecting wheat over rye for its taste characteristics, the custom-designed stills, the style of roller used to crush the grains and the amount of char on the inside of the American white oak barrels is all ours, no one else has it.

STIMULATING DEMAND

Blended whiskey is a staple around Texas, that's why we came up with the big TX down the front of the bottle. It always says "Texas."

That article in *360 West* really got people talking about the whiskey around town. What did it say? Oh yes, it said, "The bourbon is aging and that a special whiskey blend is hitting shelves: Fort Worth's Firestone & Robertson Distilling Co. is ready to pour."

The tour we gave the magazine people really helped, when people started reading about Lenny and me putting Fort Worth on the "micro-distillery map" with our home grown spirits, they started talking it up everywhere.

We are excited to get the blended whiskey on the shelves, but we may not have enough bottles to take care of what we expect to sell. Thank goodness we have the blended whiskey ready.

The bourbon is still sitting in those 53-gallon charred American white oak barrels. It won't be ready for another two or three years.

Patience. We didn't slow down long enough to think about the impact of aging on our anticipated income from the distillery.

It seemed like it took forever to get the label approved by Texas Alcoholic Beverage Commission, TABC.

We really only need a few things from the committee today. I know that I want to get some collateral materials to have out in bars and restaurants across the state. We want materials that let our customers know that everything is handcrafted in Texas.

And, we know that the show in San Francisco is too important to us to miss. Some wins in categories there will help put us on the map in places beyond Fort Worth. We asked for money to attend the show.

We want to reach our target market through traditional and non-traditional media such as social media, twitter, Facebook, and our website. Supplement that strategy with tastings, promotional appearances, and tradeshows, and we think we will be on the right track to make sure that any consumer who wants to purchase a bottle of TX blended whiskey can get one.

Glazer's is our distributor. They fit with our total approach to product development—they have been operating in Dallas since 1908 and post over $3 Billion of revenue each year. We believe they will do a great job in getting TX blended whiskey where it needs to be.

Considering everything, the $120,000 that I am requesting today and matching should be enough to get the ball rolling.

PRODUCTION CHALLENGE

We really need enough bottles to fill orders for 1000, 6-bottle cases per week. The etching in the bottle for the TX is what really costs us.

We have just about everything else we need. We will be purchasing significantly larger amounts of Texas grown corn and wheat, and we will produce distiller's grain.

The plan is to donate the distiller's grain to a local dairy farm that used the grains as feed for their dairy cows. The donated distiller's grain can feed up to 5,000 cattle per day.

Of course we will need to hire more people when the bourbon is ready to roll out. We currently have 4 employees, and we will definitely need to double that number.

All the materials I will be talking to the committee about have not yet been printed. After we reviewed some of our informal plans, Lenny and I know that will need to double the print budget for sure.

Websites don't come cheap. Once we worked with the designers we learned that the estimate for the website doubled.

Once we get a handle on production and distribution, we probably should review the price. When we ship our first shipment, the price of each bottle will be just under $40. What a deal that is.

WHO WANTS A DRINK?

There is a booming population of whiskey lovers who understand everything about the spirit, from barrel to bar (see Shelley DuBois, 2013, The New United States of Booze, Fortune).

These whiskey lovers are passionate about their drink and many of them are driving business decisions.

In the first part of February, Beam brand said it would cut the alcohol volume of its product from 45% to 42% to meet the demand for its whiskey. "Maker's Mark lovers were appalled, expressing their discontent on various social media outlets so vehemently that, on February 17, the company caved. The spirit will remain at full strength (DuBois 2013)."

"Consumers are ready to spend more on the spirits, especially since the economy seems to be a little bit better (Claire Moulin Euromonitor International)."

Consumers of whiskey are reaching a post-modern stage as they really want something different. They have been through the diet beer and funky looking drink stage, and are now searching for something different. This is when something old, whiskey, becomes new again.

The days of micro-distillers are here, and they are producing something unique in a traditional product category. According to DuBois, homegrown American whiskey is hot right now. Bourbon and Tennessee whiskey nets the largest sales in its category at $2.2 billion worth of revenue in 2012 (see Distilled Spirits Council of the United States). During 2012, the volume of bourbon and Tennessee whiskey shipped to suppliers increased by 5.2% compared to the previous year, and supplier revenues increased by 7.3%. Craft distillers do not make up a major part of the market, but they do influence the big players (DuBois 2012).

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TXTBOOKRENTAL:NETFLIX OR BLOCKBUSTER?

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CASE DESCRIPTION

This case is designed for undergraduate students in management, marketing and entrepreneurship. The primary actor in the case is Alex Beaver who is in an industry that is facing rapid technological change. Students should be able to have a better understanding of the challenges associated with the credit crises, start up cash flow management, product obsolescence, environmental analysis and creative destruction.

CASE SYNOPSIS

Alex Beaver arrived on campus with aspirations to become an engineer however his entrepreneurial passions quickly led him down a new path. His first year at the university, he began carrying a notepad full of business ideas that he still carries today. His entrepreneurial passion combined with his frustration of high textbook prices caused him to develop a business model similar to Netflix where students could rent a textbook for a fraction of the bookstore price. With a $17,000 cash advance and $15,000 in credit, Alex launched TXTBookRental in 2008. Early on, his business faced significant cash flow problems, because the textbook industry is highly cyclical with peak periods coinciding with the fall and spring semesters.

The rapid expansion of TXTBookRental convinced Alex to expand to Bloomington, Indiana. Alex hired his staff and began operations from a distance. However, the staff didn't share his work ethic or accountability and the business was a failure. Reluctantly Alex closed the Bloomington location and focused on the Evansville location. As the textbook industry is evolving Alex faces a strategic inflection point with the industry and his business. Historically, the textbook industry was slow to change and dominated by a few larger competitors. However in recent years, technology is changing the business environment. With sales of Kindle Fire and iPad growing exponentially, the opportunity for eBooks is evident, although the market share for e-textbooks remains low. As the textbook industry faces an uncertain future, Alex must decide whether to stay and compete, change the business model, or get out altogether.

TXTBOOKRENTAL:NETFLIX OR BLOCKBUSTER?

In the fall of 2004, Alex Beaver arrived on The University of Evansville campus with aspirations to become an engineer. By graduation in 2008, he had founded TXTBookRental which would evolve into one of largest privately owned "click and mortar" textbook rental stores in the United States.

In his first year as a student, Alex developed an idea for an online textbook rental service that utilized the same process as Netflix. His passion for entrepreneurship grew during an entrepreneurship course in 2005, where he had the opportunity to start his first business. Much to his personal regret, Alex decided to forgo the textbook rental idea and pursue a more feasible business for a full-time college student. After three years of research, Alex returned to the textbook idea, in part because of the success he observed in Chegg.com, who had just successfully launched the online textbook rental model. However, limited by capital, Alex undertook a less ambitious "click and mortar" model.

Alex describes himself as a hands-on learner with a strong work ethic and a willingness to take calculated risks. His former professors describe him as being "preoccupied with finding a way to make a lot of money. For Alex, it was not just about making money; rather, the money was a way to keep score." In college Alex's passion for building a business escalated. However, as Alex prepares himself for another year of rapid growth, he knows there are competitive and technological forces that are poised to disrupt the industry in the coming years. Although he is confident that his business will be profitable going forward, his drive and ambition leave him in a complex and difficult situation.

OPPORTUNITY RECOGNITION AND HUMBLE BEGINNINGS

During his freshman year, Alex carried a notebook full of business ideas with him at all times. He would continuously ask fellow students for feedback on various business ventures. Like most students, Alex was frustrated by the high cost of books at the bookstore. In that frustration, Alex saw an opportunity. By his junior year, he began to make more detailed plans and filtered out the unachievable businesses. As part of his research, Alex decided to call the business owner of an existing textbook rental company to discuss the textbook rental industry. To his surprise, Alex discovered that there were only two private textbook rental stores in the country. Graciously, the owner spoke to Alex for hours about operations of the business. Alex realized that talking to current entrepreneurs was critical to his success and a great method for gaining valuable market information. Talking to other entrepreneurs remains one of Alex's strategies for success. With this new market information in his hand, Alex decided that a "click and mortar" textbook store was his most viable option to become an entrepreneur.

At the time of the startup, Alex found it surprisingly easy to raise startup capital. Despite the credit crunch that was occurring with larger businesses, Alex was able to take advantage of numerous credit card letters offering 0% interest for the first year. He was also able to call his current credit card companies and get his credit limits raised. Eventually, Alex started TXTBookRental with approximately \$17,000 from a 0% cash advance and \$15,000 from the credit card companies. In the early years, cash flow management proved to be one of the most trying aspects of the business.

In the fall of 2008, Alex launched TXTBookRental in a 400 square foot room. He quickly noticed that this limited space would not be sufficient for his retail business and inventory. By the spring of 2009, sales tripled and the book buyback program was growing at an even faster rate, creating a cash flow problem. Despite the tightening credit market, he was able to obtain a small business loan for $25,000 and moved into a 1,000 square foot location to provide sufficient capital for his book buybacks and increase retail space. Sales continued to increase into the fall of 2009 and he was able to pay back the initial capital.

Unfortunately, the rental business was becoming so popular that TXTBookRental ran out of money again for book buybacks and was holding over $100,000 in inventory. To combat his cash shortage, Alex acquired a $100,000 line of credit from a local bank. This created a lot of anxiety for Alex because he never knew if he would have enough money each semester which would alienate customers. Therefore Alex made it a point to always pay himself last. In the fall 2010 revenues increased 130% increase in sales. During the initial growth stage, Alex employed a “Work for Books” program where students could receive free textbooks in exchange for working at the store. On average, students could earn a semester’s worth of books in exchange for about 21 hours of work. By fall 2011, Alex had multiple full time employees, a credit line of $250,000 and aspirations to further expand his business.

EXPANSION INTO NEW MARKETS

Once Alex had grown the TXTBookRental to a point at which it was producing positive cash flow, he decided it was time to expand into new markets. Although he had previously increased the space of his retail operation, the company had always remained local. After months of research, Alex determined that Bloomington, Indiana, a college town less than 150 miles away would be ideal. The town was home to a major university and had available retail space. The proximity to his main location would allow him to supervise the retail space from afar as long as he was able to find a quality manager for the new location.

Table 1: TXTBookRental Timeline

FALL 2008	400 square foot room, website up and running, proprietary processes discovered.
SPRING 2009	Sales triple, student buyback growing rapidly, $7,000 loan from family, work for books program implemented.
SUMMER 2009	Moved up to 1,000 sq. ft. First SBA bank loan $25,000.
FALL 2009	Sales rise 400%, initial capital paid off, hit profitability, ran out of money for buyback
SPRING 2010	Sales up 80%; acquired $100,000 inventory; began custom software project.
SUMMER 2010	Acquired line of credit from local bank - $100,000.
FALL 2010	Sales up 130%, SBA loan paid off, however still ran out of money for buyback, first full time employee hired.
SPRING 2011	Second full time employee hired, processes refined but not perfected, first very profitable semester.
SUMMER 2011	Line of credit increased to $250,000.
FALL 2011	Second store opened in Bloomington, Indiana. Realized business wasn't ready to expand.
SPRING 2012	Second store closed after many lessons. Tightening up operation.

Using his network of business connections, Alex found a manager who shared many of Alex’s own characteristics including an entrepreneurial spirit and a willingness to take risks. Alex hired the new manager, gave him the autonomy to run the store, and had him participate in a profit sharing program. Unfortunately, his new business partner did not share the same work ethic or accountability. In addition to the operational problems, Alex discovered that the new location’s accounting records appeared to have inaccuracies, and the new store was never able to become profitable. In less than a year, Alex realized that without better partners and operational procedures, his business was too fragile to expand into new locations and subsequently closed the Bloomington location. Although Alex considered the expansion a failure, he learned valuable lessons in the process.

TEXTBOOK INDUSTRY

The retail textbook industry is one that has traditionally been very slow to change and dominated by large firms. The leader in the US is Follett, which ownsalmost 60%[1]of the market share and generated more than $2.7 billion in annual sales for 2012 . Textbook rental companies have made small inroads into the textbook market with industry leader Chegg, whose rentals produced $200 million in sales in 2011. Prior to companies like Chegg and Amazon and campus bookstores owned a virtual monopoly on the textbook market for most university campuses. Without any threat of competition, many bookstores have been slow to adopt change, which created the opportunity for TXTBookRental to launch. In recent years, the textbook industry has begun to accept rentals as a viable and necessary change to their business model.

The textbook industry is highly cyclical, with two peak periods of revenue coinciding with the fall and spring semesters. This cyclicality creates very serious cash flow management issues, which Alex addresses using lines of credit during the summer and winter months. The typical customer will only be in the market just prior to the start of the course. In the two rush months, TXTBookRental performs almost all of its transactions. As a result, planning and cash flow management is crucial. Conscious of shifts in the market and consumer demand Alex focuses on other projects to grow the business during the non-peak season.

The textbook industry is comprised of a number of competitors big and small. The largest direct competition comes from Follett Higher Education Group, which owns campus bookstores across the country. Increasingly, the competition from smaller players is coming from digital sources. Although there is a lot of excitement surrounding digital textbooks, the majority of textbooks are still purchased in hard copy form. The most intriguing question for Alex regarding thetextbook industry is the rate of adoption to digital texts.

THE NEXT GENERATION OF COMPETITION

With the proliferation of tablet computing from companies such as Amazon and Apple, there are signs of a digital revolution for books. While sales of the Kindle Fire and iPadhave skyrocketed, the adoption of etextbooks has been slower. In 2012, The Pew Research Center issued a study showing that around 20 percent of adults had read an e-book(Italie, 2012). The sales of digital textbooks has shown promise. A study by Rob Reynolds (2012), which analyzed industry data, projected 100% growth in digital textbooks over the next several years and predicted that, by 2015, digital textbooks will exceed 25% of the market and, by 2018, 50% of the textbook market will be eBooks.

In 2011, Amazon sold more eBooks than traditional books for the first time (Schuetze, 2011). Although studies show that only 3to 5% of textbook sales are eBooks, the industry may change significantly as companies move into the eBook rental business. Publishers are now looking at e-textbooks that expire within a semester or two. In 2012, the industry's largest textbook rental company, Chegg, began offering digital books and announced that it planned to become one of the most comprehensive electronic textbook retailers in the United States. Additionally, Amazon announced a program that lets students rent a book for 30 days, saving 80% off the price of a new printed textbook (Schuetze, 2011). Changes in technology and consumer preferences are forcing publishers to examine multimedia platforms that would replace textbooks in digital and hardcopy forms. This has led many analysts to believe that digital books may be only a steppingstone to more innovative educational platforms.

One example of the changes in education, the on-line institution "University of Phoenix," continues to be the largest University in the United States. Further, the growing popularity of MOOC's (Massive Open Online Courses) creates a great deal of uncertainty about the role for traditional textbooks. Alex is keenly aware of these changes and is willing to adjust the business model, but these changes would require TXTBook Rental to significantly reallocate resources to reposition itself in the market.

ALEX'S DILEMMA

During the summer of 2012 Alex was at an inflection point for his business. He had grown the business to a point at which he could derive significant cash flow from the operations, but future growth would require significant reinvestment of capital in order to fully utilize the software he had developed for the Internet side of the business. His business was still experiencing rapid growth: from 2010 to 2012, TXTBookRental's revenues more than doubled– from $650 thousand to more than $1.4 million. However, Alex was cautious about the threats of new competition in the industry.

According to the Student Monitor, a private student market research company based in New Jersey, about 5% of all textbooks acquired in the fall of 2011 in the United States were digital textbooks. This is more than double the 2.1% of the spring semester (Schuetze, 2011).This small but fast growing segment also complicated the possibility of selling the company. The challenge for Alex is trying to predict how rapid the adoption of eTextbooks will be. Charlotte P. Lee, a professor at the University of Washington predicted that "Electronic textbooks will eventually be the norm, but it's going to be quite a bit more time than folks anticipate" (Schuetze, 2011). Further complicating Alex's dilemma is that the industry changes have put a cap on the earnings multiple that a company in the textbook industry can sell for.

Historically businesses of this type would sell for a small multiple of earnings. In the current environment, companies would only offer to buy his inventory for a discount. This would result in the loss of his investment in the software system. While Alex could sell the inventory and software independently, many buyers fear the rapid pace of change in the industry.

Faced with the dilemma of running a cash cow business with strong threats of new entrants and substitutions, Alex considered three additional options. The first possibility was to hire a partner/manager to run the operations while Alex sought out new opportunities. Unfortunately, his prior experience with the opening of a second store in Bloomington raised significant concerns about this option.

Table 2: TXTBookRental Income Statement; 2010 and 2011

Revenue		Jan-Dec 2010	Jan-Dec 2011
	Rental Income from TXTBooks	$386,421	$684,950
	Textbook Sales	$283,895	$806,141
	Late Fees Income	$972	$3,333
	Miscellaneous	$4,835	$651
	Refunds	($25,277)	($84,416)
Total Revenue		$650,846	$1,410,659
Cost of Goods Sold			
	Cost of Goods Sold	$215,233	$555,561
	Loss on unreturned books	$6,289	$0
	Loss on Write-Down on Inventory	$21,990	$0
	Buyright Paid	$19,030	$888
Total Cost of Goods Sold		$262,542	$556,450
Gross Profit		$388,303	$854,209
Expenses			
	Shipping for outgoing books	$38,299	$96,839
	Office Supplies	$5,394	$3,442
	Online Sales Account Fees	$36,919	$99,832
	Officer's Salary	$20,906	$0
	Payroll Expenses	$33,279	$128,358
	Contract Labor	$8,859	$1,829
	Taxes	($5,475)	$10,324
	Interest Expense	$6,974	$3,692
	Cost of Credit Card Processing	$8,701	$18,601
	Marketing and Advertising	$3,942	$2,628
	Computers and Technology	$20,912	$117,870
	Miscellaneous Expense	$28,897	$61,565
	Depreciation Expense	$169,215	$0
	Sale of Assets	($10,832)	$0
Total Expenses		$365,992	$544,980
Net Income		$22,311	$309,229

A second option was to use his knowledge of and relationships within the textbook industry to embrace the technology of eBooks. This would allow him to compete in the fast growing but extremely tightly held technology end of the market. A third option, was to become more efficient with the hope of gaining a larger market share of the shrinking market as other venders sought to exit the market. A final option for Alex was to cash out and sell his business to another company or simply liquidate his inventory. Although no option is optimal, Alex must decide what his next step will be.

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BATTER BLASTER

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CASE DESCRIPTION

This case can be used to focus on several different types of analysis – innovation and new product development, marketing, small business management, and strategy. The case traces an innovation and the marketing and capital challenges of introducing an innovative product from a start-up company. This case would be most appropriate for undergraduate courses in entrepreneurship, small business management, innovation, and marketing -- 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

Sean O'Connor is an entrepreneur who begins his small business endeavors in the restaurant industry. The case traces how Sean changes his business to meet the changing economic environment, and then hits upon an innovative product in his kitchen at home with his family, ready to use organic pancake batter in a spray can. Sean proceeds to meet the challenges of raising money for his new venture, and convincing retail outlets to carry his innovative product. He is creative in his marketing efforts and outlets and learns what works and what doesn't. The product is a success its first year on the market. Now, 5 years later, Sean is ready for growth and must decide what his next step will be in product development and innovation and marketing.

INTRODUCTION

Sean O'Conner, CEO of Batter Blaster has won an innovation award from the Grocery Manufacturers Association for his ready to use pancake batter in a spray can; but has he won the acceptance of the grocery shopper?

In 2001 at age 34, Sean started a San Francisco restaurant three weeks before the bay area dot-com bubble went bust. The bust was a hard economic downturn for the area business community that was heavily based in the internet sector. The loss of the internet based companies also took down several other businesses in the area. With fewer paychecks and working lunch crowds some 700 restaurants went out of business in the bay area. Sean O'Conner's restaurant was one that survived. Knowing he had to bring something other than high priced unique yak and bear-meat burgers to the depressed market, he built a stage in his restaurant, changed the menu to cheap snack foods and survived as a music club. All those late nights managing the club meant fatigued mornings. Despite the fatigue, Sean wanted to be able to spend breakfast with his wife and kids and occasionally make his wife's favorite breakfast, pancakes. Making pancakes always meant a mess in the kitchen and more time and energy than he had, thus his idea was born. Why can't the pancake batter be in a spray can just like the whipped cream used to top off the pancakes?

In 2005 Sean O'Connor quit the restaurant business and devoted his time to creating and selling Batter Blaster. Sean O'Connor teamed up with Nate Steck, who is a food manufacturing connoisseur, and together they raised $1.5 million dollars to launch the line and buy the equipment to manufacture what is now known as the Batter Blaster. With only eleven employees, Steck and O'Connor have managed to place their Blaster in over 10,000 stores across the country. Just five years later Batter Blaster has sold over two million cans in just one year. Since the creation of the Batter Blaster in Austin, Texas, the aerosol pancake mix has prompted an almost cult like following with constant blogs. Facebook groups such as "The Church of Batter Blaster" and a plethora of YouTube videos are examples of these cult-like groups. Recently history has been made with Batter Blaster when they and a local charity in Atlanta teamed up in May to break the Guinness World Record. They succeeded by cooking 76,382 pancakes in eight hours. However, O'Conner's blast into success did not come without some hurdles.


RAISING MONEY

To perfect the batter recipe Sean needed to work with a food science lab to develop the best recipe for use in a refrigerated spray can. To fund this research Sean O'Connor turned to investors. However, selling his idea to investors was unsuccessful. Potential investors were skeptical that the combination of pancake batter, especially the organic version, in a spray can would appeal to shoppers. After talking to a lot of institutional investors and private equity funds that invest in growing businesses Sean O'Conner came to the conclusion that many of them were more comfortable with a truly developed category like a new flavor of potato chips. Sean had difficulty in predicting the seasonal ebb and flow and the growth of his product to supply estimates to potential investors since there was no historical record for his product and no similar products. This raised a question: "Do investors really want innovation or do they want tried and true?"

