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CJ FRESHWAY

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ABSTRACT

CJ Freshway is the first large company to enter the food distribution business. They cover a wide range of the food distribution business in Korea. With the reputation of its parent company CJ Group in Korea, they could attract a number of customers, who are restaurant owners and franchise restaurant brands. CJ Freshway formed joint ventures called Freshone with small-medium sized food ingredients distributors by obtaining 51% or more of total share. Attracting more local distributors to join Freshone is vital for CJ Freshway to expand the business and get competitive advantage. Through joint venture, CJ Freshway could leverage the tacit knowledge and networks of the local distributors. Also, CJ Freshway could respond to the social atmosphere that requires coexistence with small businesses. By joining Freshone, distributors can secure stable income and shorten the distribution process with the advantage of CJ Freshway's system. However, CJ Freshway's market share is only between 2-3% in the B2B section of food distribution industry. They are still the market leader, yet considering the profit earned, CJ Freshway has a long way to go. Furthermore CJ Freshway underwent the conflict with local distributors. The conflict caused CJ Freshway loses trust from local distributors. What should CJ Freshway do in the food distribution market for sustainable competitive edge?

COMPANY OVERVIEW

CJ Group Overview

CJ Group, a parent company of CJ Freshway, is an influential conglomerate in Korea. The vision of CJ Group is as following: "Create a new culture, for healthy, happy and convenient lifestyles". It has 14 affiliates with wide coverage from food, media, entertainment sectors, and culture.

CJ, which stands for Cheil-Jedang, was originally a sugar manufacturing company founded by Byungchul Lee as a division of Samsung Trading in 1953. Cheil-Jedang was quite successful by exporting sugar to Okinawa, Japan and successfully launched sugar brand, 'Baeksul', which became one of the biggest food brands in Korea. In addition, Cheil-Jedang released beef flavored spices (used in making broth) called Dashida. With its' success, Cheil-Jedang became a prominent food company in Korea.

There was a turning-point for CJ, when its founder Byungchul Lee passed away in 1993. Cheil-Jedang became independent from Samsung Group. Cheil Jedang entered a restaurant industry, and opened a family restaurant named 'Skylark'. It also started an entertainment business by establishing Dreamworks SKG. Changing the company's name to CJ, they focused mainly on four businesses: Food & Food service, Bio & Pharma, Entertainment & Media, and Retail & Logistics. CJ group is the 14th largest company in Korea in terms of total asse

CJ Freshway Overview

Service and Products Overview

CJ Freshway is a food and beverage distributor supplying over 20,000 domestic and international food items. CJ Freshway supplies fishery and livestock products, processed foods, and kitchen appliances to food dealers, food service providers, franchises, and general restaurants. It also provides a contract meal service for hundreds of restaurants. Moreover, it supplies global brand products with competitive price to its clients.

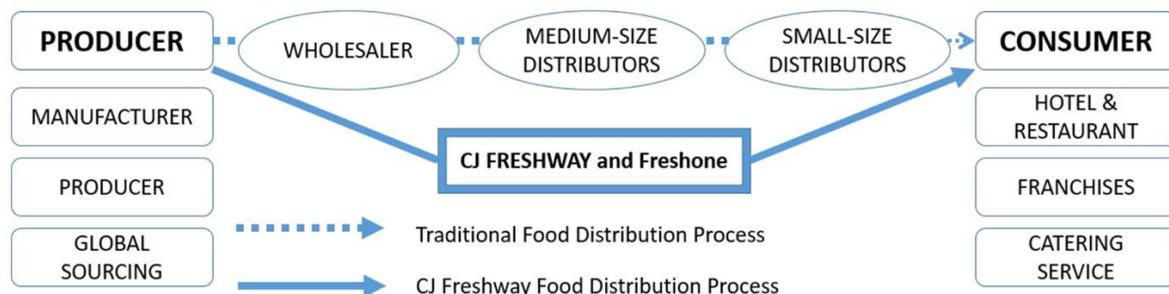
CJ Freshway started its food distribution business in 1999 in Korea and has been leading the domestic market ever since. The Korean food distribution industry, currently worth about 27.3 billion USD (33 trillion won) a year, is expected to further grow in the future. (Oh, 2015)

As the leader in the domestic food distribution industry, CJ Freshway develops wide distribution channels, production development capabilities, and competitive purchasing capability, systematic quality and sanitation management systems (Song, 2015).