To get the funding needed to perfect the product and build the manufacturing line O'Conner raised $6 million dollars from friends and family. One of those investors, O'Conner's father, is now the Chief Financial Officer and is a member of the board for the company. Sean can be described as a very hands-on CEO. He will thoroughly review

Batter Blaster's billing to understand why it looks the way it does and how it affects the financial statements. Though, Sean vows not to become a micro manager.

INNOVATION AND COMPETITION

Sean O'Conner spent three years perfecting the formula, packaging, and production of Batter Blaster. Patents are still pending on the process. Batter Blaster is a one of a kind item; organic pancake and waffle mix in a pressurized can with a point and dispense nozzle. To get Batter Blaster onto grocery store shelves and into consumer's refrigerators, O'Connor had to figure out how to introduce change to an industry that resists innovation. O'Conner discovered this fact when presenting his product to supermarket CEOs. He was sure that his product would be bigger than cheese whiz but the CEOs did not seem to care how innovative it was — they initially did not want to sell it. O'Conner contested that his product is one of the few truly innovative products to come out of the egg and dairy grocery segment. This product was innovative for a multitude of reasons including the fact that one can fry a shot of Batter Blaster, rinse off the nozzle, and return the can to the refrigerator. Pancakes have a relatively stable niche and success in the market will depend upon the quality of innovation, applicability of specific ideas to the unique quality of the pancake experience, and effective marketing to attract buyers to shift loyalties within an already crowded market.

Since Batter Blaster is a pre-mixed ready-to-use batter it needs to be refrigerated. Organic pancake batter in the refrigerated section is a single item by itself. All the competition is located in different parts of the grocery store. Pre-made ready-to-eat pancakes and waffles are located in the freezer section and powdered batter mixes and pancake syrups are on the dry grocery shelf. In order to beat the competition Batter Blaster has to not only compete against frozen and dry mix alternatives, it has to educate shoppers to purchase pancake products from a completely new section of the grocery store.

The dry mix market has been documented by the Chicago based firm Symphony IRI at approximately $160 million in 2004, growing to $250 million at the end of 2009 or about an $18 million growth rate per year (or 11.25%). This means that the dry mix market grew by approximately 34% during 2004 through 2007.

With over 100 competitors, not including private labels, and 250 million dollars in sales, Batter Blaster finished ninth in their category in their first year. Batter Blaster's competitors can be broken up into two categories; companies that produce dry pancake/waffle mixes and those who produce frozen pancakes and waffles.

The dry mix competitors include Aunt Jemima Original Pancake/Waffle Mix, Bisquick Shake and Pour, Hungry Jack Original Pancake Mix and Krusteaz Pancake/Waffle mix. The price for a standard container of mix ranges from $2.20 - $2.69 according to Shop Rite. This price is very comparable to Batter Blaster when you consider the convenience and time saved when using Batter Blaster to make pancakes, not to mention the high quality organic ingredients.

In the frozen pancakes and waffle mix category Batter Blaster's biggest competitors are Kellogg's, Aunt Jemima, Kashi, and Mamma Mary's. Each of these companies provides consumers with an already prepared breakfast. Kellogg's EGGOS, Mamma Mary's frozen pancakes, Kashi's Heart to Heart Waffles, and Aunt Jemima's frozen pancakes range from $2.29 — 2.70. The average servings per box of frozen pancakes are four to six servings as compared to thirteen servings per container of Batter Blaster.

Batter Blasters organic pancake batter in a recydable can generates pancakes and waffles with minimal effort cleaning, water and food waste. Photo: Mr. SpinchTlickr

FIRST CUSTOMER

In 2007 Batter Blaster was distributed by their first customer, California locations of Costco Wholesale Corp. The product was sold in a pack of three cans for $9.99 at the bulk-buying warehouse club store. For a new product, it was a struggle to get consumers to buy this new unknown unique product in bulk. Sales lagged unless a store demo was done. On demo days the company sold significant volume but had to pay for the very expensive demo done in the stores. Wholesale clubs are a great way to make volume sales of commodity and staple grocery items. It ended up not being the best fit for a new product that required consumer awareness and more of an impulse, new adaptor shopper. So two years after getting his new product on a store shelf Sean O'Conner decided to refocus. In 2009 he moved Batter Blaster out of the wholesale club store market and into the retail grocery store market. He also moved the company and his family to Austin, Texas to more efficiently serve coast to coast grocery chains from the middle of the country.

RETAIL GROCERY ROADBLOCKS

Moving to grocery stores appeared to be the better way to sell the product to consumers, but Sean O'Conner had to first sell it to the grocery store. Convincing the retailers to carry the product was difficult. All grocers agreed Batter Blaster was an innovative product but wanted to know how this unproven product would sell in their store. With no direct comparable product sales history they were reluctant to stock this single item with only one flavor, original organic. Sean reasoned with grocers that selling pancake batter in the refrigerated section would increase sales and therefore profits of complimentary breakfast items (butter, bacon, syrup, eggs) to convince grocers to carry the Batter Blaster (2).

Sean O'Conner listed the suggested retail price as $3.99 for a can of Batter Blaster. Once grocery stores took receipt of a shipment they would price Batter Blaster to meet their profit margin requirements, with retail prices as high as $5.99 per can. "That's too much," says O'Connor. "It doesn't allow the consumer to just try it out on a whim."(9) At a high price Sean was aware that fewer shoppers would be willing to try Batter Blaster on an impulse. Another challenge was convincing consumers that something healthy can come from a can (10).

Getting stores to put the product on the shelf is only half the plan. Building consumer interest proved to be one of the company's biggest hurdles—and O'Connor knew firsthand how difficult it can be to attract grocery shoppers to a new product. The shopper needs to pick up and buy Batter Blaster. Shoppers tend to be repeat product buyers, switching among brand names to buy what is on sale. Shoppers do not go to the grocery store to buy what is new and will not even notice a new item if there is not significant marketing and point of purchase promotions. Retailers tend to promote what is new, but grocers promote what's on sale. Starting with just one item, one flavor in a completely new section of the grocery store for pancake batter, advertising and demos need to be done to let consumers know this convenient new product exists. But again, demos are costly and only reach a small segment of the potential market. Furthermore, Batter Blaster is a small company so advertising in a national, competitive manner is cost-prohibitive.

Most related food — oatmeal, cereal, dry pancake mixes — is displayed in the breakfast aisle. But Batter Blaster needed to be refrigerated, so the hurdle of shelf placement had to be conquered through shopper education. So, Batter Blaster decided to create awareness among the younger shoppers through social media. Using social media for marketing could draw in the shoppers who value convenience most and are most willing to try new items. Targets included single households, parents, and campers, along with elderly who make single servings. O'Conner argues that what Batter Blaster lacks in cachet, it makes up for in a hassle-free, fun to use design that appeals to families.

MARKETING TACTICS

Pancakes have a relatively stable niche and success in the market will depend upon the quality of innovation, applicability of specific ideas to the unique quality of the pancake experience, and effective marketing to attract buyers and to shift loyalties within an already crowded market.

Batter Blaster is a small company so advertising in a national, competitive manner is cost-prohibitive. Batter Blaster has experimented with a lot of varied advertising from radio spots tied into events to TV ads that pitch the product, to print ads and retail "FSI's" which are the coupons in the Sunday paper.

Through word of mouth, social networking and publicity stunts – traveling 180,000 miles in an Airstream trailer to visit county fairs; rallying a team to cook 76,382 pancakes in eight hours to set a Guinness World Record – O'Conner and his team have succeeded in getting Batter Blaster into 13,000 outlets nationwide, including Whole Foods.

In February 2010 Batter Blaster gained recognition through TV media. Batter Blaster was featured on two national television shows – "Unwrapped" on the Food Network and "CBS Sunday Morning." However, the company was not told when these shows would air, so it wasn't prepared for the surge in demand. To further promote his product O'Conner did a lot of marketing at events for groups such as Boy Scouts of America, and even had his younger brother drive cross country in a trailer promoting the product. Batter Blaster ran a poorly planned and brief TV ad campaign in California and ended up learning not to advertise during the political season because of inflated prices and decreased availability of air time. Batter Blaster partnered with Genesis Today to promote a "better for you" breakfast as well as offered website recipes through www.batterblaster.com. In October 2009 the company started a Facebook and Twitter campaign. This campaign targeted the millennial generation who like convenience. This campaign directed sales to those born after 1980 who are more open to the convenience aspect of food even if it is in a can. O'Conner felt that they could reach the "early adopter" types who would help sales through word-of-mouth campaigns. One of Batter Blasters more recent marketing tactics with Zoove's StarStar includes a partnership Numbers. Batter Blaster pledges to post a new song every day for the next year, and they're all free to download and share. To try it all customers need to do is call **BLAST (**25278) from any cellphone capable of receiving text messages and browsing the web. One very unique and cutting edge thing that Batter Blaster is doing to further grow its business is the creation and implementation of distinct OR (Quick Response) codes. These codes will be placed on certain marketing materials, that once scanned will allow people to access an abundance of information on the product and hopefully entice them to buy it. Codes are created specifically for Batter Blaster, and are each designed to direct the consumer to information, be it demonstration videos, social media platforms, customer feedback forms, or even coupons.

PRODUCT EXPANSION

After three years of sales success with just one stand-alone item, original organic pancake batter, Sean O'Conner knew he had to expand Batter Blaster to include new flavors, new products, or new applications. Expansion would create a larger presence (a larger billboard) on the shelf to get new customers to try Batter Blaster and more stores to stock it on their shelves. New flavors and new products would also get current customers to make larger more frequent purchases.

At the end of 2010 Batter Blaster added whole wheat, buttermilk, & double chocolate flavors. Double chocolate expanded application beyond breakfast to alternate dessert uses. With the ability to expand Batter Blaster to dessert applications, possible product expansions that are being tested for future expansions are brownie batter and cupcake batter in a spray can. Consumers have also suggested new flavors to add to the line such as cinnamon-apple, spiced pumpkin, blueberry, lemon- ricotta, strawberry-banana, chocolate peanut butter and savory herbs.

To focus on the kids and family customers, O'Conner is considering bright colored batters to make cooking with parents more fun. To increase current customers' purchases O'Conner is considering adding pancake flavors such as smoky bacon. But there is concern that these expansions could conflict with the original drive to convince shoppers that something healthy can come out of a can and make the product slip back into the "junk food" category, especially since the core product is organic and the first expansion was whole wheat.

To expand Batter Blaster beyond the refrigerated section and create more presence in the grocery store Batter Blaster is also considering adding related items under the Batter Blaster brand such as healthy syrups that contain no high-fructose corn syrup.

Beyond products, Batter Blaster is also poised for market expansion. Early sales indications in Canada in late 2009 were good. The Canadian market appears to be more accepting of innovative products and free of those preconceived notions of a prepared canned product (1). So expansion in the Canadian market could be a big boost to the Batter Blaster sales.

SALES

Batter Blaster has seen a positive growth in both revenue and units sold as illustrated in Batter Blasters financials for 2008-2011 in Table 1, and sales growth and projections are depicted in Figure 1. The following list highlights Batter Blasters sales and expectations from 2008— 2011.

2008 - $15 million in revenues

2009 - 3,000 stores/$19.5 million in revenues/started selling in Canada. Batter Blaster plans to re-invest 30% of their gross revenue in hopes to double sales (7).

2010 - about 14,000 stores / sold 2 million cans

40% growth projected for 2011 over 2010 sales

Batter Blaster has had success getting into some major national retail grocery stores since refocusing from club stores and relocating to Texas to better serve the entire country. Below is a list of the retail chains carrying Batter Blaster.

Whole Foods Market, Inc.
HEB
Wal-Mart Super Centers
Albertsons
Bristol Farms
Jensen's

The relative market share of each of the chains that carry Batter Blaster are depicted in Figure 2.

Table 1
BATTER BLASTER ANNUAL DATA
all numbers in millions

	Projected			
Period Ending	**Dec 31, 2011**	**Dec 31, 2010**	**Dec 31, 2009**	**Dec 27, 2008**
Total Revenue	**35,490,000**	**25,350,000**	**19,500,000**	**15,000,000**
Cost of Revenue	8,872,500	6,337,500	4,875,000	3,750,000
Gross Profit	**26,617,500**	**19,012,500**	**14,625,000**	**11,250,000**
Operating Expenses				
Research and Development		1,250,000		
SG&A	15,517,736	11,084,097	8,526,229	6,558,638
Non Recurring Expenses	908,429	648,878	499,137	383,951
Other	-	-	-	-
Total Operating Expenses	16,426,165	12,982,975	9,025,365	6,942,589
Operating Income or Loss	**10,191,335**	**6,029,525**	**5,599,635**	**4,307,411**
Income from Continuing Operations				
Total Other Income/Expenses Net	-	-	-	136,200
Earnings before Interest and Taxes	10,191,335	6,029,525	5,599,635	4,443,612
Interest Expense	-	-	-	733,374
Income Before Tax	10,191,335	6,029,525	5,599,635	3,710,238
Income Tax Expense	3,465,054	2,050,039	1,903,876	1,261,481
Minority Interest	(87,544)	(51,794)	(48,101)	(31,871)
Net Income from Continuing Ops	6,813,825	4,031,280	3,743,860	2,480,628
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	**6,813,825**	**4,031,280**	**3,743,860**	**2,480,628**

Figure 1
SALES GROWTH AND PROJECTIONS

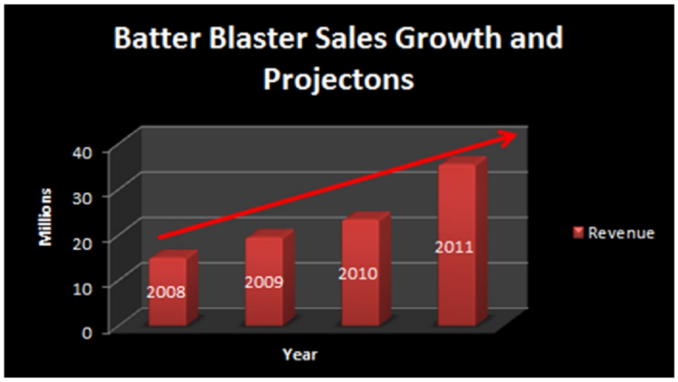
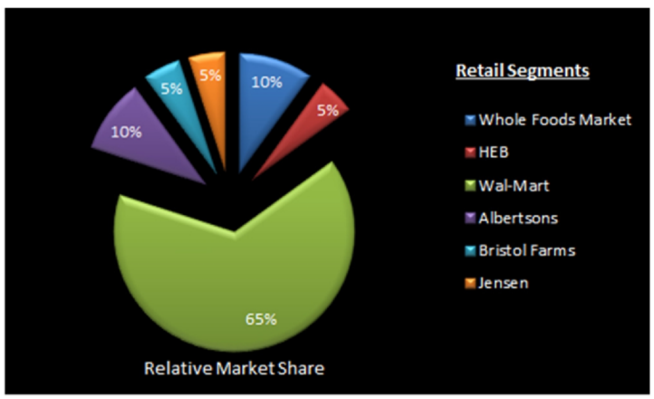


Figure 2
MARKET SHARE OF RETAIL OUTLETS



THE FUTURE

Sean O'Connor has already tasted success from a can and is now cooking up a retro TV ad campaign to expand his reach, and profits. O'Connor's Batter Blaster - the consumer face of his pancake-in-a-can concept - was conceived nearly a decade ago, but the process of getting the science and the taste to come together took years.

Still, some people aren't quite sure what to make of Batter Blaster. Like the much-maligned Cheez Whiz, it's seen as a novelty. There's no denying the lowbrow reputation of sprayable foods (Think Easy Cheese and Reddi-whip). O'Connor argues that what Batter Blaster lacks in cachet, it makes up for in a hassle-free, fun-to-use design that appeals to families. O'Connor has embraced this perception by marketing the product with retro-style ads and jingles. But he's also trying to fight the portrayal that convenience food is junk food. Succeeding, he thinks, could open a whole new consumer base for his company.

Batter Blaster just won an award from the Grocery Manufacturers Association recognizing them for developing a creative and innovative product. And they have recently partnered with

Genesis Today to include Batter Blaster as part of a "better for you" breakfast promotion.

Batter Blaster is currently in talks with Unilever about retail programs. With the recent recognition and success there is great opportunity for growth, and Sean O'Conner is poised to consider selling the company.

DIAGNOSTIC DENTAL: A MEDICAID DILEMMA

Elton L. Scifres, Stephen F. Austin State University
Octavio Romero, Mkenz Management Consulting
Tarek Yousef Aly, OrthoDent Management
Joe K. Ballenger, Stephen F. Austin State University
Larry O'Neal, Stephen F. Austin State University

CASE DESCRIPTION

This case is widely applicable because it is short, easy to understand, involves an industry that students are familiar with, yet offers the opportunity for in-depth discussion of some basic strategic issues. The case illustrates the downside of building a competitive advantage based on positioning alone and gives the students an opportunity to grapple with the difficulty in building competitive advantage from a position of apparent disadvantage. It also presents an example of how strategy can emerge from a seemingly inconsequential decision.

This case has a difficulty level of 3 or 4. It could be positioned at the beginning of an undergraduate course in strategic management, or be used later in a strategic management course to support a discussion on competitive advantage and/or strategic change. It could also be easily used in a small business or entrepreneurship course when covering the topic of strategic management.

CASE SYNOPSIS

Thirty years ago Dr. Jack Flower began his dental career by opening up a practice in a small town in East Texas. Shortly after starting his practice he made a decision to accept Medicaid insurance. As it turned out, his was the only practice to accept Medicaid patients in the entire region. Over time the practice became increasingly dependent on the Medicaid segment, but flourished as Dr. Flower became proficient in offsetting lower Medicaid reimbursements with reduced costs. Unfortunately keeping costs low meant longer wait times and reduced amenities for the patient, and a low level of investment in equipment and infrastructure for the office. In 2007 the State of Texas substantially increased Medicaid reimbursements for dentists. This, along with a general decline in the economy, attracted new entrants into the Medicaid segment. The effect was a fairly drastic downturn in patients over a two year period. At the end of the case Dr. Flower was struggling with how to respond to this turn of events.

CASE BODY

Dr. Jack Flower, owner and founder of Diagnostic Dental, sat in his office and looked over his financial statements. He had an accountant put together the numbers but rarely paid much attention to them. As long as the waiting room was full and he had enough cash flow to cover his expenses, he was satisfied that things were fine. However, he had just gotten off the phone with his accountant, who informed him that the numbers were showing some disturbing trends. As he examined the financial statements he became increasingly alarmed. Cash receipts had peaked at $2.3 million in 2006 but had shown a steady decline since then. They had fallen nearly 10% in 2007 and another 10% in 2008. Now, halfway through 2009, receipts were continuing their downward trend. He had recently noticed that the usually packed waiting room had become increasingly empty, but the downward trend had apparently been going on for some time. There was no immediate cash crisis, but the trend represented a puzzling situation that needed immediate attention.

Dr. Flower's first action was to call a staff meeting to share this information and try to come up with a plan for addressing it. He started the meeting by questioning the office personnel about the procedures for scheduling patients. He suspected that the receptionists were doing something to discourage potential patients, or perhaps patients were simply becoming more frustrated with the clinics' usual practice of overbooking. This line of questioning led to a piece of information that helped to explain why Dr. Flower had only recently begun to notice the problem. Each Tuesday and Thursday morning, Dr. Flower went to the hospital to perform surgery and/or attend to surgical patients and, so, left the office in the hands of his staff and two dentists he employed. In response to his absence, the office personnel had started booking fewer patients during this time but filling up the times when Dr. Flower was in the office. This explained why he had only recently become aware of the downturn. However, it still didn't explain why the problem was occurring. One of his dentists, Dr. Rodriguez, offered an explanation that seemed to make sense. He said that he had heard through the "grapevine" that a few other dentist offices in town had started accepting Medicaid patients. In addition, a new practice had recently opened in Fairview (a town about 30 miles away) that specialized in treating Medicaid patients. Diagnostic Dental had long been identified as the only Medicaid provider in the region, and over the years Medicaid patients had become their primary source of revenue. Dr. Flower was aware that there were a few other Medicaid providers in town, but he had not been particularly concerned because competing providers had come and gone over the years. After all, Medicaid paid at a very low rate, and the clientele tended to be bad about breaking appointments. Most dentists simply refused to accept Medicaid or got out of the market when they realized the problems. However, Dr. Rodriguez, who had recently received his MBA degree, explained that this time could be different. In 2007 the Texas Legislature had significantly increased the Medicaid fee structure, and this apparently had the intended result of attracting more dentists into the Medicaid segment. In addition, the new practice in Fairview was particularly troubling because it was part of a regional chain of dental offices that specialized in Medicaid patients. These changes were not likely to go away, and they could signal a major change in Diagnostic Dental's competitive environment. Dr. Flower is going to have to decide what strategy to implement in order to adapt to this new environment.

THE DENTAL INDUSTRY

Modern dentistry is considered to be a medical subspecialty that deals with the prevention, diagnosis, and treatment of oral diseases and disorders. There are approximately 150,000 practicing dentists in the United States at this time. Most serve as general dentists, but about 20,000 specialize in one aspect of dentistry such as orthodontics, oral surgery, or periodontics. About 80% of dentists are self-employed, either owning their own practice or participating in a group practice. The remainder work as salaried professionals for hospitals, the military, government agencies, or dental schools (Kaiser Family Foundation, 2011).

From both a business and medical perspective the dental industry is a study in contrasts and change. A completely new arsenal of techniques, tools, restorative materials, and medications have transformed dentistry over the last fifty years. Treatments have become less intrusive and less painful, and treatment philosophies have changed the focus from restoration and repair to prevention and cosmetics. It is currently estimated that over 500 million dental visits are made per year, and the demand is expected to grow as the population becomes more affluent, better educated, and older.