Distribution Channel

CJ Freshway made a change to deliver the products from producers to customers. In Korea, producers had to go through multiple intermediary distribution channels to sell their products to customers. In this process, shipping cost of the product and profit margin of intermediary distributor were added on the products. Producers can reduce the burden of contacting many distributors and product price decreases as CJ Freshway directly deliver the products of producers to customers (see Figure 1) (Nam, 2013). To achieve this goal, CJ Freshway forms a joint venture with the wholesalers and consumers, called Freshone. In the traditional food distribution process, there were many stages and it caused high price and low quality. However, CJ Freshway integrated the stages and thus shortened the pathway from producer to consumer. Freshone is a center where they cooperate with local small-medium sized distributors in order to shorten the distribution steps and minimize the costs of food distribution (Nam, 2013).

Figure 1
THE CHANGE IN DISTRIBUTION PROCESS



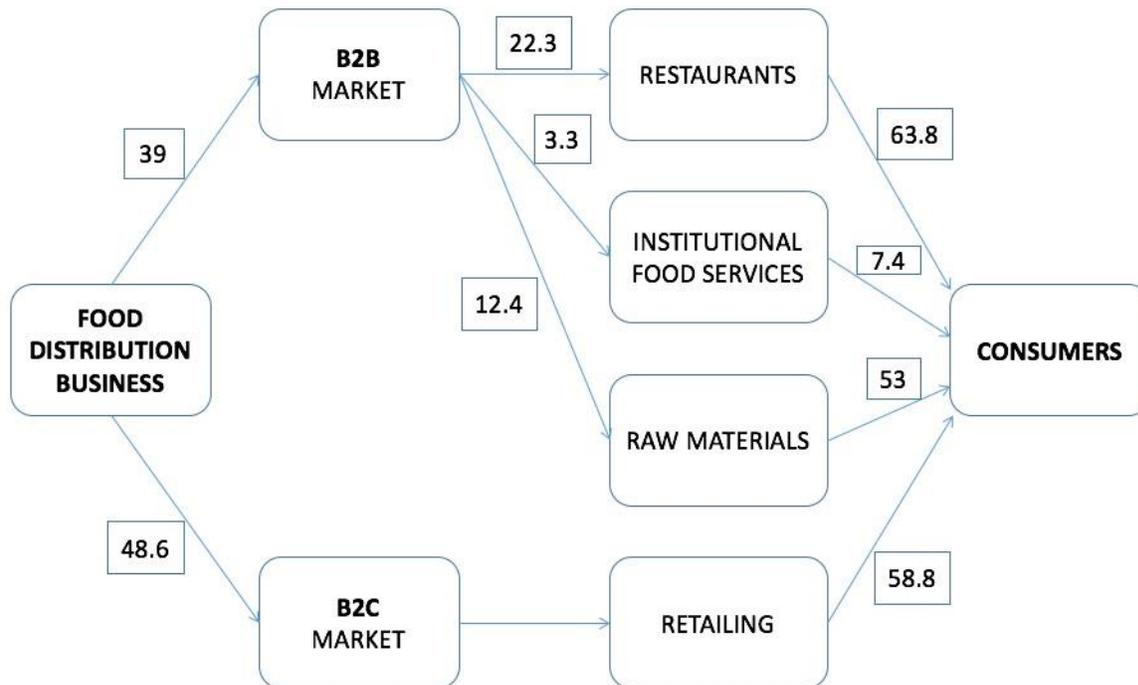
Resources: Heungkuk Securities(Nam, 2013)

INDUSTRY ANALYSIS

Industry Overview

The food distribution industry consists of B2B and B2C markets. The B2B market, worth 39 billion USD (47 trillion won), occupies 45% of the total industry, with the remainder occupied by the B2C market (Nam, 2013) as illustrated in Figure 2.