Despite an overall increase in dental care, there remains a considerable gap in the provision of services. It is estimated that only about 50% of the U.S. population sees a dentist with any regularity. One of the largest factors impeding dental care is lack of insurance, although lack of accessibility, ease of postponing treatment, and cultural/language barriers are also often cited as reasons. Roughly 57% of the population has some form of dental insurance, but that number drops to 41% for low income families. Furthermore, many dental policies require high levels of cost sharing that remain out of reach for low income families. Individuals living below the poverty level are almost twice as likely to delay seeking dental care and are much more likely to seek out extractions and dentures than preventive or restorative procedures. The gap in care for low income families is only partially filled by government safety nets such as CHIP and Medicaid. Coverage under these programs is covered by both federal and state funds, and varies considerably among states.

While the relative scarcity of dental insurance and high out-of-pocket cost has a disproportionate impact on low income families, dental patients in general tend to be highly price sensitive. One implication of this price sensitivity is that dentistry tends to be more vulnerable to economic cycles than other medical specialties, and during economic recessions patients tend to postpone treatment. This is particularly true for preventive and cosmetic procedures which have become a larger part of most dental practices over the last few decades. There is also a greater tendency for dental patients to do price shopping than generally seen by patients in other medical specialties. Recent trends include the development of web sites that allow patients to easily compare prices for basic dental procedures and an upturn in the number of patients traveling out of the country to have major procedures performed.

COMPANY BACKGROUND

Samuel Jack Flower received his Doctor of Dental Surgery Degree from Baylor College of Dentistry in 1978 and established his practice in Jonesville, Texas that same year. Jonesville was a small town with a population of around 28,000, and also was the home of East Texas State University. East Texas State was a regional university with a student population of approximately 10,000 students. Mainly, he located there to be close to family, but it was also a good location for a new dentist because there were only about 10 dentists established in the area at the time. According to the National Center for Health Statistics, the average number of dentists for the state of Texas is 46.2 per 100,000, or 2,164 patients per dentist (Kaiser Family Foundation, 2007). Based on these numbers Jonesville was slightly underserved, making it an attractive location. His first office was established close to the city limits and consisted of only Dr. Flower and a dental assistant.

One decision made early in Dr. Flower's career proved to have a large influence on the direction of his practice. In addition to pursuing contracts with the major private insurers, he decided to accept Medicaid patients. As a government funded program, Medicaid provided dental coverage for children under the age of 21 from low income families. Although the Medicaid program paid at a much lower rate than self-pay or private insurance patients, Dr. Flower's philosophy was to treat the indigent, charity cases, and to accept emergency patients. The age group covered by Medicaid was also very attractive to him.

Low fee schedules, high levels of broken appointments, and patient noncompliance led most dentists in the state of Texas to refuse acceptance of Medicaid funding. Thus, Dr. Flower became the only dentist in the entire region who accepted Medicaid. This resulted in tremendous growth. As the flow of patients increased, Dr. Flower found it necessary to hire additional staff and quickly outgrew his first location. In 1980 he moved the practice to a new, centrally located office in a medical plaza across from one of the two hospitals in town. As his patient load became increasingly oriented toward the Hispanic population, he added bilingual office staff and the growth became almost exponential. In 1997 he began adding dental professionals to the staff, and in 2009 employed two full time dentists, one part-time dentist, three hygienists and ten office workers.

In 2002 Dr. Flower had the opportunity to lease an adjoining office, nearly doubling the space to approximately 3,000 square feet. The extra space helped relieve an overcrowded situation, but the addition was handled rather awkwardly. Rather than knocking out walls and creating an integrated space, a single door was added to connect the two offices. The result was two separate waiting rooms and a generally confusing space for patients to navigate. The office was equipped with eight dental chairs, four of which were used by the hygienists and four were used for general dentistry.

THE MEDICAID DILEMMA

Title XIX, more commonly known as Medicaid, was a state administered program that provided medical assistance for individuals and families with limited income and resources. It was funded at both the federal and state level and was the largest source of funding for medical and health-related services in the United States. Among the groups of people served by Medicaid were low-income parents, children, seniors, and people with disabilities. As noted above, dental coverage through Medicaid covered children under the age of 21, with comprehensive, preventive, restorative, and emergency dental services. In 2006 the State of Texas initiated the Children's Health Insurance Program (CHIP) which was designed to assist lower income families whose children lack insurance coverage because their families earn too much to qualify for the Texas Medicaid program. This program paid on a sliding scale depending on family income, and it primarily covered preventive services (Texas Health and Human Services Commission, ND). Diagnostic Dental accepted both Medicaid and CHIP patients.

The decision to accept Medicaid patients (and later CHIP patients) became a defining moment for Diagnostic Dental, and ultimately presented a number of opportunities and challenges. Of course, one positive outcome was that it provided a very consistent and growing influx of patients. While this was mostly positive, the decision provided challenges, also. As noted above, attempts to physically expand the work space were rather haphazard and left the clinic with a poorly designed work space and an awkward traffic flow for patients. Also, despite attempts to expand the practice there was a constant overflow of patients, resulting in long wait times.

Another less obvious advantage was that billing for Medicaid was relatively painless. With Medicaid, the financial commitment was a given; the billing could be out-sourced at a very low cost, and payment was made on a timely basis. The only requirement to performing the dental treatment was the authorization from a legal guardian. Dealing with private insurance companies, on the other hand, was an arduous process that involved, 1) justifying the needed procedure, 2) determining the amount of coverage, 3) collecting deductibles and patient co-pays, 4) billing, and 5) accounting for accounts receivable. And because many insurance companies were slow to pay, accounts receivable was rather large at any given time.

The most obvious downside to taking Medicaid patients was the low fee schedule. The Medicaid fee schedule traditionally paid for most dental services at a rate targeted to be approximately 50% of that charged to self-pay patients. Due to the failure of Medicaid to keep up with price increases, the fee schedules had fallen to levels of around 30% prior to 2007. As can be imagined, these lower levels of reimbursements had a significant impact on Diagnostic Dental's operations. In general, the low margins offered by Medicaid reimbursements forced the practice to cut costs and seek high volume efficiencies in dealing with patients. The unintended consequence of these approaches was to drive off most private pay and private insurance patients, making the practice highly dependent on Medicaid patients. In 2009 approximately 80% of the clinic's patients were covered under Medicaid and CHIP.

THE SEARCH FOR EFFICIENCIES

In many respects Diagnostic Dental operated in a manner similar to most dentists' practices. Patients called for appointments; came into the office at the appointed times; filled out paperwork (if they were new patients); submitted insurance cards/forms; sat in the waiting room; and checked out at the front desk after being treated. About 60% of the patients came in for general dentistry visits, which ranged from simple consultations to complex wisdom tooth extractions. The other 40% came in for routine hygiene visits, which were handled by the dental hygienists. Dental assistants were utilized to assist the dentists and clean the dental rooms between patients, following procedures, guidelines and regulations established by the American Dental Association (ADA) and the Texas State Board of Dental Examiners.

As noted above, the high dependence on, and low reimbursements associated with Medicaid reimbursements, forced Diagnostic Dental to seek out efficiencies that were rather unique to their practice. One important way that Diagnostic Dental differed from most dental clinics was the manner they sought to gain scale efficiencies in the treatment of individual patients. From a practical standpoint, this simply meant that Dr. Flower and the dentists he employed performed more treatments in a single visit than is the norm. The material used in filling dental cavities came in individual packets and unused portions were thrown away under ADA regulations. By performing multiple fillings from a single container (for a single patient) they were able to significantly reduce material costs. Also, by performing multiple treatments in a single visit, the number of visits were reduced, resulting in less time preparing the exam room, less time spent explaining procedures to patients, and a reduction in accounts receivables (several procedures could be billed and collected under one transaction). In general, the dentists at Diagnostic Dental sought to "work" half the mouth in one visit and the other half in the next visit. Also, it should be noted that the opportunity for these efficiencies was largely due to the fact that many of their patients failed to practice good dental hygiene and often came in with multiple problems.

Another way that Diagnostic Dental learned to achieve efficiencies was to balance low-fee charges with a high volume of patients. High demand, frequent missed appointments, and little choice on the part of the patient allowed the office personnel to overbook the schedule, with twice or even triple the patients booked per appointment spot. From January through October of the previous year, the clinic performed 30,800 procedures, with the number of patients seen per week averaging about 325 (not including emergencies, walk-ins, or work-ins). Based on the clinic's 36 hour work week, this averaged out to nine patients per hour. It is estimated that 5 of these patients were seen by the dentists and 4 were seen by the hygienists. In a typical 8-hour day, the clinic was overbooked by 8 patients. If emergencies and walk-in patients are added, (the average is 7 per day), it is estimated that around 15 patients waited for more than an hour before they could be seen. In some instances the wait times were up to 3 hours. This type of scheduling allowed dentists to maximize patient time, with little or no downtime. However, it inconvenienced patients, allowed for little face-to-face patient interaction, and reduced the overall quality of customer service. These problems led to an increase in the number of complaints by the patients in recent years and a concomitant increase in the number of disloyal customers with no commitment to keep their appointments.

Finally, it is important to note that the clinic's focus on Medicaid patients had a major impact on investments in physical facilities and infrastructure. Due to lower reimbursements, Dr. Flower was reluctant to invest in new equipment. While still serviceable, the dental equipment used was dated and the overall furnishings in the office become worn and out of date. This, combined with the awkward layout, presented a physical space that was rather stale and unimpressive. In addition, there has been little investment in information technology. While most dental offices have gone to more efficient computerized systems, Diagnostic Dental continued to use paper filing systems and outdated appointment and billing systems.

The result of Dr. Flower's emphasis on efficiencies and cost cutting was impressive. According to the American Dental Trade Association general expenses for most individual dental practices tend to run from a low of 50 to 55 percent to a high of 65 to 70 percent of revenues. The norm is 60 to 65 percent (Lavers, 2003). Diagnostic Dental's expenses ranged from a low of 43 percent to a high of 59 percent of revenues over the last three years.

COMPETITION

In 2007 the State of Texas settled a long term law suit over the sufficiency of coverage for children covered by Medicaid (Texas Health and Human Services Commission, 2007). As part of the settlement they agreed to use both State and Federal funds to increase Medicaid funding by $1.8 billion dollars. For dentists, this translated into an increase of about 50% for a number of preventive procedures and about 25% for many other procedures. This increase was clearly a significant event for Diagnostic Dental. On the surface, an increase in reimbursement appeared to be a very positive turn of events. However, as noted, it attracted competition from some of the other dentists in town and clearly had a negative impact on patient flow. In recent weeks it had become very clear that the waiting room was no longer overbooked, and dentists and hygienists were finding more and more open slots in their schedule.

After a bit of investigation, Dr. Flower found at least three dental practices in town that had recently started accepting Medicaid payments. Two were family practices and the other specialized in pediatric dentistry. All were small to mid-sized practices operating as sole proprietorships and each relied on a more upscale patient base for their primary market.

Even more worrisome than this was the clinic that had opened in Fairview (30 miles away). This clinic was affiliated with a national chain called Kool Smiles. Kool Smiles was formed in 2002 to align with the Medicaid and CHIP vision of providing high quality dental care to children who might not be served otherwise (Kool Smiles, N.D.). The company built all offices specifically with children in mind, offering play areas, "family-friendly" décor, windows for parents to look in on children, and space for parents who want to accompany their children. They also advertised award winning electronic health records systems and stressed patient satisfaction. The company attempted to ensure quality by providing ongoing training for their dentists, providing an intensive compliance program through external consultants, and limiting the number of patients seen per day to a level below the industry average. The company claimed an average wait time of only 10 minutes and according to their surveys 98% of patients said they would return and recommend Kool Smiles to others. Even more startling, a review of the company's web site revealed five additional locations within an approximate one hour drive from Jonesville. The good news was that the company had not placed an office in town, but the Fairview office, and to some extent the other offices were certainly attracting some of Diagnostic Dental's existing patients.

As Dr. Flower discussed this turn of events with his colleagues, it became evident that there were other factors that were adding to the problem. First, the overall economy had been depressed over the last year. While the Jonesville area has been spared much of the impact, there were signs that the local economy was finally starting to feel the crunch. When patients are worried about the economy, they are more likely to postpone elective dental treatments, particularly those that are either high dollar such as anterior veneers or crowns, or simply cosmetic in nature such as bleaching. While this was unlikely to directly impact his practice, Dr. Flower was aware that other dentists feeling the impact of this decline would be more likely to turn to Medicaid patients to supplement their practice.

Another issue was simply an increase in the number of practitioners in Jonesville. When Dr. Flower first opened his practice there were only ten dentists practicing locally. By 2009 this number had increased to eighteen. The local population had grown to 32,000, but the result was an average of 1,778 patients per dentist, well below the state average of 2,164. Dr. Flower reasoned that dentists hungry to grow their practice in an over served market would naturally seek out under served markets like the Medicaid population.

CONCLUSION

After a long day Dr. Flower went into his office and thought about the conversations he had with his accountant and staff. The seriousness of the problem was sinking in. The practice simply could not sustain the downward spiral in revenues for long, and if more competitors entered the Medicaid market things could get even worse. The prospect of having to lay-off long term employees was not something he wanted to think about. Something needed to be done to make the practice more competitive, and it needed to be done quickly.

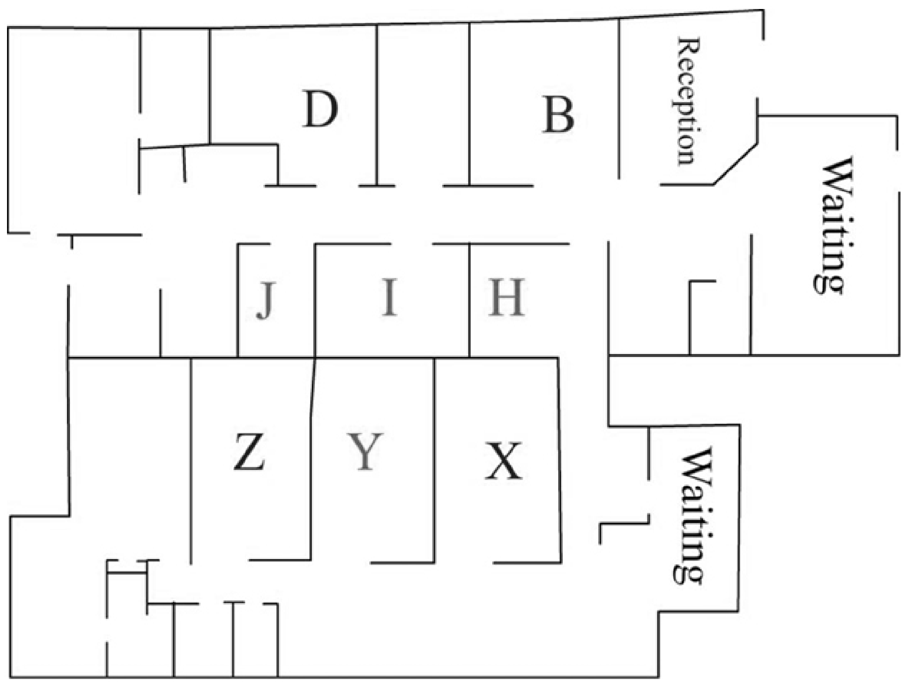
It seemed that a big part of the problem revolved around how to compete with dental practices that had newer and better equipped facilities. Diagnostic Dental was fortunate enough to have some financial resources at its disposal and a good credit rating with suppliers of dental equipment. Sinking money into updating the office and equipment might help fight the competition, but those investments would be expensive. Dr. Flower knew it would probably not be feasible to bring his practice up to par with the competition and still remain profitable in the Medicaid segment. Something else was needed.

Figure 1: Diagnostic Dental Cash Flow

	2006	2007	2008
Sources of Cash			
Cash Receipts from Business (Net)	2,300,000	2,050,000	1,850,000
Total Sources	2,300,000	2,050,000	1,850,000
Uses of Cash			
Equipment/Supplies/Materials	52,000	48,000	42,500
Real Estate	0	0	0
Fixtures	0	0	0
Security Deposits (Rent and Utility)	9,000	10,500	11,200
Signs	5,000	5,000	5,000
Leasehold Improvements	0	0	0
Telephone and Utilities	4,800	5,200	5,700
Lease/Rent (Business Place)	4,300	4,300	4,300
Business License Fee	14,470	15,200	15,800
Insurance Premiums	6,189	7,420	7,860
Office Supplies	10,600	10,120	9,925
Legal and Accounting	5,530	5,530	5,530
Advertising	0	0	0
Miscellaneous Expenses	3,000	3,000	3,000
Payroll Taxes	152,550	45,200	56,500
Payroll Wages	675,000	720,000	790,000
Total Uses	942,439	879,470	957,315
Net Cash Flow for the Year	1,357,561	1,170,530	892,685
Taxes (40%)	543,024	468,212	357,074
Net Cash Flow	814,536	702,318	535,611

Dr. Flower felt completely at a loss as to what that something should be. He had dedicated his life to serving needy patients that no one else would serve and now the very survival of his business was being threatened. In fact, it was clear that the practice would not survive, at least not at its current scale of operations, unless he did something. What could he do?

Figure 2: Office Layout



(D,B,Z,X) - Dental Operating Rooms
(J,I,H,Y) - Hygiene Operating Rooms

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WASTE MANGEMENT, INC.

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CASE DESCRIPTION:

This case describes a financial statement fraud perpetuated by top management of Waste Management Inc., with the knowledge of their external auditors. It describes the business opportunities and circumstances leading to the growth, the fraud and eventual downfall of the top management and its implication for the shareholders. The primary objective of this case is to explore the requisite external audit planning and resulting audit performance of a high risk audit client. Another important aspect of this case covers the role of the Audit Committee, who should serve on the Audit Committee, the importance of Audit Committee Member independence, and auditor interaction with the client's Audit Committee. Lastly, students examine how the Sarbanes-Oxley Act may have protected stockholders through preventive or punitive actions under the law which may serve to dissuade top executives from committing fraud. This case study is based on library research involving Accounting Series Litigation Release No. 17435 and Administrative Proceeding File No. 3-10513. It is designed for an Undergraduate Auditing course with a difficulty rating of 3, Graduate Auditing course with a difficulty rating of 3 or a Graduate MBA course with a difficulty rating of 4. Classroom presentation and discussion time of 1 hour. Outside preparation time of 4 hours. The case may be presented individually or in a small group.

CASE SYNOPSIS:

After a humble childhood in South Dakota, Dean Buntrock worked his way up the corporate ladder to become an industry leader and founder and CEO of Waste Management Inc. Whenever an opportunity presented itself, Buntrock made the most of it; it seemed like he had the "Midas Touch" in the garage business! He was also known for his charitable contributions and even has a building named after him at his alma mater. Unfortunately this real life story has a sad ending. Although he began Waste Management as an honest businessman making it big in America, Buntrock turned into a dishonest businessman when his company began using accounting methods to recover from bad decision-making during times of intense regulation in the industry. The auditors, Arthur Anderson, knew about the accounting irregularities the entire time. In 1998, 30 years later after going public, Waste Management Inc. acknowledged that it had misstated its pre-tax earnings by approximately $1.7 billion over a 5-year period and had to *restate earnings; at the time, this was the largest restatement in corporate history. This case study examines how the Sarbanes-Oxley Act may have protected the stockholders.*

INTRODUCTION:

Working for his family farm in South Dakota provided Dean Buntrock with the business savvy needed to manage and grow a company. The 1950s knew a different method of garbage disposal than we do today; to take care of disposal needs, small companies, like Ace Scavenger a small Chicago garbage disposal company, existed in towns and cities all around the country. In the 1950s Ace Scavenger came under the control of 24-year-old Dean Buntrock. As time progressed, and waste increased, growing concerns for a healthy environment led to the Solid Waste Disposal Act of 1965. This act imposed costly health and safety standards prompting Ace Scavenger and another small disposal company in Florida to merge into Waste Management Inc., in 1968.

The company went public in 1971 with the sale of 320,000 shares and, subsequently, purchased 75 disposal companies throughout the nation. Over the next 20 years, Waste Management experienced 36% average annual growth in revenue and 36% annual growth in income. Although solid waste was the company's core specialty, it also branched out into other reas of the waste industry. In 1976 when concerns about the hazardous effect of toxic waste began to surface, Waste Management grabbed hold of the toxic waste industry by acquiring numerous hazardous waste landfills. As concerns increased, approval for new landfills became increasingly difficult to obtain. This boosted the value of existing toxic waste landfills, the majority of which were under the control of Waste Management boosting their stock price significantly.

In 1977, Waste Management began contracting with foreign countries to expand international disposal and sanitation services. These countries included Saudi Arabia, Australia, Buenos Aires, Hong Kong, Venezuela, as well as some European countries. Waste Management further expanded offerings when it dove into the recycling business in the late 1980s. By 1991, it was the largest collector of recyclable materials in the United States. By purchasing the controlling share of Wheelabrator in 1990, the company expanded its presence in the incineration market. All of these ventures allowed the Company to grow from $16 million in revenue in 1971 to more than $7.5 billion in revenue in 1991.

GLORY TO GLOOM IN THE TRASH BUSINESS

The Waste Management empire began to suffer in the early 1990s. Its international ventures and other non-core divisions began performing poorly. There was trouble brewing on the domestic front as well; its core North American solid waste business was suffering from intense competition, excess landfill capacity, increased landfill regulation, and high public sensitivity to environmental health. All of these factors increased the cost of operating landfills making it more difficult and expensive for Waste Management to operate and expand.

Regulation left more room to shrink than grow in the hazardous waste industry as well. Chemical Waste Management, the hazardous waste subsidiary of Waste Management, began to struggle in early 1991. Competitor Browning-Ferris, the second largest waste disposal company in the nation, also felt the pangs of chemical waste ventures and cut its hazardous waste subsidiary in April 1990. The deteriorating conditions of the waste industry led analysts to question the earnings potential of Waste Management. Despite all of these issues, Buntrock and the top management assured the public that the analysts were wrong, and projected a positive image to investors through the use of controversial and fraudulent accounting practices.

THE AUDITORS

With the intention of going public, Waste Management Inc. hired Arthur Andersen (AA) as its auditor in 1968 and retained them as the audit firm all during the fraudulent years of 1992 to 1997. In fact, from 1968 to 1997 every CFO and CAO in Waste Management had previously worked as an auditor at Andersen. Beginning in 1991, the AA engagement partner assigned to the audit of Waste Management was Robert Allgyer, due to his highly regarded client service skills. Around the time that Allgyer was appointed as the Waste Management engagement partner, Waste Management capped Andersen's audits fees. However, management informed Andersen that it could earn additional payment for "special work". This arrangement allowed Andersen to collect over $25 million from Waste Management over a 9-year period. Exhibit A outlines the fees paid to Andersen for work performed for Waste Management in the years 1991-1999.

Table 1
FEES PAID TO ANDERSON BY WASTE MANAGEMENT

Audit Fees	$ 7,500,000
Special Audit Work	4,500,000
Tax Consultation	1,700,000
Consulting Services	4,500,000
Miscellaneous Services	1,100,000
Andersen Consulting (related subsidiary of Arthur Anderson)	6,000,000
Total Earned 1991-1997	$25,300,000

Not only was Waste Management a cash cow to Arthur Anderson because of the revenue stream it provided, but it was also home to many former Andersen employees. During the 1990s, approximately 14 former Andersen employees worked for Waste Management, often in key financial and accounting positions and up until 1997, every CFO and CAO had once been an

Andersen Auditor. Under Sarbanes-Oxley, auditors of public companies are restricted from accepting employment with an SEC registrant in certain key positions for at least a one year period after conducting the audit.

MEETING THE BUDGET

The use of a company budget was instrumental in the manipulation of earnings at Waste Management. The budgeting process began with CEO, Buntrock, and COO, Phillip Rooney, who created aggressive growth goals for the upcoming year. Each operating entity would then use those goals to form its budget. Management would consolidate the operating unit budgets with its budget for top-level adjustments to create the company's budgeted consolidated earnings. James Koenig, Chief Financial Officer and Thomas Hau, Vice-President, Chief Operating Officer and Chief Accounting Officer, monitored operating results throughout the year and would record top-level adjustments to "close the gap" within the budgeted data and actual data.In 14 of the 21 quarters from 1992 through 1997 top-level adjustments were used to report earnings that either met the internal budget or were within the range of the Company's public earnings projections. Meeting analyst earnings projections and budgeted projections, not only made the company look desirable to investors, but it allowed top management to collect large bonuses.

Around 1988, Andersen auditors on the Waste Management engagement team began to notice Waste Management's aggressive accounting practices that did not always comply with GAAP[1]. They also began to notice the numerous top-level adjustments made by executives like Koenig and Hau. These actions, as well as the overall risk associated with the waste disposal industry due to litigation and strict regulation, prompted Andersen to place Waste Management on its list of high-risk clients. Partner Edward Maier was assigned the task of reviewing certain aspects of their high-risk clients.

SUMMARY OF SIGNIFICANT NON-GAAP PRACTICES

The second largest asset on Waste Management's books was land (used for landfills). FASB ASC 360-10-55 requires the Company to record amortization expense for any decrease in the value over the life of the landfill. Although the footnotes of Waste Management's financial statements stated that landfills were amortized over their useful life, company practice was to carry the majority of its landfills on the balance sheet at cost, not the realizable value. As early as 1989, Andersen requested that Waste Management conduct a one-time study to determine the net realizable value of its landfills and amortize any excess value over the remaining lives of those landfills. Although Buntrock and other executives were aware of this, Andersen's 1992 audit documentation indicated the Company had not yet undertaken the study.

Waste Management also engaged in the development and expansion of these landfills. The process of obtaining required permits and creating or expanding landfills was very costly. According to FASB ASC 980-340-50-1 the cost of these permitting efforts could be capitalized over the life of the landfill if the asset would provide some future economic benefit. Thus, Waste Management accounted for these permit efforts as assets and recorded amortization expenses throughout the life of the landfill. However, GAAP also required the Company to write off, as a current period operating expense, deferred permitting costs as soon as the corresponding landfill construction or expansion effort was recognized as unsuccessful or abandoned (impaired).

In order to avoid expensing the costs of impaired landfills, and consequently reducing income, Waste Management used netting. Netting is the process of reducing a gain by a loss which violates GAAP. Instead of writing off a failed or impaired project, Waste Management would wait to realize a gain then reduce the gain by these deferred expenses. If there was no opportunity to net losses, management would leave impaired assets on the balance sheet until an opportunity presented itself. Netting was performed every year from 1992 to 1996. By 1993, over $500 million in deferred permitting costs related to impaired landfills remained on the Company's balance sheet.

Waste Management executives also concealed the company's true economic state through the use of geography entries. They moved millions of dollars from the correct income statement line to the incorrect income statement line. By moving income from non-operating items to operating items income was "smoothed." Sometimes they even "borrowed" income from future periods. This allowed them to hide certain top level adjustments, disguise trends, and, consequently, confuse, and avoid questioning from auditors and analysts. This occurred at year-end in each year 1992-1996.

PROPOSED ADJUSTING ENTRIES

In each audit from the period of 1992 to 1997, Andersen Auditors recognized the need for Waste Management to clean up its financial statements due to the above practices. In each of its audits for the related five-year period, Andersen proposed adjusting entries that would fix many of the known misstatements in Waste Management's Financial Statements. The cumulative effect of these proposed adjusting entries each year is shown in Table 2.

In 1995 alone, the proposed adjustments represented 14.8% of the company's pretax net income. However, in each of these years, Waste Management executives did not record the adjusting entries or change the accounting principles that would lead to future misstatements. Yet, Andersen continuously issued unqualified opinions.

Table 2 ANDERSON'S PROPOSED ADJUSTING ENTRIES		
Audit Year	**Total of Proposed Adjustments**	**% of Net Income**
1992	$ 90,000,000	8.3
1993	115,000,000	14.11
1994	196,000,000	14.2
1995	218,000,000	14.8
1996*	96,000,000	6.5

**Netting reduced this amount by $65 million*

1992 NETTING OPPORTUNITY

In the midst of a recession, Waste Management was experiencing some operating losses. The second quarter of 1992 provided an opportunity for Waste Management to employ its netting technique after an IPO for its international subsidiary created a gain of $351 million. The gain was reported as a $240 million gain from "stock transactions of subsidiaries." The massive reduction arose from management netting the gain with completely unrelated losses of $111 million. The $111 million consisted of uncollectable receivables in Venezuela, a write-off of Kuwaiti equipment losses, and anticipated costs associated with the change of Waste Management, Inc.'s name to Waste Management Technologies, Inc., (which happened in May 1993).Also during this quarter, Koenig and Hau agreed to eliminate $1.5 million from depreciation expense on the notion that the recession demanded less use of equipment. The netting allowed the company to report slight growth to the public, but Buntrock and other executives did not disclose the actual failing profitability of the company.

EVENTS AND AUDIT ISSUES IN 1993

In late 1993, analysts began to question Waste Management's profitability. Throughout the year, Buntrock spoke highly of the growth occurring at Waste Management saying that domestically and internationally the company's operations were improving. Although during the 1992 audit, Andersen auditors suggested that management discontinue its practice of large top-level adjustments, because it distorted the actual profitability of each operating unit, more substantial unbudgeted top-level adjustments occurred in 1993.

Buntrock and Rooney authorized arbitrary changes in the salvage value of the company's dump trucks. Such assets represented almost $6 billion in fixed assets for Waste Management, a material amount on the financial statements. The proper calculation of depreciation for these trucks was crucial to the fair representation of the company's financial state. It was firm practice to depreciate front-end loaders over 8 years with a $7,500 salvage value and rear-end loaders over 10 years with a $15,000 salvage value. Buntrock and Rooney extended the life and salvage value of front-end loaders to 10 years and $15,000, respectively. The useful life of rear-end loaders was extended to 12 years with a $30,000 salvage value. The effect of this change on overall operating expenses was calculated and Koenig and Hau recorded a cumulative entry to reduce expenses for the full year. GAAP required this type of change be applied prospectively, but that is not how it was recorded. The estimate changes were also not disclosed in the financial statements. In order to support this jump in salvage value, Koenig instructed a purchasing agent to create a memorandum stating the new salvage value was "justified," but provided no supportive evidence for its justification.

Throughout the 1993 audit, the Andersen team quantified current year and prior period misstatements (Table 2). The team created a list of proposed adjusting journal entries that would correct many misstatements and reduce net income to the proper amount. At the end of the audit, Allgyer met with Buntrock, Rooney, Koenig, and Senior Vice President Herbert Getz. He discussed the proposed adjustments and illustrated that there were $129 million in undisclosed and unsupported changes in depreciation estimates, representing 10% of pretax income. Management refused to record the adjusting entries and fix the estimates. The company also refused to correct a number of accounting practices that the engagement team predicted would cause future misstatements.

It was common practice at Arthur Andersen to bring any significant audit issues to the attention of the Office Managing Partner. Thus, after Waste Management's refusal to record the adjustments, Allgyer met with Edward Maier. Together, they decided that the effects of the misstatements were immaterial and that Andersen would issue an unqualified opinion on the 1993 financial statements, but speak with Waste Management about changing their accounting practices and reducing future misstatements.

Allgyer created a "Summary of Action Steps" and provided it to Waste Management's management. This document was produced to address the issues uncovered in the 1993 audit, and previous audits, and propose ways for Waste Management to comply with GAAP. Buntrock and Rooney agreed to carry out the Action Steps, and subsequently Koeing and Hau signed off on the procedures. In signing the agreement, management agreed to eliminate the prior-period misstatements that Andersen had identified by writing off between $165 and $205 million in misstatements over a period of up to 10 years. Although better than no write-offs, this practice was still against GAAP and minimized the impact of the agreement on earnings. Among other things, the agreement also required management to conduct a one-time study to determine the proper useful life and salvage value of garbage trucks and other equipment, conduct a one-time study to determine the life of remaining landfills, and amortize them over their remaining life, and develop a new method of capitalizing interest that complied with GAAP and apply it retroactively as of January 1, 1994.

If the company complied with the Actions Steps, it would, for the most part, comply with GAAP and earnings would decrease dramatically in upcoming years. Buntrock, Koenig, and Hau were well aware that the steps would decrease earnings by at least 6 cents per share in 1994.

These managers were the only company employees aware of the agreement; they failed to present a copy of the Action Steps, and even Andersen's management letter, to their audit committee. Despite that knowledge, shortly after agreeing to the Action Steps, Buntrock released a statement that Waste Management would have no issues meeting earnings expectations. He also said that the company expected 5 to 10% growth in 1994.

EVENTS OF 1994

In 1994, year Waste Management received $50 million from a litigation settlement for environmental remediation liabilities, but did not disclose the amount. FASB ASC 410-30-10 requires the amount to be credited to the Company's liability reserves but Koenig and Hau allowed $25 million of that amount to be recognized as pure income. Waste Management also netted $25 million of unrelated expenses to a gain on the sale of its interest in a manufacturing company.

In contrast to what management agreed to in the Action Steps, at year-end, further adjustments were made to depreciation figures. Tobecksen recalculated depreciation expense by manipulating the useful lives of certain trucks and recording a top-level adjustment that overstated income because he neglected to account for fully depreciated vehicles. Internal accountants brought this to the attention of Koenig, Hau, and Tobecksen saying that the error overstated 1994 income by $21 million, and, if let uncorrected, would cause a $100 million misstatement by 1996. Nothing was done about the misstatement.

Allgyer met with executives again at the conclusion of the 1994 audit and expressed his disappointment that the company had failed to comply with over 2/3rds of the Action Steps agreement. He again stated that the company had a significant amount of adjusting entries to record (Exhibit B above); yet, the company refused to record any. This refusal allowed management to collect massive bonuses when 1994 earnings matched targets. Buntrock, Koenig, Hau, Getz, and Tobecksen pocketed bonuses equal to 80%, 50%, 40%, 50%, and 30% of their salaries respectively. If earnings per share had been reported at 3 cents less, no bonuses would have been received.

EVENTS OF 1995

In 1989, Waste Management had acquired excess land attached to an existing Georgia landfill with the hopes of expansion. Although the excess land was not in use, management included that unused portion when calculating the amortization of the existing landfill to extend its useful life. As early as 1994, Buntrock, Ronney, Hau, and Getz were aware of an impending impairment on that landfill expansion project. However, the possible impairment remained undisclosed and completely ignored. In 1995, when the landfill's expansion permit was officially rejected and the landfill became impaired, management chose to ignore the write off and disclosure, continued to incorporate the excess land into the amortization, and left the impaired land on the balance sheet.

As in prior years, management again changed depreciation estimates. By arbitrarily increasing the salvage value of its dumpsters Waste Management was able to reduce depreciation expense by about $25 million for the year. The company also continued to recognize reserves as income. In the third quarter, management reversed over $17 million of reserves into income and accelerated the recognition of $9.8 million dollars of income from future projects. Also, Andersen agreed to allow Waste Management to erase $54 million in deferred permitting costs by netting it with the gain by concluding the amount was immaterial because it represented only 10% of net income. The non-GAAP practices again allowed the company to hit earnings targets and management to benefit tremendously. Buntrock, Koenig, Hau, Getz, Rooney, and Tobecksen received bonuses equal to between 30% and 128% of their salaries.

THE SCHEME UNRAVELS

In May of 1996, Dean Buntrock stepped down from CEO of Waste Management. The demands of analysts and investors in meeting projected financial goals throughout 1996 and 1997 led to continuing pressure on the Management at Waste Management resulting in a continuance of the same fraudulent practices as in 1992, 1993, and 1994. Finally in 1998, a review of the company's financial statements was demanded by Buntrock's successor. Andersen remained the auditor in charge of the review, but a new engagement team was assigned and another Big 5 audit firm was brought in to examine their work. In February 1998, management announced that it was going to issue the largest restatement of its financial statements in corporate history for the years 1992 to 1997.Each of the line items affected by issues outlined in the Action Steps had to be restated causing earnings for the years1992 to 1997 to decrease by a total of $1.7 billion. News of the restatement triggered a 33% fall of Waste Management's stock price resulting in a paper loss of $6 billion for the shareholders.

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GOOD TIMES AT YOUBESTRESSED

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CASE DESCRIPTION

This case is designed for the study of management and human resource management systems within a large manufacturing organization. It provides a learning experience for students who seek to become human resource professionals or managers by examining a number of issues occurring in organizations. The primary learning opportunities address understanding the link between organizational culture, systems, policies, and practices. The case has a difficulty level appropriate for undergraduate juniors and seniors and graduate students. The case is appropriate for use, and is designed for courses, addressing organizational change, systems analysis, human resources management systems alignment, and business communication. It can be covered in two hours of class time. Preparation for the class is expected to require 4-6 hours.

CASE SYNOPSIS

The case begins with a recent management major in her first days at a new job with a large manufacturing organization. As she begins her assignment, she discovers a number of practices that seem inconsistent with information that she learned in business school. The case illustrates the kinds of problems that can develop during times of growth and expansion in organizations. The issues presented reflect some fractures in the overall human resources system that need to be addressed. Early into her assignment with the organization, the new employee is tasked by senior management with creating a new program to address what they perceive the problem to be, supervision training. She must use her business analysis skills to determine if a training program can remedy the problems or if there are other performance improvement interventions that may be more appropriate. The case ends with the new employee at the decision point of determining a course of action for conducting the analysis and making the plan.

THE CASE OF YOUBESTRESSED

Katie checked her make-up one last time before she got out of her car. Her first day as a Human Resources specialist at JugoPress was finally here! She had graduated in the spring and after only a summer as an intern with a small manufacturing company; she had a real job with a large manufacturing company. She didn't quite know what to expect, but here I go, she thought to herself.

As Katie entered the lobby to the plant, she noticed that there was a phone on a desk at the center. She walked over and saw a sheet of paper taped to the desk. It said, "I am away from my desk. Pick up the phone and call your contact from the list provided." "Well, this is strange," Katie thought. She looked at the list and could not find the contact of the staff person that she had interviewed with for the position. In fact, some of the names were marked out with a pen, so it she found it a little difficult to find any contact name to call. Beside one of the names, she saw "Security" listed. "Ah-hah. Security. They can help. I will contact them," Katie decided.

Katie dialed the extension for Frank Piper, the contact listed by Security. After three rings, Frank answered. "This is Frank." Katie said, "Hello, Frank. My name is Katie. I am starting here at JugoPress today in Human Resources." Frank quickly responded, "Good luck with that." After he chuckled, he said, "Hold up. I will be up to walk you in."

Frank arrived in the lobby five minutes later. He said, "Follow me, gal," motioned come on, and led the way through a hallway to get to the main office of the plant. As they walked through the office, Katie took several deep breaths. There were sixty or so desks in a large room. A number of people were at their desks working and Katie noticed that they did not look up or make eye contact as she and Frank walked by. Finally they reached their destination, the Human Resources corner. Sitting at a desk was Jenna, the Human Resources Manager. When she saw Katie, she stood, extended her hand and said, "Welcome to YouBe Stressed." Frank and Jenna enjoyed a few small cackles of laughter and then Frank said, "Good luck, Katie. Remember my name. Frank. I am in security and we aren't here to look pretty. I am sure we will be talking soon."

Katie smiled, thanked Frank, and put down her workbag. "Jenna, I am so glad to be here today. I have looked forward to this all week." Jenna replied, "Katie, we are glad to have you here with us. We are incredibly busy and we need the help. I have looked forward to this since you accepted the position! First of all today, I would like to take you around to meet the staff." Katie sighed with relief, "Ok, this is more like it," she thought.

Jenna and Katie began their tour of the office with a broad overview of the office set-up. "As you can see, our office has two sections." Katie noticed that the main part of the office where they were standing was divided from another part of the office by a large glass window. "This part of the office," Jenna explained pointing at where they stood, "is the plantees. Just past this window, you can see the corporate staff. They won't talk to us much, except to get information for reports back to the parent company. We won't even worry about meeting them today. The sooner that you know them, the sooner they will come wanting something. Let's walk around and meet some other staff."

First, they travelled to the next row of desks and met a fellow named Park. "This is Park, our Engineering Manager," Jenna explained. "Park, this Katie, our new Human Resource Specialist." Park looked up, stood up, and then extended his hand. "Pleased to meet you, Katie. I am sure we will be working together closely." Katie shook his hand and said, "Park, I am glad to meet you. How long have you been here at JugoPress?" Park said, "I have been here 15 years.

This is my first job out of school and I love this company." Jenna quipped, "Park is my favorite manager to interview with. Tell her your sifting question, Park." Park smiled and said, "I always like to ask candidates to tell me what they really suck at. This gets a charge out of them and I can tell whether they will work out or not by how they answer it." Katie smiled a smile that she hoped didn't give away her nervousness at that exchange. She realized that she was not in a company that was like any example that she had read in a textbook.

Jenna said, "Come on, let's meet some more folks and then we need to get to work." Jenna took Katie around to meet other staff members, including the Production Control General Manager, the Payroll Manager, and the Quality Manager. All of the staff members were friendly and made some comment about how glad they were to have Katie's help in the company. Most of the other staff members in the plant office were either on the phone or away from their desk. "Whew. That went well," Katie thought.

When they returned to the Human Resources area, Jenna talked with Katie about the work that she would initially be doing. "Katie, we are in a hiring crunch. We have a major launch in two months, and need to have 200 additional operators to run it. I hired two gals this summer to help us, but they really don't know much about staffing. They have done a good job getting us going, but we need your expertise now to get the job done." At that time two employees walked into the office chatting. They approached the desk and Jenna said, "And here they are now. Katie, this is Amy and Doris. They are from Get Ahead Temporary Agency and they have been the power behind our hiring engine for the past several months. I would like for you to spend some time with them to get an idea about our flow." Amy and Doris were somewhat aloof with Katie. While they both said, "Hello!" and shook her hand, they shared some long looks that made Katie feel a bit uncomfortable.

"Why don't you all go ahead and get together and meet right now," said Jenna. "I have some paperwork to complete on my retirement and so, this would be a good time."
Katie shivered. "Retirement?" she thought to herself. "This day was getting crazier and crazier."

Katie went into a conference room with Amy and Doris. "Well, first of all, let me tell you that I am glad you are here," said Amy. "I really wish that I had gotten the full-time job, but I don't have any ill will. You are going to need all the help you can get." Doris followed up with, "Yeah, I didn't know anything about human resources when I started here, but after three months I think I could do a good job at it too." "Thank you," Katie said. "Let's get started by you telling me a bit about your roles here."

Amy said, "Ok. Me first. I maintain a massive Excel spreadsheet that is out on a shared drive. We have every hourly position in the plant listed, with the names of the people beside the position. As people move from line to line or quit or positions are added, the production managers take the employees names away from beside the position. Then, we know what the positions are that we are hiring for." Doris interjected, "And that is where I come in. Every week I have group interviews and hire around 30 people. We bring them in, we interview them, and if they can pass that mirror test, they come in and start to work in a couple of weeks."

Katie, "So, who is in the group that conducts the interviews?" Doris said, "Oh, the group is made up of candidates. I don't have time for one-on-one interviews with the way we are hiring. So, I get 10 or so candidates in a room and go down our list of questions. I make good notes about what they say in their answers. If I think they sound ok, then the candidate will get an offer." Amy chimed in, "Of course, we do worker's compensation background checks. There is a form that we send to the state of Alabama that requests any Worker's Compensation claims. We can look at that information and not hire them if they have had big claims or serious injuries." Doris continued, "We also do a background check and if they have a felony we won't hire them either-- unless somebody at the plant knows them and can vouch for their character. Me and Amy say, if they are a felon, they can go sellin' their goods somewhere else."

"I think that I understand," said Katie, "Do you also have any sort of pre-hire physical requirement?" Amy said, "Oh yes, we send them all to the same Urgent Care clinic here in Ballister. We have a sweet deal with them. They can do 25 physicals a week for us. Jenna has designed a hard test. Anyone that wants to work here is required to do a 60-pound lift test. No matter what the job, you have to show that you can lift that weight and take it for 100 feet. That way we can keep out the free loaders that just want to milk Worker's Compensation claims."