Figure 2
VALUE OF EACH NETWORK IN THE FOOD DISTRIBUTION INDUSTRY (IN BILLION DOLLARS)



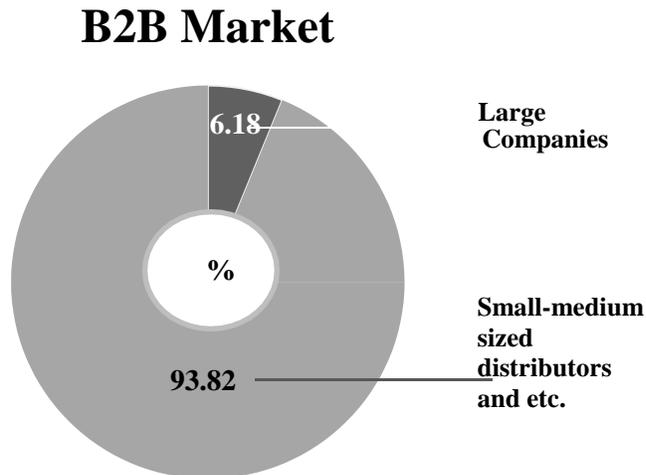
Resources: Samsung Securities(Nam, 2013)

In these two markets, there are four main networks. For B2C market, the retailer network focuses on distributing products to large retailing stores like Homeplus, E-mart, and Lotte Mart. For B2B market, there are three types of networks. First, the institutional food service sector provides food ingredients to school and company cafeterias. Second, there is the restaurant network that provides food ingredients to franchises or small-medium sized restaurants. Lastly, the raw material network provides food resources to food manufacturing factories, wholesalers, and retailers (Nam, 2013).

CJ Freshway focuses on the B2B market. CJ Freshway focuses on contracts with the big franchises and restaurants section. Consumers tend to expect the same taste of food wherever franchise restaurants they visit. Thus, CJ Freshway enables local restaurants to provide franchise restaurants with consistent food ingredients. Freshone is a joint venture formed with local small-medium sized distributors, who had their own distribution channels with local consumers. Small sized distributors are those directly linked to the local restaurant owners. Medium sized distributors are connected to the small sized distributors.

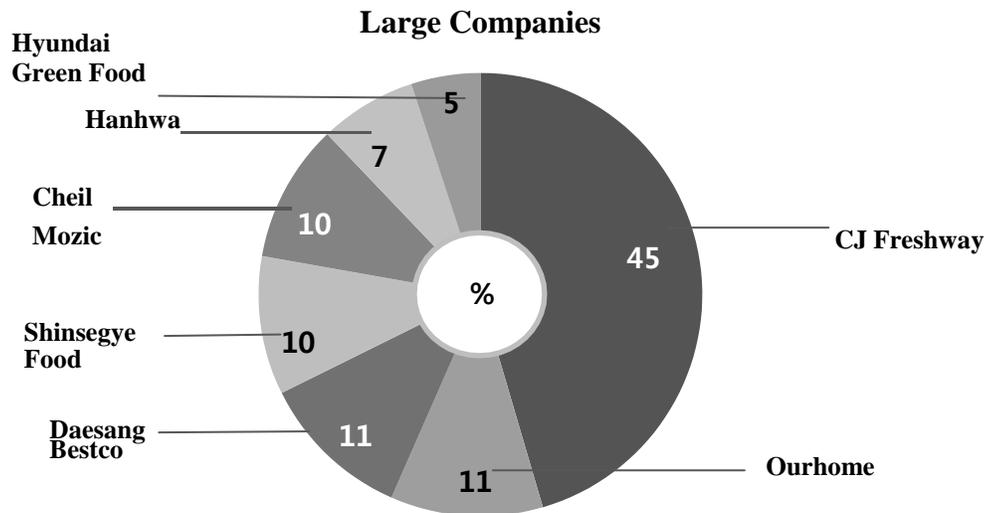
CJ Freshway does not plan to enter the B2C market in the near future as the market is already very saturated with other firms. In the B2B market, CJ Freshway is the largest domestic player. Its main competitors are as following: Hyundai Ourhome, Daesang Bestco, and Shinsegye Food (Oh, 2015).