Just as Katie was getting ready to ask more questions, Jenna knocked on the door. "Girls, it is time for the new hire orientation to begin. Katie, would you like to attend Colita's training?" Katie thought to herself, "Sure. Who is Colita? And, what is this going to be like?" She followed Jenna through the office. "We require everyone to use hearing protection and long sleeves to enter the plant," said Jenna, "You can get the necessary items from this safety shelf." Katie took some earplugs, safety goggles, and safety sleeves from the shelf and put them on. She followed Jenna into the plant. She noticed that Jenna left her earplugs dangling from her neck.

Katie and Jenna walked through the plant into an area where there was a training room. As they entered the room, Jenna noticed that there were over 20 people already seated there. She took an empty chair at the rear of the room and waited. Jenna waved good-bye. Katie looked around the room at the other trainees, who were mostly new hire for the plant production area. The operators chatted with each, making small talk. Katie sat quietly and listened to what they had to say. Two young men were talking about a recent hunting trip. "I am glad I got a deer early," one fellow said, "Won't be hunting much now." Another fellow chimed in, "Yeah, you can say that again. I heard they haven't had a day off here in three months. My old lady is not happy about me missing church every week, but I got to work."

After the training group waited another fifteen minutes, a woman in a JugoPress uniform came into the room. "Hey guys, I am Colita and I am here to do your training. We will get started in a minute." The woman walked over to her computer and sat down and started working on her computer. It appeared that she was checking some last emails. She huffed, and then walked over to the front of the room where the remote was for the projection unit and laptop. She attempted to turn on the projection unit, but no light came on. "Daggome it! Something is wrong with this equipment," said Colita. She whipped out her cell phone and dialed a number, "Jeffery, got a problem. The projector won't work in my room. Can you send somebody to fix it?"

The trainees looked around the room at each other. Training was supposed to start at 8:30 a.m. and it was already 9:30 a.m. Colita looked at them and barked, "Well, we have a delay. Go to the cafeteria and wait there for me for a few minutes. Just leave your things here in the room." The trainees got up, and with Katie falling in line, walked out into the plant and into the cafeteria and sat down at tables. "Man, this is stupid," one lady said. The group sat in the cafeteria for over an hour. Finally, Katie decided that she needed to be more productive than just sitting in the cafeteria. She decided to walk back to the human resources area in the plant and find out if there was anything that she could do to help them, until training started.

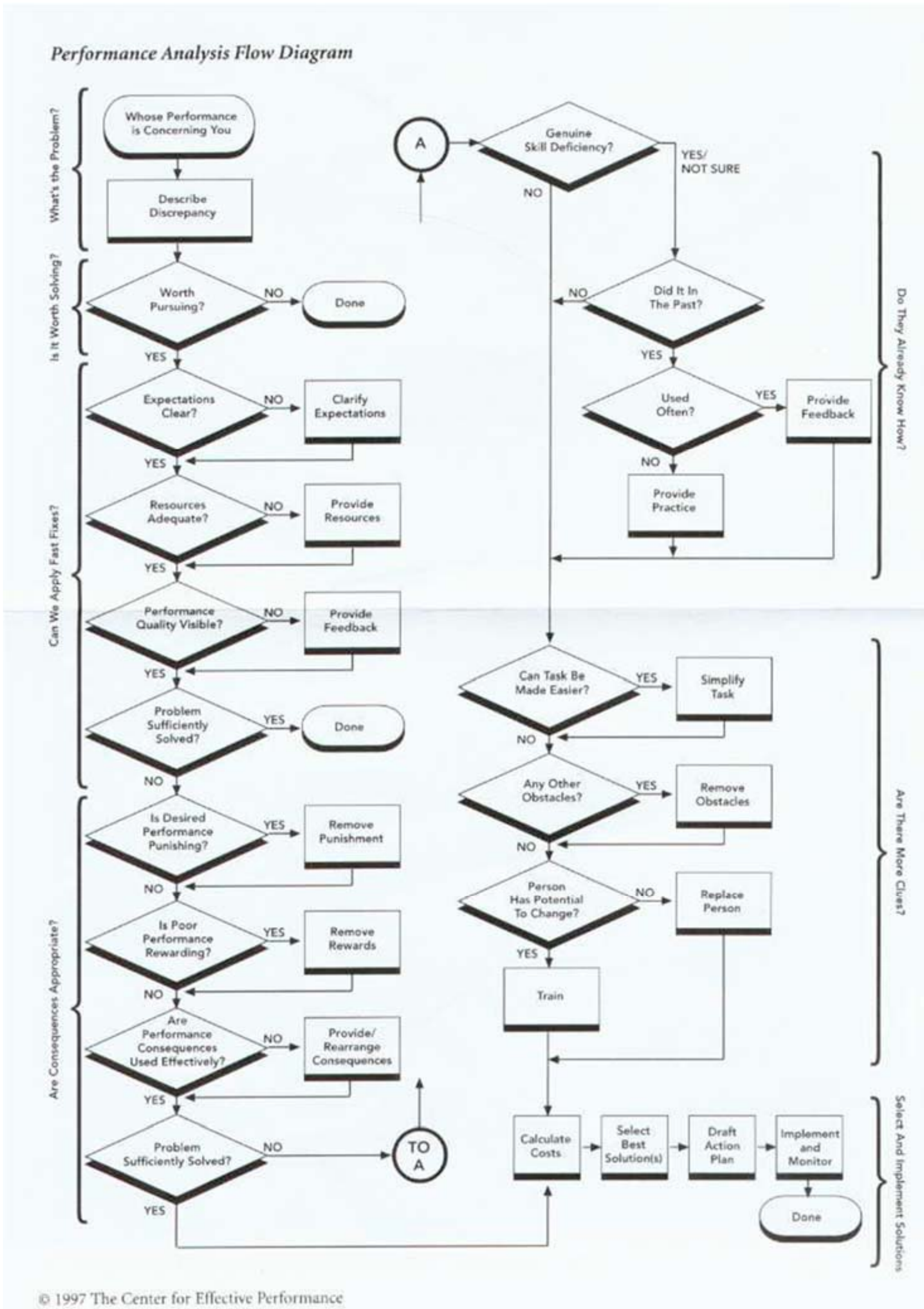
As Katie walked to the human resources area, Jenna said, "Katie, I am glad you are here. I just got out of a meeting and human resources really got beaten up. Managers are complaining about the high levels of employee turnover. I don't know what it was last month, exactly, but I know that it was high. They are acting like that is the only problem we have around here. Huh. We are going to have to do supervisory training so that they do a better job with leading these new people, so they won't leave. This is all a training problem. We have to train our supervisors in better techniques. It is their problem, not human resources! Your first project is going to have to be to develop a supervisory training program. The VP of Plant operations wants to see a plan from human resources in two weeks. Can you put it together for me?"

Katie sat down at her desk and nodded her head at Jenna. Jenna smiled at her, picked up her things, and said, "I have to go now to a meeting with the Security Service. I will be back after lunch."

DECISION POINT

Katie spent the next few minutes thinking about what to do next. She was going to have to come up with a plan of action. It was almost lunch when Colita found her thinking about her strategy. "Katie, we are ready to roll with training," said Colita. "Don't worry about bringing paper or pencils. You just have to listen to the Power Point for the rest of the day." As Katie walked back to the training room, she realized that she had a big job in front of her to support JugoPress. Tomorrow she would have to use her management and human resources knowledge to think through these issues.

APPENDIX ONE: Mager Performance Analysis Flow Chart



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CROWD FUNDING: A CASE STUDY AT THE INTERSECTION OF SOCIAL MEDIA AND BUSINESS ETHICS

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CASE DESCRIPTION

The primary subject matter of this case concerns ethical issues involved with crowd funding. Crowd funding is the use of social media to raise funds for various purposes, ranging from community–based endeavors to personal wants. There are several ethical issues surrounding crowd funding: what people actually do with the money; how to deal with people who do not fulfill their promises; whether or not websites should limit funding to specified goals; whether or not recognized artists should be prohibited from participating, in effect competing against aspiring artists. Specific attention is given to the case of artist/musician Amanda Palmer, who raised over $1 million on Kickstarter.com for an album project that had only $100,000 as an initial goal. She later admitted that she spent the rest of the money that was raised on personal expenses. This case has a difficulty level appropriate for a junior or senior level course, although it may be used at a first-year graduate level, depending on the amount and complexity of the background information that is assigned. This case requires from one hour (if the instructor's goal is class discussion only) to four hours of preparation (if the instructor's goals involve presentations by individuals or teams of students). This is a timely topic of much interest to young students who are heavily influenced by social media, and particularly those entrepreneurial students who might view social media as a means of raising funds for their projects.

CASE SYNOPSIS

Social media, especially in the form of crowd funding, presents many ethical issues. For the websites and platforms, what sorts of projects should be funded? For the artists, what types of projects should be funded and for what amount? For investors, which artists should be funded, for how much, and what should one do if the artist does not fulfill their promises? This analysis focuses on the real-life case of Amanda Palmer, an artist/ musician who posted a $100,000 album project on Kickstarter.com. Palmer offered several levels of incentives for contributions, from autographed copies of the album, to concerts at the contributor's home. Within a short period of time Palmer raised over $1 million. She later admitted that she used *some of the additional funds for personal expenses. This case raises numerous ethical issues. For the websites: should they allow established artists to raise funds through their websites? Should those who seek funding be limited to the amounts necessary to fund their projects? Also, should the proprietors of the websites monitor those who seek funding to determine how they actually use the money that is raised? For the contributors: should they contribute to projects that already exceed the requested amount by the artists? And how should one deal with artists who spend contributions frivolously or do not fulfill their promises to contributors? For the artists: what is the appropriate amount of funding to request for project? How should an artist deal with excess funds that are contributed to a project? Are there ethical obligations to contributors, especially when many of them may know that they are contributing funds in excess of a project's requirement?*

Social media continues to transform individual lives and cultures. From Facebook to Twitter, social media influences behaviors and choices, and raises numerous ethical issues. In the context of these new forms of communication some actions that were formerly acceptable are now deemed to be unacceptable. Likewise, some activities once viewed as marginally acceptable or even embarrassing are now considered socially acceptable. Venting one's frustrations about work or the boss around the water-cooler was fine, but posting such feelings on Facebook has given rise to a number of legal and ethical problems. Conversely, panhandling or asking for a handout on the street or at the mall was once socially unacceptable or generally frowned upon, but today doing it online is considered not only acceptable but fashionable.

For example, consider the recent phenomenon of crowd funding. Crowd funding (hereafter, CF) is the use of social media to raise monies for a wide range of purposes, including charities, special interests and even personal projects. The growth of CF has led to greater attention from mainstream media and a broader audience, evidenced by recent publications of resources which claim to survey the entire spectrum of CF categories and platforms. Categories of CF include charitable activities, educational opportunities, entrepreneurial ventures, theatrical and musical projects for aspiring artists. Numerous CF websites exist, including: Indiegogo.com, Equitynet.com, Gofundme.com, and Kickstarter.com. Some of the websites, like Gofundme.com, categorize the types of projects across a broad range, from "accidents and emergencies" to "weddings and honeymoons." Other platforms, like Kickstarter.com, cater to a specific type of CF: aspiring artists in search of funds to support their creative projects.

The funding process for most CF websites is very similar. Let's assume you are an aspiring artist, here is how the process typically works: you begin by creating an account on Kickstarter.com. Then you create a webpage describing your project. That page will usually contain an embedded video or audio file that demonstrates your talents. You will post a description of the project you are planning, and post the dollar amount needed for your project. Furthermore, you will provide a date by which you need the funds. Artists often promote their projects by offering incentives at specific price points (similar to PBS fundraising). As examples, a one dollar donation may be good to download a song; a $10 donation may yield a CD; a $50 donation may get a T-shirt and autographed copy of the CD. Contributors provide credit card information but are not charged until your project goal is met prior to the deadline date. Moreover, a tally of contributions to date is also provided on the webpage, so potential contributors can see the extent to which your goal has been met. If the deadline date is reached prior to your dollar goal being met, the project is not funded and no contributors are charged. If the deadline is reached and your dollar goal has been met, the donors are charged for their contributions, Kickstarter.com takes five percent of the proceeds, and you receive the remaining funds via Amazon, PayPal or some other financial arrangement. This process is very similar across funding platforms but with interesting variations: websites like Gofundme.com will allow projects to be posted for anything that is legal, whereas sites like Kickstarter.com focus on artistic endeavors. Some websites do not have deadline dates, some allow donations to be made in "real-time," some cap the contributions at the requested amount while others (like Kickstarter.com) allow unlimited contributions to far exceed the requested project goal.

An artist may seek crowd funding for a number of reasons. The primary reason an artist will seek CF is the most obvious: money. An artist may seek to crowd fund their project because neither party (artist or recording label) is interested in committing to a contract. It may be that the artist is unknown and too large a risk for the label to sign at the time, or it may be that the artist does not want to commit to a label and possibly sacrifice creative control. CF reduces financial risk by spreading it across a large number of small investors. The amount asked for and funded also is normally smaller than what a label would typically invest. There are fewer and fewer labels with the resources to fully fund a large roster of artists, so the number of artists they are willing to sign and develop is smaller. On the upside, if the artist's project becomes commercially successful they keep all the profits because they are acting as their own label.

CF assures the artist before undertaking the project that all the needed funds will be there. Once the goal is reached and the investors' credit cards are charged, the deal is sealed. Moreover, investors can't change their minds and withdraw their funding or shift it to another artist's project. Whatever happens afterward is between the artist and the individual investor to interpret and negotiate.

A second reason an artist may choose CF is that these smaller projects allow the artist to mature and gain a fan base and make them more attractive to a label. CF has a built-in social marketing aspect and interesting projects create their own buzz. CF facilitators promote projects on their home page and via emails to previous donors in addition to whatever press coverage a project might receive. CF is also a form of instant feedback. You know very quickly if there is any public interest in your idea by the amount of money pledged.

Some artists seem to enjoy the intimacy of CF. Since the incentive packages often involve personalization of the project or intimate concerts in a small venue or a supporter's home, the artist gets to interact with the fans directly. Supporters are or may become fans that not only donate to your project but also show up at future performances and spend more money with the artist. And fans are not limited geographically since the websites used have a global reach.

In at least one case CF was used by an artist to educate consumers as to just how expensive a project can be. Although this particular project did not get funded, the detailed budget served the purpose of educating fans as to just how expensive creativity can be (Smith, 2012). In fact, many of the submitted projects to CF websites ultimately do not get funded. On the other hand, some projects are funded well beyond the project goal.

As with other forms of social media, CF raises numerous ethical issues. First, it often leads to situations where an entrepreneur can be too cash flush too soon, leading them to spend money on things they wouldn't normally consider pertinent. This can lead to poor strategic decision-making (e.g., dabbling with early and questionable investments that may not make sense otherwise). Second, it can lead to spending on things that the recipients simply shouldn't do (i.e., raising ethical dilemmas that a project founder may not otherwise encounter or be tempted by). Third, there is actually growing legal concerns as to what these investors should be entitled to in cases in which ventures do succeed. As a result, taking this type of money early can actually inhibit your ability to raise larger amounts of money later needed for growth because these types of investors are concerned about investing and then being sued or tied up in legal battles over ownership rights. Consequently, legal and ethical issues have caused government regulatory agencies to closely examine CF, including recent legislation designed to create jobs that has provisions related to CF contained in it (Jumpstart Our Business Startups Act). However, the complexities associated with CF have substantially slowed the implementation of guidelines governing CF activities (Mandelbaum, 2012).

Specifically, consider the case of the multi-faceted artist Amanda Palmer: On April 30, 2012 former Roadrunner recording artist Amanda Palmer launched a Kickstarter campaign to raise $100,000 to release a new independent album. Palmer offered incentives to contributors based on the amounts of their gifts, some were things (from a download of the album for $1, to a CD and art book for $125), some were experiences ($5000 for a show at your house, $10,000 for dinner with her and she would paint your portrait). In just two days Palmer raised over $379,000 from more than 6,600 supporters. By the time the funding closed on May 31, 2012 Palmer and her band (ironically entitled, "the Grand Theft Orchestra") had more than $1.19 million raised. By the time the album debuted at #10 on the Billboard charts Palmer had over 24,000 backers donating from $1 to $10,000. In response to a question on Twitter Palmer posted the following on her blog on May 13, 2012:

> "first i'll pay off the lovely debt – stacks of bills and loans and the like – associated with readying all of the stuff that had to happen BEFORE i brought this project to kickstarter.

> for the past 8 months or so, i wasn't touring – and therefore wasn't making much income – but every step of the way, there were expenses. so, during that time, i borrowed from various friends and family who i'd built up trust with over the years" (Amanda Palmer, 2012).

Palmer goes on to layout the estimated expenses for the entire project, including art books and shows that were part of the fundraising effort. In the end she claimed she would do well if she had $100,000 left over after the entire project was completed.

There are additional facts that are important to this case: After her project was funded and Palmer embarked on a tour to promote the album, she suddenly put out a request for "professional-ish" musicians to join the band and play for free. She claimed that she did not have the resources to pay them. Instead, said Palmer, "We will feed you beer, hug/high-five you up and down, give you merch, and thank you mightily." Her request was met with a huge backlash, including a petition posted at change.org and protests from musician unions (change.org, 2012).

Likewise the CF platform, Kickstarter.com, faced criticism for allowing Palmer to raise more funds than requested. Some critics argued that contributions should be limited to the amount requested by an artist to fund a project, thereby making more funds available to other projects. In fact, Kickstarter does post the running total raised so that contributors can know how much money has been donated to a project before deciding to donate funds. Of course, the CF platform receives five percent of successfully funded projects, hence they have a stake in allowing larger sums to be contributed.

Amanda Palmer defended her actions as "the future of music." According to Palmer, "we're moving to a new era where the audience is taking more responsibility for supporting artists at whatever level" (Peoples, 2013). Palmer argued that the new social media allowed for an unprecedented connection with fans. It was Palmer's belief that now the artist had new opportunities to connect with fans on a personal basis, which superseded the traditional music-industry based formula for artist control.

Other critics argued that Kickstarter.com should not allow "established artists" to post funding requests, because the platform was created to allow aspiring artists to find support for their projects. Eventually the company responded with a press release defending its position. One industry analyst said, "the Kickstarter team tried to shoot down one of the biggest complaints about celebrities using Kickstarter: that it takes away attention and funding from other worthy projects from lesser-known people on website… The Veronica Mars and Zach Braff projects have brought tens of thousands of new people to Kickstarter," the founders wrote. But the analyst adds, "Even if it's the case that famous people like Braff end up attracting new donors to the website, there's still a more fundamental question about whether the presence of these celebrities end up encouraging or discouraging more people to take a chance on launching a campaign of their own" (Fiegerman, 2013). Only 43.94% of all project offerings have been successfully funded (www.kickstarter.com).

In light of the public reaction to the Amanda Palmer project, the founders of Kickstarter, Yancey Strickler, Charles Adler, and Perry Chen, have a decision to make. They can maintain the status quo and continue to fend off criticism for allowing established artists to use Kickstarter to fund new projects and to take as much money as fans will pledge. Or they could respond to the public outcry and ban established artists like Palmer, Mars and Braff from using the service, but this would decrease the company's visibility and probably decrease exposure and funding for lesser-known artists on the site as well. Finally, they must consider changing the company's policies to no longer allow project creators to accept more money than is initially budgeted. This decision cuts straight to the company's bottom line at a time when they are growing rapidly and moving to a newly renovated, larger office space.

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BENEVOLENT HEALTH CHANGES ACQUISITION STRATEGY

John L. Wilson, Regis University

CASE DESCRIPTION

The primary subject matter of this case concerns management of information systems and technology. Secondary issues examined include mergers and acquisitions of hospitals. The case has a difficulty level of six, appropriate for second year graduate students. The case is designed to be taught in two (2) class hours and is expected to require three (3) hours of outside preparation by students. The case works well in groups of two to four students.

CASE SYNOPSIS

Students are encouraged to evaluate Benevolent Health's (BH's) new acquisition strategy and resolve how Information Services management should change their process for evaluating a potential acquisition and integrating their information systems and technology into Benevolent Health's. BH is considering new acquisitions, which potentially could be larger and more mature than prior acquisitions. The case is based on actual hospitals, although names and places are changed to maintain confidentiality of involved parties.

CASE SCENARIO

Recently, James McDermott was graduated with a masters' degree, majoring in information technology management. While a student, James attended classes on-line while continuing to work in Benevolent Health's Information Services department as a senior systems analyst. After graduation, he applied to an internal job posting for project manager and accepted an offer to him from Benevolent Health's Information Systems department.

Just a few weeks into his new job, James received an invitation from the CIO of Information Services to meet with her. CIO Nancy Wilcox has an urgent need for information and asked James to meet and discuss the situation.

Nancy began the meeting by reminding James that Benevolent Heath has previously only acquired small hospitals. When doing so, Information Services performed an informal and cursory evaluation of the potential acquisition's information systems and technology prior to Benevolent Health deciding whether or not to acquire the hospital. After an acquisition was finalized, Information Services always integrated the hospital in the same way - by converting them to use Benevolent Health's standardized processes and platforms. She noted her department has been quite successful doing this, with about 60% of all acquired hospitals' now using the same information systems processes and technology platforms.

Nancy went on to say members of the Governing Strategic Planning Committee have been confidentially discussing acquiring a hospital that is larger and more mature than those acquired in the past. Personally, she was hesitant and concerned about applying their standardized integration approach to a larger hospital with more mature information systems and technology. She explained that doing so could potentially be very costly and too disruptive to the entire enterprise. Before ending the meeting, she asked James to report back to her on how Information Services could differently evaluate and integrate these larger acquisitions, and to explore how they could create value without necessarily having to integrate them fully using the standardized approach. She feared such an acquisition might be announced at any time and asked James to prepare a confidential report within one week, then meet with her to discuss it.

James returned to his cubicle and thought about the project Nancy just gave him. He wasn't sure where to start. What could he possibly report to her in just one week? He began his project by compiling the following information, realizing he had a lot more work to do before reporting recommendations to Nancy.

INTRODUCTION TO BENEVOLENT HEALTH

Benevolent Health (BH) is located in the south central part of the U.S. Founded in 2002, BH has grown in capacity to 2,980-beds with 20 hospitals, 172 clinics and 14 long-term care facilities located in 4 states. BH employs 23,650 people, including 3,870 physicians. As of December 2012, annual operating revenues were \$3.87 billion, with a net income of \$294 million.

Since 2008, Benevolent Health (BH) has used an aggressive strategy to grow through acquisitions of smaller hospitals. James compiled the listing, below, of acquisitions from 2008 through 2012, showing the percentage of BH's standardized processes and platforms implemented.

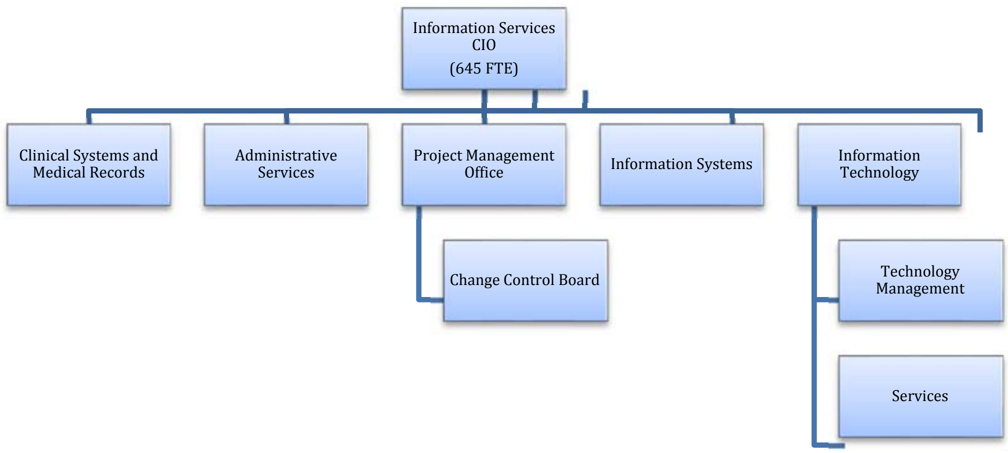
Table 1
Benevolent Health's Acquisitions from 2008 to 2012

Year of Acquisition	Number of Acquired Hospitals	Hospital Beds Added	% of Standardized Processes & Platforms Implemented
2008	2	62	40%
2009	1	25	44%
2010	1	210	90%
2011	1	113	67%
2012	3	237	56%
Total	8	647	59%

BENEVOLENT HEALTH'S INFORMATION SERVICES

James documented Information Services organization, as follows:

Figure 1



Nancy Wilcox, CIO and senior vice president of BH, manages Information Services. She is a member of the Governing Strategic Planning Committee, comprised of the president and chief executive officer (CEO), chief financial officer (CFO), chief medical officer (CMO) and herself (CIO). In alignment with the organization at large, Information Services adheres to BH's vision and mission statements in all decision-making processes.

There are five departments within Information Services, as follows:

1. Clinical Systems and Medical Records: Manages all medical related systems, including electronic health records (EHR)
2. Administrative Services: Manages non-clinical systems and controls administrative activities for Information Services.
3. Project Management Office: Controls spending of operating expenses and capital dollars related to projects. Approves, prioritizes projects and monitors progress while releasing funds, as needed.
4. Information Systems: Responsible for development and maintenance of all application software, including the standardized information systems processes used by all newly acquired entities.
5. Information Technology: Responsible for managing voice and data communications, database management systems, hardware and system software infrastructures, including the standardized information technology platforms used by all newly acquired entities.

In talking with managers of several Information Services departments, James noted that with seven years of experience, Information Services has pretty much figured out a streamlined process for integrating hospitals by moving them onto BH's standardized processes and platforms. Acquired hospitals gain agility and benefit from BH's intellectual property through standardized integration. However, integrating a hospital requires BH to make capital and staff available, along with implementing significant change management in the acquired hospital. Overall, the time for integration is about 18-24 months, during which a strong commitment and involvement on the part of the acquired hospital are also required.

BH'S STANDARDIZED PROCESSES AND PLATFORMS

James compiled the following information on BH's standardized processes and platforms, which are managed by Information Services:

Table 2
BH's Standardized Processes

Information Systems Processes	Vendors' Products
Administrative and financial	Siemens and Lawson
Patient Administration	In-house developed
Electronic Health Records and related processing	Cerner
Clinical	Cerner Clinicals

Table 3
BH's Standardized Platforms

Information Technology Platforms	Vendors' Products
Servers and operating systems	Sun and IBM; UNIX and Open VMS
Desktops and operating systems	HP and Dell; Windows 7
Storage Products	EMC and Cisco
Database Management Systems	Oracle and Microsoft SQL
Voice Communications	Cisco's VoIP
Business Continuity Services	SunGard

INTRODUCTION TO HEALTHCARE ACQUISITIONS

James researched the external environment in which hospitals are operating and the forces causing hospitals to acquire one another. He found this pertinent information, which may be driving Benevolent Health's C-suite to consider acquiring a larger hospital.

"In the United States, the healthcare field and society-at-large is in the midst of enormous turbulence. An aging and increasingly diverse population, global and national economic problems of unprecedented complexity, a federal government beset with political conflicts that harm its ability to address important issues, growing evidence of major disparities in healthcare access, affordability and quality, and the continuing explosion in medical science and technology are among the powerful forces that are affecting healthcare providers, payors, and consumers" (Commonwealth Center, 2012, p. 1). During 2012, these external forces created "…daunting challenges for the clinical governance, and management leadership teams in America's hospitals, health systems, and other health-related organizations" (Commonwealth Center, 2012, p. 1).

In continuing to define the environment in which large nonprofit hospitals reside, James noted that "America's healthcare delivery system has continued to evolve from mostly independent institutions into larger groupings… and for many reasons – including the hospitals' needs for access to capital and the support larger organizations can provide" (Commonwealth Center, 2012, p. 1).

SUMMARY

Benevolent Health wants to continue growing and is determining whether to acquire larger and more mature hospitals than previously. Although successful with using a standardized approach for integrating prior smaller acquisitions, CIO Nancy Wilcox has concerns about applying the same approach to larger entities with more mature information systems and technology. She has asked James McDermott, a new project manager, how Information Services could evaluate and integrate these larger potential acquisitions differently, and to explore how value could be created from these larger acquisitions without necessarily integrating them using BH's standardized approach. At this time, James has only put together some background information related to his project. He realizes he has a long way to go before he can write his report and meet with Nancy to present it.

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DESIGN PROTOTYPES INC. PROJECT MANAGEMENT (B): PLANNING THE ALPHA C306 PROJECT

Patricia A. Lapoint, McMurry University
Carrol R. Haggard, Fort Hays State University

CASE DESCRIPTION

The primary subject matter of this case concerns project management. This case can be used in Project Management, Operations Management, or Quality Management courses. The case has a difficulty level of four. The case is designed to be taught in two class hours and is expected to require four to six hours of outside preparation by students.

CASE SYNOPSIS

After 9 years at Design Prototypes Inc., Raef Conley is leading his first major project. While Raef had worked on several small projects, he has never taken on the leadership of a major project. The Alpha C306 project is a significant opportunity for him, one that could advance his career in many ways. **.** *Although excited about the opportunity, Raef is also somewhat anxious, as while there is the potential for career advancement, he is also well aware that failure could mean the end of his career at Design Prototypes. Raef's first task was to assemble a project team. Although he has selected his team, he still needs to get time commitments from the supervisors so that he can finalize the team. The case starts with Raef completing the team selection process where he encountered an unexpected complication which had to be resolved. The next step is to complete the project planning process. In order to do this, the team developed a Work Breakdown Schedule (WBS). However a Critical Path Analysis (CPA) revealed that the initial WBS did not meet the 18 month timeline established by management, therefore the team developed a revised WBS. The case revolves around the question of whether the revised WBS is feasible.*

DESIGN PROTOTYPES INC. PROJECT MANAGEMENT (B): PLANNING THE ALPHA C306 PROJECT

Last year was an interesting, but challenging year for Raef Conley. Currently in his tenth year with the company, Raef felt blessed to have been on several project teams; but the most important opportunity was his being identified as the project manager for the Alpha C306 project. The last few months of the previous year were spent in the identification, interviewing, and the selection of the project team members. Eleven employees were pared down from a list of 16; all eleven were strong candidates for the Alpha C306 project, but only seven members could be selected. After considerable and careful thought, Raef made his decisions. The team members chosen are: Alison Whitley, Philip Lowery, Rae Beth Merson, Elroy Bennett, Pierce Kennedy, Billy Brown, and Robert Brandon (for information on the team members see Design Prototypes Inc. Project Management (A): Selecting the Team, 2012, authors withheld). Just before the holidays, Raef personally met with the seven candidates chosen for the project team to congratulate them for their commitment, and to reinforce the strong qualifications each of them would bring to the project task. The team members were eager to begin. Raef shared with them the tentative 18 month timeline and scheduled the first meeting for January 9th.

Raef also knew that the four who were not chosen would have to be notified of his decision; he was not looking forward to this part of the process. He decided to tell each one in person of his decision. Due to a family emergency, Daniel Swenson was unavailable, so Raef was unable to contact Daniel before his Christmas break. What follows are the interviews with Margaret Sobel, Michael Matson, and Simon Wright.

INTERVIEW WITH MARGARET SOBEL

Raef: "Hi Margaret, do you have a minute?"

Margaret: "Sure, come on in and have a seat."

Raef: "I wanted to visit with you about the Alpha C306 project."

Margaret: "I figured as much."

Raef: "First, I would like to thank you for your interest in joining the Alpha C306 project team."

Margaret: "It was easy to show interest, as it sounds like such an exciting project."

Raef: "Hopefully, it will be." After taking a deep breath, Raef continues: "There is no easy way to say this, Margaret but I am sorry to tell you that you were not selected as part of the team."

Margaret: "Can I ask why?"

Raef: "It was a difficult choice, one not made any easier by the fact that all 11 of you as potential team members would bring unique qualifications to the team. You are obviously a valued member of the company, since in your 18 years here you have worked on a number of small projects, offering leadership on several of them. You have demonstrated that you can work well with a team. However, for this particular project I felt that the team needed more technical expertise, thus engineers comprise most of the team. While it may not be much solace, you were one of the 11 finalists and that says much about how well you are perceived within the company."

Margaret: "While I am disappointed, I can certainly understand, as being in Project Administration, I assumed that my selection would be an outside shot."

Raef nodded in agreement.

Margaret: "Can I say that it is clear that you are familiar with my record with the company and I appreciate your thoughtful consideration. I also would like to thank you for personally coming to tell me of your decision. I know that this could not be easy and I appreciate your integrity in personally informing me. It is so much better than a highly impersonal memo or just an email."

Raef: "You are welcome. I hope that we can work together on some future project. Have a good day."

Feeling a sense of relief that that meeting had gone so well, Raef, headed to the Civil Engineering department to visit with Michael Matson. Raef found Michael in the library looking over some blueprints.

INTERVIEW WITH MICHAEL MATSON

Raef: "Hi Michael, do you have a minute?"

Michael: "Sure, have a seat."

Raef: "First, I would like to thank you for your interest in joining the Alpha C306 project team."

Interrupting, Michael says: "It sounds like there is a 'but' coming."

Raef: "Very perceptive and I am afraid you are right, I am sorry to tell you that you were not selected as part of the team."

Michael: "This is very disappointing, as an engineer, I think that I have much to offer the team, and I am eager to demonstrate what I can do."

Raef: "While you are an engineer, and the team consists mostly of engineers, they are electrical engineers. As a civil engineer, your skills are perceived to be in the area of building things and since this project involves the development of an electronic component, electrical engineers are perceived as being able to add more to the team."

Michael: "You know, civil engineers know about more than just steel and concrete. Your electronic component is going to have to fit into something, and who is going to design the casing? Huh? Component design is more than just shoving some electronics into a box, the shape and design of the housing can affect whether and how the electronics work. Did you think about that?"

Raef: "You make a good point. The size of the team was limited and I had to select those individuals whose skills sets I thought would add most to the team. This is not personal and does not reflect on you or the nature of civil engineering."

Michael, sarcastically: "Nothing personal, I just think that you made a bad decision."

Raef: "I am sorry you feel that way. Goodbye."

While the Matson interview hadn't gone as well as the one with Margaret Sobel, Raef was relieved in that he had only one more interview to go. Raef's last interview is with Simon

Wright. Raef found Simon in the break room of the main administration building, where Simon was regaling several others about his playing golf on Saturday at the country club with the company president and 2 VPs. As Raef entered the others returned to work.

INTERVIEW WITH SIMON WRIGHT

Raef: "Hi Simon, mind if I join you for a cup of coffee?"

Simon: "Sure, have a seat."

Raef: "I came to see you to discuss the Alpha C306 project."

Simon: "I am really going to enjoy working on that project, it should be a huge boost to my career."

Raef: "Well, Simon, while I appreciate your enthusiasm in joining the Alpha C306 project team, I am sorry to tell you that you were not selected as part of the team."

Simon, in disbelief: "What?"

Raef: "The team is limited to 7 members and including yourself, there were 11 outstanding potential team members. Those who were selected were those whose backgrounds would add the most to the team. Your 2 years with the company was the least of anyone being considered. Also, your expertise in public relations, while very useful after the project is completed, wasn't perceived as being as valuable as the expertise of the engineers who will actually be creating the Alpha C306."

Simon: "Listen, while I have only been employed here for 2 years, I grew up in this company. In case you weren't aware, my father is the VP of Engineering, so I have spent my whole life here. And public relations is more than just writing press releases about new products, it is all about connections, and I have connections. When senior management has meetings on budget, selecting products for development, or the future of the company, who do you think is present at those meetings? I'll tell you, I am! Not only am I there so that I will know what is going on, but most importantly for you, I get to insert my opinion as to the appropriate decision to be made. My background in economics and my ability to provide economic analysis is viewed very favorably by senior management. Thus, not only do I have connections, more importantly, I have influence."

Raef, somewhat defensively: "I understand all of that, and those are some of the reasons why you were considered for the team. However, at this point, the budget and timeline have already been established, thus technical expertise was perceived as being more critical to completing the project. I had to select those individuals who could add most to the creation of Alpha C306."

Simon: "You are making a HUGE mistake by not including me on the team. We will see how the budget and timeline work out for you."

Raef: "I am sure that you don't mean that as a threat. I am confident that we have the support we need. Goodbye."

Feeling a sense of relief that the interviews were completed, both with those who had been selected and those who weren't, Raef could look forward to his holiday skiing trip where he could relax and put the Alpha project behind him for a few days. Since he didn't foresee any difficulties, he would wait until the New Year to contact the 7 supervisors to confirm the availability of the team members.

According to the model for project management (see figure 1), planning the project is the third stage of project management. Planning the project involves the identification of the activities/tasks required for the project, an estimation of the each activity's task time, any precedence relationships between activities, and the cost estimates for both normal and crash conditions. Raef determined that it would likely take several meetings with the team to complete the planning phase of the project. However, before the team could actually get started, Raef had to confirm the availability of the selected team members.

Figure 1
Project Management Process Model

Selection → Initiation → Planning → Delivery → Closure

Brown & Hyer, 2010, p. 13.

As Raef prepared for his meeting with Lon Gray, Elroy Bennett's manager, he was not certain how Mr. Gray would respond now. After all, it had been several months since the initial conversation with Mr. Gray to release Elroy from the department to work on the Alpha C306 Project. In any event, he would find out shortly upon his arrival to Mr. Gray's office.

INTERVIEW WITH LON GRAY, ELROY BENNETT'S MANAGER

Raef: "Good morning, Mr. Gray. I am so glad that you could speak with me on such short notice."

Mr. Gray: "Call me Lon."

Raef: "OK. As you know from our earlier discussion last year, the Project Alpha C306 is now in the planning phase. We selected Elroy Bennett, one of your senior engineers to participate on the project team and he has agreed. However, as you also know, he is somewhat reluctant because of the time demands between the project and his responsibilities in the department. I am here today to see if we can work out a mutually beneficial schedule for the project, the department, and for Elroy."

Lon: "Since we spoke last year, the workload in the department has dramatically increased. Quite honestly, there was no way that I could have anticipated that the demands on the department would increase so much. We acquired 2 new design projects from the product development group, which leaves us stretched to the limit. I am afraid that I cannot spare Elroy at all at the present time. Perhaps, at some later date, after the extra projects have been completed, he can make time beyond his departmental duties to join your project team."

Raef: "Oh, I am sorry to hear this. Elroy's qualifications and experiences are just what we need for the Alpha C306 project. I am very disappointed. Is there any way I can persuade you to reconsider"?

Lon: "I am afraid not… unless you can convince upper management to give us 3 more employees. "

Raef: "Well, thank you for your time, Lon. Goodbye."

As Raef left Lon Gray's office, he had not anticipated such a drastic outcome. He was now left with another decision—who to replace Elroy Bennett on the team.

INTERVIEW WITH PERRY HUDSPETH, ALISON WHITLEY'S MANAGER

Perry Hudspeth: "Raef—I was in the neighborhood and thought I would stop by. Just to let you know, Alison is on 'top of the world' in joining the Alpha C306 project team. She has been floating since you informed her of your selections. I wanted to say thank you for giving her this opportunity so early in her career. Alison is rapidly becoming one of the shining stars in the EE department."

Raef: "As part of Alison's recruitment team, I knew she would be a valuable asset to the department and the company. Now that you are here Perry can we chat about Alison's time for the project?"

Perry: "Certainly. How much time are you looking for?"

Raef: "Well, of course, I would like to have her 100% of the time, but I expect that is not realistic. Do you think you could spare her at least 65-70 percent of the time?"

Perry: "Wow, that is a lot! How long would she be committed to this amount of time?"

Raef: "As it stands currently, I can see her participation at that level for the first 12 months; after that her participation can be reduced to 40 or 50 percent." Is that feasible for you?"

Perry: "I think we can manage 60% for 12 months; let's discuss this again later for the remainder of the project."

Raef: "I think we can make that work; thank you, Perry, for your support. I will keep you posted on our progress and Alison's schedule. Thanks for stopping by."

Despite feeling discouraged following his meeting with Lon Gray, the impromptu meeting with Perry had certainly lifted Raef's spirits. Raef's meetings with the other department heads went very well, as all of department managers were able to commit to the tentative time allocations they had made last year.

Raef certainly enjoyed the Christmas and New Year's holidays as he was able to get some much welcomed R and R. The last several months had been very stressful in assembling the project team, but now with all team members in place except for Elroy Bennett's replacement, he could resume work on the project with renewed energy. The first team meeting was just around the corner and he was eagerly anticipating a good start.

JANUARY 9 MEETING

Raef: "Good morning everyone!" It has taken us awhile to get to this day, but it is finally here. I trust that your Christmas and New Year's holidays were good. I had a chance to get away to the Rockies for a ski vacation; a strong snow storm hit the area just 3 days before I arrived so the skiing was great. How about the rest of you? Did you get a chance to get away for some well-deserved R and R?"

Alison: "I had a chance to visit my mother in western Massachusetts; the Berkshires are beautiful in the winter time. It was cold, but invigorating. I am glad to be back and eager to get started on the project."

Raef: "Well, in that spirit, let's get started then." Some of you may know one another, but let's go around the table and introduce yourselves. I spoke with Elroy Bennett's supervisor, and given the increased demands of the Existing Product Development Department, Elroy will not be able to participate on the team. I am in the process of finding his replacement."

After the round of introductions, Raef re-explains the purpose, the goals, and the expected 18 month timeline of the team.

Raef: "As you are aware, management expects the product to be ready for launch to the marketplace within 18 months. Our first course of action is to determine the task times and the precedence relationships for this project to determine if the timeline is feasible. We can work out the cost estimates and crash conditions later on after we have determined that the timeline is feasible. I am handing out a Work Breakdown Structure for the Alpha C306 prototype product" (See Table 1).

Raef: "As you can see, a team of product development engineers were assigned the task of developing the specifications for the electronic component product; this has been completed. Activity "A" is our reference point for starting the project. Let me suggest that we take each task one at a time, determine the task time for the task and identify all precedence relationships for the task."

After a series of meetings the team completed the initial Work Breakdown Structure (WBS). Table 2 identifies the initial WBS.

Table 1 **Work Breakdown Structure**			
Level/Task	Description	Task Time/days	Precedence Relationships
1.0	Alpha C306 Project		
1.1	Concept*		
1.1.1	Technical Analysis*		
1.1.2	Product Scope Definition*		
1.1.3 / A	Develop Prototype: Specifications*		
1.2	Requirements		
1.2.1/ B	End-User Requirements		
1.2.2/C	Application Requirements		
1.2.3/D	Go/No Go Decision		
1.3	Reviews		
1.3.1/E	Prototype Review		
1.3.2/F	Financial Review		
1.3.3/G	Schedule Review		
1.3.4/H	Technical Capabilities Review		
1.3.5/I	Financial Commitment Review		
1.3.6/J	Go/No Go Decision		
1.4	Prototype Testing		
1.4.1/K	Testing		
1.4.2/L	Results/Analysis		
1.4.3/M	Corrective Actions		
1.4.4/N	Re-tests		
1.4.5O	Re-tests Results/Analysis		
1.5	Deployment-Test Market		
1.5.1/P	Trial-Test Market		
1.5.2/Q	Results-Test Market/Analysis		
1.5.3/R	Integrate Test Market Results into Product Design		
1.5.4/S	Final Product Specifications Review		
1.5.5/T	Go/No Go Decision		

*These activities have already been accomplished; not part of the team's timeline

Table 2 **Work Breakdown Structure: Initial Timetable**			
Level/Task	Description	Task Time/days	Precedence Relationships
1.0	**Alpha C306 Project**		
1.1	Concept	20*	
1.1.1	Technical Analysis	25*	
1.1.2	Product Scope Definition	4*	
1.1.3 / A	Develop Prototype Specifications	45*/0	
1.2	**Requirements**		
1.2.1/ B	End-User Requirements	60	A
1.2.2/C	Application Requirements	80	A
1.2.3/D	Go/No Go Decision	6	B,C
1.3	**Reviews**		
1.3.1/E	Prototype Review	14	A
1.3.2/F	Financial Review	20	E
1.3.3/G	Schedule Review	46	
1.3.4/H	Technical Capabilities Review	75	E
1.3.5/I	Financial Commitment Review	10	F
1.3.6/J	Go/No Go Decision	6	E,F,G,H,I
1.4	**Prototype Testing**		
1.4.1/K	Testing	92	J
1.4.2/L	Results/Analysis	30	K
1.4.3/M	Corrective Actions	10	L
1.4.4/N	Re-tests	95	M
1.4.5O	Re-tests Results/Analysis	30	N
1.5	**Deployment-Test Market**		
1.5.1/P	Trial-Test Market	50	O
1.5.2/Q	Results-Test Market/Analysis	50	P
1.5.3/R	Integrate Test Market Results into Product Design	100	Q
1.5.4/S	Final Product Specifications Review	20	R
1.5.5/T	Go/No Go Decision	6	S

*These activities have already been accomplished; not part of the team's timeline

The team having completed the WBS (Table 2), Raef ran the software for the critical path analysis for the WBS initial timetable. Table 3, which Raef emailed to the team, shows the results of the Critical Path Analysis.

Table 3 Critical Path Analysis Initial Timetable					
Activity	Early Start	Early Finish	Late Start	Late Finish	Slack
A	0	0	0	0	0
B	0	60	512	572	512
C	0	80	492	572	492
D	80	86	572	578	492
E	0	14	0	14	0
F	14	34	59	79	45
G	0	46	43	89	43
H	14	89	14	89	0
I	34	44	79	89	45
J	89	95	89	95	0
K	95	187	95	187	0
L	187	217	187	217	0
M	217	227	217	227	0
N	227	322	227	322	0
O	322	352	322	352	0
P	352	402	352	402	0
Q	402	452	402	452	0
R	452	552	452	552	0
S	552	572	552	572	0
T	572	578	572	578	0
Project Completion Time	578				

It was two weeks before Raef could get the team together again to review the results of the Critical Path Analysis for the initial timetable.

Raef: "Hello everyone! Since our last meeting, I have been finalizing Elroy Bennett's replacement, and I am pleased to introduce Daniel Swenson. Daniel was one of the finalists during the selection phase of the team project. He has graciously accepted the invitation to participate with us on the project. Welcome, Daniel! Daniel brings strong experiential credentials in marketing and new product development. He will be an asset to the team."

Alison: "Glad to have you on board, Daniel! We have just started to work on the project." The others chime in on the welcome.

Raef: "We have the results of the Critical Path Analysis. I hope you all have had an opportunity to review them. Daniel, we will get you up-to-speed on the initial WBS and the Critical Path Analysis. As you can see, our initial timetable is not feasible. According to the initial WBS (Table 3), we cannot meet the 18-month window set by management. As you can see, we are just 30 days over the timeline. Therefore we need to make some very minor adjustments to the WBS. Given the quality of this team, I am sure that we can make the necessary adjustments in no time. So, we need to take a closer look at the activities/tasks and their respective task times to see if these times can be reduced or activities/tasks can be consolidated. While we are in the process of making reductions, what do you say that we cut a little extra so that we can give ourselves a little wiggle room."

The rest of the meeting is devoted to a lively discussion to reduce the task times and consolidation of activities.

Raef: "Does anyone have any suggestions?"

The initial discussion saw the 7 members of the team 'taking sides' with those with an engineering background pitting themselves against those from a more business background. Thus, Alison, Philip and Rae Beth argued that it was "impossible" to cut time from the "technical areas" (Technical Capabilities Review or any of the Prototype Testing segments) arguing instead to cut things like the financial review time or go/no go decision time, as after all, it should be very clear whether the product was viable or not. While the non-engineers (Daniel, Pierce, Billy and Robert) took the opposite position, arguing that "business related" decisions such as financial reviews were critical to the ultimate success of the product, as if the product was not fiscally realistic, then it wasn't realistic at all. The discussion quickly became an argument with the two sides entrenched in their positions.

Robert wondered: "Can we really reduce these task times so that this is a feasible task?"

Pierce: "Sure we can. I see no reason why the technical capacity review (H) should take 75 days. It seems to me that task could easily be accomplished in 30 to 35 days, that would give us all the time we need right there."

Philip yelled at Pierce: "Hey dummy, you can put in whatever numbers you want to make the total 'come out,' however, unless those numbers are realistic and achievable, then you are just writing fiction, and not very good fiction at that."

While Raef had thought that it was good to get the various positions out, thus had been staying out of the fray, since the argument was becoming personal, he decided to step in.

Raef: "It seems to me that several good points have been made. As an engineer myself, I recognize and value the time needed for technical review. However, there should be some place where we can do some paring down. Don't you think?"

Alison: "I think that seems reasonable. What if we were to reduce prototype testing (K) by 15 days, surely we can test the prototype in 77 days rather than 92."

Rae Beth: "Yes, that seems reasonable."

Philip: "I would feel more comfortable with a 10 day reduction, down to 82 days."

The others nod in acceptance of Philip's willingness for a reduction.

Philip: "OK, we have made the first reduction. What does the other side have to offer?"

Daniel: "I recognize that I am new to the team, but I am confident that DP's Marketing department can test market the product in less than 50 days."

Rae Beth: "So, what would be reasonable?"

Daniel: "I think that we can double the 10 day reduction in the testing area, and cut marketing to 30 days."

Billy: "Hold on a minute there, bub. You are right, you are not only new to the team, but you only have 4 years with the company. In my 32 years here, I have seen folks like you come and go. The "go" has mostly been due to making promises that they were not able to keep. In order to test market the product, we have to be sure that we have the materials on hand in order to produce a reasonable sized sample for the testing, and that takes time. Since at that point the product is only approaching design finalization, we won't know how much of what parts we need to procure until the last minute. Thus, part of the 'marketing' time also includes getting the materials in an appropriate quantity for constructing the test models. As materials manager, I wouldn't be doing my job if I weren't looking out for the overall process."

Daniel: "OK, you are right, of course, and I will defer to your experience. What would be a reasonable reduction in the testing area?"

Billy: "Thank you. If you marketing whiz kids can get the data in quickly, then I think that we could cut the testing area by 10 days, as 40 days would allow for both parts procurement and testing the product. Do you agree?"

Daniel: "Yes, that seems reasonable."

Raef: "Great, we have our first 20 days in reductions. Let's see what else we can agree on."

The rest of the discussion was civil and the group was able to come to agreement on areas where time could be reduced, even to the point of meeting Reef's request for a little additional reduction. Each "side" ended up giving approximately equal amounts of time, which meant that although they were not delighted in having to give up time, no one felt as if they had been taken advantage of. Thus, the group produced a revised WBS (Table 4) that they all could eagerly endorse.

Overall, at this point, Raef was very pleased with this process. While there had been some initial "us" versus "them" between those with an engineering background and those with a business background, he saw that as passion in doing a good job. All of the members of the group had reflected a strong commitment not only to doing a good job, but also to the success of the project. The fact that they were able to compromise and arrive at a WBS that they could all eagerly support meant that the group had become a team.

Raef: "OK, team, good job! I am glad that we were able to come together in generating this revision. I think that this bodes well for us being a very effective team. The revised WBS looks like a good product, however, I will run another critical path analysis to confirm that the revised WBS (Table 4) is feasible. As soon as I get that analysis, I will email you the results. Have a GREAT day!"

Table 4 **Work Breakdown Structure: Revised Timetable**			
Level	Description	Task Time/days	Precedence Relationships
1.0	**Alpha C306 Project**		
1.1	Concept	20*	
1.1.1	Technical Analysis	25*	
1.1.2	Product Scope Definition	4*	
1.1.3/A	Develop Prototype	45*	
1.2	**Requirements**		
1.2.1/B	End-User Requirements	60	A
1.2.2/C	Application Requirements	80	A
1.2.3/D	Go/No Go Decision	6	B,C
1.3	**Reviews**		
1.3.1/E	Prototype Review	14	A
1.3.2/F	Financial Review	20	E
1.3.3/G	Schedule Review	46	
1.3.4/H	Technical Capabilities Review	52	E
1.3.5/I	Financial Commitment Review	10	F
1.3.6/J	Go/No Go Decision	6	E,F,G,H,I
1.4	**Prototype Testing**		
1.4.1/K	Testing	82	J
1.4.2/L	Results/Analysis	30	K
1.4.3/M	Corrective Actions	10	L
1.4.4/N	Re-tests	95	M
1.4.5/O	Re-tests Results/Analysis	25	N
1.5	**Deployment-Test Market**		
1.5.1/P	Trial-Test Market	40	O
1.5.2/Q	Results-Test Market/Analysis	50	P
1.5.3/R	Integrate Test Market Results into Product Design	85	Q
1.5.4/S	Final Product Specifications Review	20	R
1.5.5/T	Go/No Go Decision	6	S

*These activities have already been accomplished; not part of the team's timeline

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FEDEX IN CHINA

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CASE DESCRIPTION

This case describes how FedEx runs its business in highly regulated Chinese market. In particular, FedEx faces high legal barriers from the Chinese government to expand its Chinese domestic express delivery business. This case provides an overview of Chinese express delivery business and FedEx. The case can be covered in one class period. Student preparation time is about two hours. The case can be used for the topic of international business and strategy. The difficulty level of the case is appropriate to students who are juniors in a bachelor's degree business program.

CASE SYNOPSIS

The express delivery business in China is growing at a rapid speed and is considered as the third largest market for express services. The Chinese delivery market generated 105.53 billion yuan profit with the growth rate of 31.9% in 2012 alone. While FedEx occupies 20% of the market share in the international delivery market in China, it only takes up around 1% of the domestic express delivery market share. Even though the Chinese government reduced its legal barriers to foreign firms, Chinese Government's regulations are still barriers for FedEx to grow in the domestic express delivery market. In addition, intensive competition from domestic firms exists in the domestic express delivery market. What kind of strategies should FedEx come up with for the Chinese express delivery market?

INTRODUCTION

HISTORY OF FEDEX

FedEx, one of the world's leading delivery service companies, was founded in Little Rock, Arkansas in 1971 by Frederick W. Smith. In 1965, while Smith was an undergraduate student at Yale University, he wrote an economic term paper about the possibilities of an overnight delivery service in a computer age. He argued that an express delivery service would be necessary to accommodate time-sensitive deliveries such as medicines, electronic, and computer parts in the near future. In August of 1971, Smith purchased Arkansas Aviation Sales in Little Rock that focused on selling and trading both new and used airplanes. While running his own company, Smith recognized difficulties in delivering packages on time and it led him to think about how to solve the existing inefficient delivery system. He founded Federal Express with 14 small planes and offered services to 25 U.S. cities. In 1973, Federal Express moved its headquarters to Memphis, Tennessee. Memphis was selected as its headquarters due to its central geographical location to major other cities. In addition, the mild weather of Memphis prevents Federal Express from delaying its delivery service due to unexpected weather conditions.

The Airline Deregulation Act in 1977 removed restrictions on routes used by cargo aircraft and permitted the cargo companies to add Boeing 727s and large airplanes. This allowed Federal Express to expand its service coverage and to operate its services with larger aircrafts. Federal Express adopted centralized computer systems to track packages, vehicles, and airplanes. Federal Express expanded its delivery services to 90 U.S. cities by 1980, and began its service in Canada by 1981.

Federal Express pursued a series of acquisitions for its growth. In 1984, Federal Express acquired the package courier Gelco Express. It also acquired Tiger International Inc. that operated an air cargo delivery service known as the Flying Tigers. Flying Tigers held runway rights in major metropolitan airports across 21 countries in Asia, Europe, and South America. This acquisition allowed Federal Express to increase its market share in international airfreight delivery services. Federal Express expanded its service to Europe by founding its European headquarter, in Brussels, Belgium in 1985. Federal Express held 43 percent of the global express delivery market, compared to the 26 percent market share of UPS in the early 1990s.

In 1994, Federal Express changed its name to FedEx. In 1995, to compete with the same-day delivery and early morning delivery services offered by UPS, FedEx began offering similar services for both packages and letters. In 1997, FedEx opened its domestic hub at Fort Worth Airport, Texas. It opened the European hub at Charles de Gaulle International Airport in France in 1999.

In 2001, FedEx Express signed a 7-year contract with United States Postal Service (USPS) to transport its express mail and priority Mail. This contract allowed FedEx to place drop boxes at every USPS post office for its express delivery services, and has been recently extended until September 2013. In 2004, FedEx Corporation acquired Kinko's Inc. and Parcel Direct. These acquisitions provided customers with a proven, cost-effective solution for low-weight, less time-sensitive residential shipments. Each firm was later renamed as FedEx Kinko's and FedEx SmartPost.

FedEx nowadays consists of four major units; FedEx Express, FedEx Ground, FedEx Freight and FedEx Services. FedEx Express offers fast delivery services, mainly by air, with over three million shipments in each business day. FedEx Ground provides small package deliveries by trucks mainly within U.S and Canada. FedEx Freight, less-than-truckload service, provides delivery of small packages via air or train. FedEx Services provides business services, administrative and technical support, and billing services.

FedEx, as a global leader in the transportation and shipment industry, operates currently more than 8.5 million deliveries and employs more than 290,000 team members worldwide.

FEDEX'S INNOVATIVE CULTURE

FedEx has been cited several times as being one of the World's Most Admired Companies," and "100 Best Places to Work for." FedEx has been the first company to adopt new technologies and management practices. Table 1 summarizes several notable innovations that took place in FedEx.

Table 1
Notable Innovations of FedEx

1973	First express shipping company to own and operate aircrafts, package-sorting facilities, and delivery vans.
1975	First air freight company to use television advertising
1979	COSMOS – Customer, Operations, Service, Master Online System – a centralized computer system to manage vehicles, people, packages, routes, and weather scenarios on a real-time basis – is launched. This is the first centralized computer system in the industry used to keep track of all packages handled by the company.
1980	FedEx implements DADS – the Digital Assisted Dispatch System – to coordinate on-call pickups for customers. DADS is comprised of tiny terminals, installed in vehicles, to digitally transmit orders and guide couriers to their next pickup.
1982	First express company to offer delivery at 10:30 a.m.
1984	The first PC-based automated shipping system, later named FedEx PowerShip is introduced.
1986	FedEx SuperTracker, a hand-held bar-code scanner system that captures detailed package information, is launched.
1994	FedEx.com becomes the first transportation website to offer package status tracking, enabling customers to conduct business via the Internet.
1996	FedEx interNetShip (now called FedEx Ship Manager) provides customers with the first Internet-based service for processing packages.
2000	FedEx launches new customer technology solutions including a redesigned website to integrate express and ground functionality, FedEx e-Commerce Builder, FedEx Global Trade Manager and FedEx Ship Manager.
2001	FedEx InSight is introduced, becoming the first web-based application to offer proactive, real-time status information on inbound, outbound and third-party shipments.
2002	FedEx launches the first online "landed cost" application for estimating duties and taxes assessed on international shipments.
2003	FedEx Claims Online is introduced, making the first tool of its kind in the industry.

<FedEx: Powering Global Access, Selected FedEx Information Innovations>

For instance, FedEx developed the first centralized computer system to keep track of all packages in the industry. FedEx also used information technology to enhance customer service.

The company first offered tracking service to customers, which allowed customers to track their shipments by means of a reference number. FedEx believed that information about a shipment is as important as the? shipment itself. The importance of virtual systems to both FedEx and its customers is evident from the following:

- fedex.com hosts more than 15 million unique visitors per month.
- the website handles more than 3 million package tracking requests per day.
- electronic transactions account for almost two-thirds of the more than 6 million shipments delivered by FedEx companies each day.
- 70 percent of the company's U.S. sales revenue is generated by electronic transactions

These innovations were possible due to its open and supportive environment, which allowed employees at all levels in the organization to be part of the innovation process. FedEx's human resources department concentrates on implementing PSP (People, Service, Profit) culture and its "People First" philosophy. They believe that highly valued employees will provide high-quality services for its customers, which eventually leads to higher profits.

First, FedEx has consistently involved its employees to its management process. For instance, the corporate communication department in FedEx communicates its strategies and goals to its employees through meetings, television broadcasts, intranet, and manual. In addition, FedEx informs its performance to the employees and also provides its employees the opportunity to innovate and give ideas to enhance the firm's growth.

Second, FedEx actively develops employees' abilities. For instance, FedEx provides an in-house management development program in the areas of career development and leadership. In particular, FedEx employees can apply for tuition assistance for professional development.

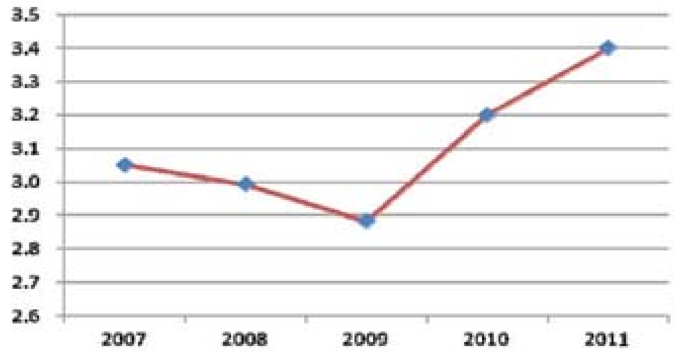
Lastly, FedEx have highly committed employees. FedEx has built trust between the employees and the firm. FedEx consistently showed respect and care to its employees and the employees paid them back with commitment and royalty to the company. When FedEx was going through severe financial difficulties, the employees used their own credit cards to purchase fuel and deliver? packages to the customers on time. Even when employees didn't receive their salary on time, they continued delivering packages for their customers.

CHINESE EXPRESS DELIVERY MARKET

By 2025, China is expected to have 221 cities with more than 1 million residents, eight of which will have a population of more than 10 million. A steady growth of the logistics market in China is also reflected by logistics demand coefficient that reflects logistics value-to-GDP ratio.

As described in Figure 1, the logistics demand coefficient in China has increased over time. The increasing logistics demand coefficient means that the Chinese logistics market has grown over time. Moreover, the Chinese government is making great efforts to enhance airports, roads, and rail to support the rapid growing logistics market.

Figure 1 Logistics Demand Coefficient, 2007-2011



<Source: China Federation of Logistics & Purchasing>

The Chinese postal and express delivery service has been showing a rapid growth as the economy of China develops. In particular, the express delivery service market shows the fastest growth rate in the Chinese logistics market. Table 2 shows that the express delivery market has grown faster than the postal service market in terms of revenue and profit. Overall, the fast growth of express delivery transportation market in China attracts international express delivery firms.

Table 2
Postal and Express Delivery Industry in China

	Postal Service				Express Delivery Service			
	Revenue (hundred million yuan)	The growth rate of revenue compared to the previous year	Profits (hundred million yuan)	The growth rate of profit compared to the previous year	Business volume (number of cases, million)	The growth rate of business volume compared to the previous year	Profits (hundred million yuan)	The growth rate of profit compared to the previous year
2009	1632.1	16.4%	1094.7	14%	1,860	22.8%	479	17.3%
2010	1985.3	21.6%	1276.8	16.6%	2,340	25.9%	574.6	20.0%
2011	1607.7	25%	1561.5	22.3%	3,670	57%	758	31.9%
2012	2036.8	26.7%	1980.9	26.9%	5,690	54.8%	1055.3	39.2%

< Source: State Post Bureau of the People's Republic of China >

Delivery firms in China can be categorized into three groups: governmental, private, and international firms. EMS (Express Mailing Service) is owned and operated by the Chinese government. Big private delivery firms include SF Express, ST Express, and YT Express. International firms are FedEx and UPS. Table 3 indicates that the market share of governmental, private, and international delivery firms was 29.4%, 67.6%, and 3.0% in 2011 respectively, and became 22.8%, 75.4%, and 1.8% in 2012. Although the profit gained by the international firms is higher compared to their market share, international firms are losing their market share in China over time.

Table 3
Market Share and Profit Share between Governmental, Private, and International Firms in Domestic Chinese Express Market

	Market Share			Profit Share		
	Governmental	Private	International	Governmental	Private	International
2011	29.4%	67.6%	3.0%	35.8%	49.4%	14.8%
2012	22.8%	75.4%	1.8%	28.4%	60.5%	11.1%

< Source: State Post Bureau of the People's Republic of China >

Table 4 shows that the number of delivery services to other provinces capture more than 70% of the market share of the express delivery industry. Moreover, its profit share has increased over time. On the other hand, the market and profit share of the international express delivery segment decreased over the years..

Table 4
Market Share and Profit Share between Regions

	Market Share			Profit Share		
	Delivery within the Province	Delivery to other Provinces	International Delivery	Delivery within the Province	Delivery to other Provinces	International Delivery
2010	22.9%	71.5%	5.6%	7.2%	49.4%	31.1%
2011	22.3%	74.2%	3.5%	8.7%	58.8%	24.2%
2012	23.1%	73.7%	3.2%	10.4%	60.2%	19.5%

< Source: State Post Bureau of the People's Republic of China >

Table 5 shows that more than 80% of the express delivery business volume and profit share comes from the eastern provinces where most of major cities and business headquarters are concentrated.

Table 5
Proportion of Express Delivery Business Volume and Profit Share among Regions in China

2012	Business Volume	Profit Share
Eastern China	81.9%	82.3%
Central China	10.5%	9.3%
Western China	7.6%	8.4%

< Source: State Post Bureau of the People's Republic of China >

REGULATION CHANGES

The Chinese government changed its regulations for the postal service market over time. In 2000, the Chinese government allowed foreign firms to run its business independently as wholly foreign-owned enterprises in certain industries After China joined WTO in 2001, the Chinese government accelerated to open its delivery market. In 2005, it opened the logistics and express delivery industry to foreign firms. In 2009, the Chinese government enacted a new postal law that required the foreign firms to acquire licenses from the department of postal management and the department of merchant and trade for both the domestic and international delivery business. In addition, the Postal Law indicated that the governmental firm (EMS) only can deliver letters and documents that weigh less than 5kg, and packages which weigh less than 10kg. Moreover, foreign delivery companies are only allowed to deliver express packages within China, and deliver express letters internationally. These regulations restrict the coverage and business scope of the international delivery firms in China.

BOOMING E-COMMERCE BUSINESS

The Chinese express delivery market has been rapidly grown with the development of the E-commerce industry in China. Private firms are aggressively entering into the E-commerce market, and the E-commerce business reached 42% of the business volume of the delivery firms in China in 2010, and 58% in 2011. 46% of the profit of the delivery firms is acquired from the E-commerce business.

Since the postal law was issued in 2009, the Chinese government has restricted private firms from providing most of the postal services, so the private firms had to turn their focus to E-commerce delivery business. The number of internet users was 450 million in 2011, and 41.6% of the internet users made their purchases through E-commerce in China. In 2011, the size of the Chinese E-commerce business was 70 billion yuan, showing 46.4% increase compared to the previous year. It is expected to grow up to 265 billion yuan in 2015. Due to the large size of the land, none of the private express delivery firms can cover all of the cities in China alone. Therefore, the E-commerce companies rely on several local delivery firms. For example, Tmall.com delivered its products to customers through nine delivery firms.

FEDEX IN CHINA

One of the FedEx's fastest booming markets is the Asia-Pacific Region, specifically China. FedEx's revenue in China's express delivery market has grown? three times as fast as China's overall economic growth. FedEx entered the international Chinese express delivery market in 1984, and established its business in the Chinese domestic market in 1999 through a joint venture partnership with a Chinese delivery firm called Da Tian W Group. In 2007, FedEx bought out the Da Tian W Group and launched its business in the domestic market as a wholly-owned company.

In February 2009, FedEx located its Asia Pacific Hub at Guangzhou's Baiyun International Airport. FedEx China is operated as a wholly foreign-owned enterprise, which provides operational and business flexibility to FedEx. FedEx China currently has more than 9,000 employees for international and domestic services and it currently operates 252 weekly flights to and from five cities in China – Beijing, Shanghai, Guangzhou, Shenzhen, and Chengdu.

In 2012, FedEx received licenses to operate in eight cities from China's State Post Bureau: Shanghai, Guangzhou, Shenzhen, Hangzhou, Tianjin, Dalian, Zhengzhou and Chengdu. All these eight cities have a population of nearly 100 million people and have some of the country's biggest manufacturing centers.

FedEx occupies 20% of the market share in the international delivery market in China. However, it only takes up around 1% of the market share in the domestic express delivery market in China. One of the reasons for FedEx's small market shares in the Chinese domestic express market can be attributed to the Chinese law that banned foreign international firms to operate their own aircrafts within China. FedEx could not operate its own aircraft for delivery services. Instead it had to rely on a local partner's aircraft, Yangtze River Express (YRE), to deliver documents, parcels, and packages within China. However, the granted licenses allow foreign delivery firms to operate their own aircrafts on approved intra-China routes.

COMPETITOR ANALYSIS

UPS

UPS is one of the world's largest express delivery firms along with FedEx and DHL. UPS entered China in 1988, and operated in an international market for 16 years through a joint venture with Sinotrans. In 2005, it bought out the ownership of Sinotrans' international express operations. In 2008, UPS opened an international air hub in Shanghai. In 2012, UPS gained domestic express delivery licenses to operate in five cities: Guangzhou, Shanghai, Shenzhen, Beijing and Chengdu. Currently, UPS has around 1% of the market share in China's domestic sector and has more than 5,000 employees and 92 operating facilities in major cities across China.

UPS plans to target high-value business-to-business market in China. UPS focuses on big cities since they are the main market for the express delivery services. For instance, UPS plans to provide express delivery services for healthcare market as the Chinese government expands and improves its healthcare system.

DHL

DHL made an attempt to enter the domestic market by acquiring three Chinese express companies. However, DHL failed to create synergy from these acquisitions and suffered substantial financial losses in China. In addition, the Chinese government had strict regulations that banned international delivery firms from entering the domestic market unless they gained licenses from the government. As a result, DHL withdrew its business from Chinese market by divesting the acquired companies in 2011.

EMS

EMS (Express Mailing Service) is a delivery firm owned by the Chinese government and it started its business in 1980. It has the longest history among the delivery firms in China. Moreover, it is the biggest delivery firm that provides services for 31 provinces in China. As the first delivery firm in China, EMS has established its own delivery system using its own aircrafts, railways, and highways. It has more than 45,000 branches with more than 100,000 employees. Since EMS is a governmental firm, it does not need to pay highway toll charges and it also can benefit from the low tax rate for the services.

However, EMS holds the highest price for their services compared to both international firms and other private firms. Moreover, providing more than 17 kinds of services led to high maintenance costs, and it even made some of the services to compete with its other services. Furthermore, the quality of its services is less competitive than other firms. For instance, EMS got the most complaints by getting 22.04% of total complaints received in delivery firms in China.

SF Express

Private express delivery firms have the highest market shares in the domestic Chinese market, 75.4% in 2012. Among more than 10,000 private firms in China, SF Express is the strongest competitor for FedEx. Unlike other private firms, SF Express has established a direct operation system that enables it to manage its service quality. This helps SF Express to maintain its brand image as a leading company in China. The price for SF Express' domestic delivery service is about 50% of the EMS price, and similar to FedEx price. Even if SF Express maintains comparably low price for its delivery services, the quality of the services appears to be excellent. Only 3.86% of the complaints were pointing out SF Express. SF Express has been also working on the acquisition of regional transportation companies to expand their service coverage across China.

Since the Postal Law has banned private firms from delivering within a city for documents weighing less than 50g, and between cities for documents weighing less than 100g, the private firms lost their opportunity to deliver letters that consisted of 60~70% of the business sales. SF Express made up its losses from the E-commerce delivery business. SF Express has an alliance with the E-commerce market leader Alibaba, which runs Taobao and Tmall. In particular, Taobao receives more than 20 million orders per day, which is 70% of China's delivery volume. Alibaba currently has partnerships with eight other delivery firms.

Some of the E-commerce business firms such as 360buy, VANCL, and Yihaodian.com are building their own delivery system rather than relying on external delivery firms. For instance, 360buy acquired the license for express delivery business and started its own express delivery service in 2012. On the other hand, some express delivery companies have tried to expand its business to E-commerce business. For example, SF Express opened its E-commerce business website sfbest.com in May, 2012, targeting the medium and high-end B2C food industry.

STRATETIC ISSUES AND THE ROAD AHEAD

The express delivery business in China is growing at a rapid speed and is considered as the third largest market for express services. FedEx have successfully penetrated into the international business in China based on its advanced freight solutions and global reach. However, FedEx is still struggling in the Chinese domestic market.

Although the Chinese government has reduced its restrictions by permitting foreign express delivery firms to operate their own aircrafts, Chinese Government's regulations can be still seen as barriers for FedEx's further growth in Chinese express delivery market. Foreign express delivery companies get only access to the Chinese domestic delivery market by acquiring licenses from the Chinese government. Furthermore, fierce competition with the local competitors (e.g., EMS and SF Express) exists. EMS gets strong support from the Chinese government and SF Express is growing fast in the E-commerce delivery market.

Under this competitive environment in China, should FedEx stay or withdraw its business from the Chinese domestic express delivery market? If they stay in the market, how can FedEx improve its position in the domestic express delivery market in China?

FedEx can focus on the cities where it gained operating licenses from the Chinese government. Expanding its coverage through operating licenses enables FedEx to have direct control on their delivery process by using their own trucks and aircrafts. However, in this case, FedEx cannot rapidly increase its share? in the domestic express deliver market. In addition, forming joint ventures with other local domestic firms might allow FedEx to rapidly expand its distribution channels and service coverage. However, it might make it difficult for FedEx to directly control its operation and service quality. What could and should the senior management team do to ensure FedEx's success in China?

Appendix 1
Comparison between FedEx, UPS, SF Express, and EMS

	FedEx	UPS	SF Express	EMS
Characteristics	International	International	Private	Governmental
Coverage	400 cities (200 cities for the domestic market, Licenses in 8 cities)	300 cities (Licenses in 5 cities)	250 cities, 1300 districts	2000 cities 31 provinces (everywhere)
Alliance	Yangtze River (JV)	N/A	E-commerce firms	E-commerce firms
Price (From Beijing to Guangzhou, 2kg)	28 yuan	N/A	46 yuan	N/A
Quality	Good	Good	Excellent	Bad
Market Share (International)	20%	N/A	Expanding (recently)	19~21%
Market Share (Domestic)	Around 1%	Around 1 %	N/A	20%

Appendix 2 Financial Information of FedEx
Consolidated Statements of Income
(in millions, except per share amounts)

	Years ended May 31,		
	2012	2011	2010
Revenues	$ 42,680	$ 39,304	$ 34,734
Operating Expenses			
Salaries and employee benefits	16,099	15,276	14,027
Purchased transportation	6,335	5,674	4,728
Rentals and landing fees	2,487	2,462	2,359
Depreciation and amortization	2,113	1,973	1,958
Fuel	4,956	4,151	3,106
Maintenance and repairs	1,980	1,979	1,715
Impairment and other charges	134	89	18
Other	5,390	5,322	4,825
	39,494	36,926	32,736
Operating Income	3,186	2,378	1,998
Other Income (Expense)			
Interest expense	(52)	(86)	(79)
Interest income	13	9	8
Other, net	(6)	(36)	(33)
	(45)	(113)	(104)
Income before income taxes	3,141	2,265	1,894
Provision for Income Taxes	1,109	813	710
Net Income	$ 2,032	$ 1,452	$ 1,184
Basic Earnings Per Common Share	$ 6.44	$ 4.61	$ 3.78
Diluted Earnings Per Common Share	$ 6.41	$ 4.57	$ 3.76

Consolidated Balance Sheets *(in millions, except share data)*		
	Years ended May 31,	
	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$2,843	$2,328
Receivables, less allowances of $178 and $182	4,704	4,581
Spare parts, supplies and fuel, less allowances of $184 and $169	440	437
Deferred income taxes	533	610
Prepaid expenses and other	536	329
Total Current Assets	9,056	8,285
Property and Equipment, at Cost		
Aircraft and related equipment	14,360	13,146
Package handling and ground support equipment	5,912	5,591
Computer and electronic equipment	4,646	4,408
Vehicles	3,654	3,294
Facilities and other	7,592	7,247
	36,164	33,686
Less accumulated depreciation and amortization	18,916	18,143
Net Property and Equipment	17,248	15,543
Other Long-Term Assets		
Goodwill	2,387	2,326
Other assets	1,212	1,231
Total Other Long-Term Assets	3,599	3,557
	$29,903	$27,385

Consolidated Balance Sheets
(in millions, except share data)

	Years ended May 31,	
	2012	2011
Liabilities and Stockholder's Investment		
Current Liabilities		
Current portion of long-term debt	$417	$18
Accrued salaries and employee benefits	1,635	1,268
Accounts payable	1,613	1,702
Accrued expenses	1,709	1,894
Total Current Liabilities	5,374	4,882
Long-Term Debt, Less Current Portion	1,250	1,667
Other Long-Term Liabilities		
Deferred income taxes	836	1,336
Pension, postretirement healthcare and other benefit obligations	5,582	2,124
Self-insurance accruals	963	977
Deferred lease obligations	784	779
Deferred gains, principally related to aircraft transactions	251	246
Other liabilities	136	154
Total Other Long-Term Liabilities	8,552	5,616
Commitments and Contingencies		
Common Stockholder's Investment		
Common stock, $0.10 par value: 800 million shares authorized; 317 million shares issued as of May 31, 2012 and May 31, 2011	32	32
Additional paid-in capital	2,595	2,484
Retained earnings	17,134	15,266
Accumulated other comprehensive loss	(4,953)	(2,550)
Treasury stock, at cost	(81)	(12)
Total Common Stockholder's Investment	14,727	15,220
	$29,903	$27,385

Consolidated Statements of Cash Flows *(in millions)*			
	Years ended May 31,		
	2012	2011	2010
Operating Activities			
Net Income	$2,032	$1,452	$1,184
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	2,113	1,973	1,958
Provision for uncollectible accounts	160	152	124
Deferred income taxes and other noncash items	1,126	669	331
Impairment and other chargers	134	29	18
Stock-based compensation	105	98	101
Changes in assets and liabilities:			
Receivables	(254)	(400)	(906)
Other current assets	(231)	(114)	276
Pension assets and liabilities, net	(453)	(169)	(611)
Accounts payable and other liabilities	144	370	710
Other, net	(41)	(19)	(47)
Cash Provided by Operating Activities	4,835	4,041	3,138
Investing Activities			
Capital expenditures	(4,007)	(3,434)	(2,816)
Business acquisitions, net of cash acquired	(116)	(96)	-
Proceeds from asset dispositions and other	74	111	35
Cash used in Investing Activities	(4,094)	(3,419)	(2,781)

	2012	2011	2010
Financing Activities			
Principal payments on debt	(29)	(262)	(653)
Proceeds from stock issuances	128	108	94
Excess tax benefit on the exercise of stock options	18	23	25
Dividends paid	(164)	(151)	(138)
Purchase of treasury stock	(197)	-	-
Other, net	-	(5)	(20)
Cash used in Financing Activities	(244)	(287)	(692)
Effect of exchange rate changes on cash	(27)	41	(5)
Net increase(decrease) in cash and cash equivalents	515	376	(340)
Cash and cash equivalents at beginning of period	2,328	1,952	2,292
Cash and cash equivalents at end of period	$2,843	$2,328	$1,952

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CASE OF THE ABANDONED PARTNER

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CASE DESCRIPTION

This case deals primarily with management. The difficulty level of this case is three. The case is designed to be taught in approximately 2-4 class periods (the equivalent of 2 to 4 hours) depending on whether or not the instructor wishes to complete the live interview section. This case may or may not require outside preparation; this decision will be left up to the instructor. If the instructor decides to allow the live interview portion, then students should be prepared to discuss the legal issues related to discrimination in employment and questions that are appropriate and allowed versus those questions not permissible in an interview situation. This additional preparation would require outside research into the interview process. Depending on the depth of the content covered in class; an instructor may choose to have students research 1-2 hours prior to preparing interview questions and participating in the live interview portion.

CASE SYNOPSIS

This case tells the story of Mary Ellington, a ten year partner of MJ Office Supply Company, and her approach to her business when the only other partner, John Clevinger, decides to leave the partnership. By necessity, the remaining partner, Mary, must change business forms because there is only one person remaining in ownership of the company and because she is the only partner remaining, she makes a decision to continue the business as a sole proprietorship. This requires an analysis of the responsibilities each partner had in the partnership as outlined in detail and the development of a plan to make sure the company moves forward in light of its new business form. As a result, Mary decides that she needs to hire someone to handle certain responsibilities in the company and she seeks to figure out who will match her job description best. This case contains the biographical information for all six applicants that applied for the Office Manager position for MJ Office Supply Company and it is an interesting process to ultimately find the best candidate for the job position.

MJ OFFICE SUPPLY COMPANY

Mary shook John's hand. He had been her partner in this business since they began the office supply company 10 years ago. A lot has happened since then. Mary lost her husband to cancer three years ago. She has fourteen year old twin girls. When necessary her mother helps with the girls, especially transporting them to and from school and after school events. Therefore, Mary understood that John and his wife needed to move closer to his aging parents, five hundred miles away. Mary and John had always worked so well together. From the beginning, both Mary and John understood the importance of a written partnership agreement which outlined what would happen at the dissolution of the partnership. The partnership agreement specified how the business would be valued at that time and how to determine each partner's share at dissolution. Since the company is financially sound, there is no issue with John receiving the specified compensation from the agreement. This will also not affect the company's viability and success moving forward. However, Mary and John do need to clarify a few points regarding responsibilities of each partner within the company.

John: "Don't worry, Mary, you know this business from top to bottom. I am sure you will find someone to cover the part of the business that I did on a daily basis".

Mary: "I don't want a new partner, John. I am going to run the business myself and hire someone with some of your organizational and technological skills".

John: "I think that is a great idea Mary. I will write a job description for what I currently do and if you would write what you currently do, then we can decide what job description is needed for your search".

Mary: "Thanks, John that will be very helpful".

John sat down and thought through his job responsibilities. In addition, Mary sat down and wrote her responsibilities.

John Clevinger's Job Responsibilities

John listed the following as his primary responsibilities at MJ Office Supply Company:

1. Prepares and monitors budget by gathering and organizing financial information; scheduling expenditures; analyzing variances; implementing corrective actions.
2. Maintains records by defining procedures for retention, protection, retrieval, transfer and disposal of records.
3. Maintains building services by identifying, selecting, and monitoring vendors.
4. Maintains office services by organizing office operations and procedures; preparing payroll; controlling correspondence; designing filing systems; reviewing and approving supply requisitions; assigning and monitoring clerical functions.
5. Maintains office efficiency by planning and implementing office systems, layouts, and equipment procurement.
6. Completes operational requirements by scheduling and assigning employees; following up on work results.
7. Keeps management informed by reviewing and analyzing special reports; summarizing information; identifying trends.
8. Achieves financial objectives by preparing an annual budget; scheduling expenditures; analyzing variances; initiating corrective actions.

Mary Ellington's Job Responsibilities

Mary wrote the following list for her responsibilities at MJ Office Supply Company:

1. Maintains office staff by recruiting, selecting, orienting, and training employees.

2. Maintains office staff job results and team efforts by coaching, counseling, and disciplining employees; planning, monitoring, and appraising job results.
3. Maintains professional knowledge of the office supply business by attending educational workshops; reviewing professional publications; establishing personal networks; participating in professional societies.
4. Handles all personnel as well as customer service issues.
5. Performs all duties related to marketing.
6. Maintains facilities by planning space allocations, layouts, and product floor moves; arranging for and supervising building maintenance.

Sharing Responsibilities

In the afternoon John shared his responsibility list with Mary. Together, they decided that Mary could take on the following from his list:

1. Prepares and monitors budget by gathering and organizing financial information; scheduling expenditures; analyzing variances; implementing corrective actions.
2. Maintains building services by identifying, selecting, and monitoring vendors.
3. Completes operational requirements by scheduling and assigning employees; following up on work results.
4. Achieves financial objectives by preparing an annual budget; scheduling expenditures; analyzing variances; initiating corrective actions.

They also decided that Mary could add supervising building maintenance to the new person's job description and eliminate that responsibility from her responsibilities. After a thorough review of each person's responsibilities, they created the office manager job description. Mary made a few changes and then they both felt that the job description contained all the skills that Mary would need in the new position. Mary prepared a job advertisement to submit to the local newspaper and the local online job posting site.

Job Position Advertisement

MJ Office Supply Company
Title: Office Manager Position
Full time position with local office supply company.

Office Manager Job Purpose: Supports operations of the office supply company by maintaining facilities, records, equipment, and building services and maintenance; completes special projects. This position reports directly to the owner of the business. The Office Manager will stand in for the owner as required.

Office Manager Job Duties:

1. Maintains records by defining procedures for retention, protection, retrieval, transfer and disposal of records.
2. Maintains office services by organizing office operations and procedures; preparing payroll; controlling correspondence; designing filing systems; reviewing and approving supply requisitions; assigning and monitoring clerical functions.
3. Maintains office efficiency by planning and implementing office systems, layouts, and equipment procurement.
4. Keeps management informed by reviewing and analyzing special reports; summarizing information; identifying trends.
5. Maintains computer ordering, restocking, and inventory system.
6. Supervises building maintenance.

Preferred Qualifications: Associate/Bachelor's degree in business or at least 2 years management experience. Needs to be familiar with QuickBooks. Must learn business's supply and ordering system.

Required Skills:

1. Computer skills: Word and Excel
2. Negotiation/Sales Skills
3. Excellent People Skills
4. Excellent Organization Skills

Two weeks passed since the job advertisement was placed in the newspaper and online. Mary has six applicants for the Office Manager position at MJ Office Supply Company:

Applicant Pool

Applicant # 1: Lester Button is a night manager for a national copy company (six months experience). Previous work included being an assistant manager of local toy store for two years. Never attended College. Knows Word, and Excel and other bookkeeping programs. Has experience with online ordering. Has created and maintained budgets.

Applicant # 2: Valerie Gomez is an hourly employee for MJ Office Supply Company for last 2 years. She is currently working on an associate degree in business management. She will complete her degree in six months. She is a good worker but she is rather shy. She is very knowledgeable about the company's policies and procedures. She assists in displaying merchandise and set ups for special sales promotions and she keeps management informed about what products are selling and which are not selling.

Applicant # 3: Sam Townsend is a recent graduate of local university with a Bachelor's Degree in Finance. He has work experience as a workstudy at the college bookstore for last 2 years. He has an outgoing personality and excellent computer skills. He managed the stationery section of the bookstore including ordering, sales, and tracking of all stationery inventories. Produced reports used by management in making decisions about product offerings.

Applicant # 4: Luigi Costello is new to the community. Has owned the same type of business in another state. He is confident in his management and selling skills. He is also very knowledgeable about this type of business and how it should be run.

Applicant # 5: Ginger Haller is a retired business faculty member from local college and is active in the community. She has managed students but not a business. She taught computer skills and programming for twenty-eight years. She is Intelligent and possesses a stiff demeanor. She can complete financial calculations using Excel. She also served as interim department chair for 3 years in the early part of her twenty-eight year career. In that role, she maintained records for the department and maintained office services and office efficiency by planning and implementing office policies and procedures. In addition, she monitored equipment need and use.

Applicant # 6: Margaret St. John worked in her family's florist business for the last 15 years but is looking for a more challenging position. She is familiar with QuickBooks. She has not attended college. She is well-known in the community as an active volunteer with the local cancer society, leading all organization activities for the last 10 years. As a result, she works well with teams of individuals by monitoring progress on assigned duties. This year she received the Community Woman of the Year Award for her accomplishments with the cancer society. She has only fair computer skills but is willing to learn. She has excellent communication skills.

Decision Point

After reviewing the applications, who should Mary hire?