Figure 3
SHARE IN B2B MARKET



Resources: Eugene Investment Securities(Oh, 2015)

Figure 4
LARGE COMPANIES IN THE B2B MARKET



Resources: Eugene Investment Securities(Oh, 2015)

As Figure 3 shows, large companies such as CJ Freshway and Shinsegae Food only occupy about 6% of B2B market share because local restaurants prefer to procure ingredients from small companies (Oh, 2015), and cash transactions in order to avoid paying tax (Koo, 2015).

Although CJ Freshway is the market leader, it only has around 2.5% market shares. Figure 4 depicts the market share in the B2B food distribution market among large companies.

CJ Freshway takes about 45% and other 6 large companies including Ourhome, Daesang Bestco, and Shinsegye Food take the rest.

In the food distribution market, three factors, rivalry, bargaining power of supplier, and bargaining power of buyer are important. Since bargaining power of buyer is very high and industry competition is fierce, they have to fulfill the customers' needs with competitive price. However, it is hard to cut price when purchasing food ingredients, because the price of food ingredient is decided by auction considering the quality of the product, the supply of that day, and estimated crop of that year.

Achieving economies of scale is crucial in the food distribution industry. According to the interview with internal executive, the average profit rate in food distribution market is 2 to 3%. Since the price of food ingredients is open to the public and it is hard to differentiate the products and services, it is difficult to raise profit rate.

There are two ways to reduce cost; one is increase purchase quantity and the other is contract cultivation. By increasing purchase quantity, CJ Freshway would be able to gain the advantage of economies of scale. The company will get more bargaining power toward suppliers and decrease cost. Contract cultivation means that a company makes a contract about the price and quantity with producers in advance, and then purchases the exact amount of products at the price in the contract. CJ Freshway implements contract cultivation but they cannot make contracts for every product. To manage contract cultivation, merchandisers should be assigned to each product sector or farm. However, CJ Freshway is handling hundreds of products, so it would cost too much for managing each product. Instead, CJ Freshway conducts contract cultivation only when quality and price of products will greatly vary, such as strawberry and potatoes. Thus, in the case of most products, purchasing in large quantity to achieve economies of scale would be the optimal way to cut cost of purchasing.

Competitor analysis

In the food distribution industry, there are four main players, which are CJ Freshway, Ourhome and Daesang Bestco. As a way to create competitive advantage and to keep up with the competition within the industry as it gets fiercer, these four players have entered the industry by adopting different business models and approaches. Among three other players within the industry, Daesang Bestco and Ourhome are considered to be the two direct competitors of CJ Freshway.

Daesang Bestco

Daesang Bestco is regarded as one of the strongest players in the food distribution industry. Its business model is solely focused on providing food distribution service. While other competitors, including Ourhome and Hyundai Green Food both provide services such as restaurants business, school food service, and banquets business, Daesang Bestco positioned mainly provides food materials distribution service. As Daesang Bestco is well-specialized in food material distribution service, it has competitive advantage in outbound logistics, where the food materials are shopped and delivered from its large offline warehouse. As such, its strength and uniqueness come from its operating model that provides two main forms of direct service with its warehouse utilization. The first one is Cash & Carry, which is a form of trade that goods

are sold from a wholesale warehouse operated on a self-service basis. The second form is Cash & Delivery, which the company actually delivers the ordered products to the customers outbanded from the warehouse store. To increase its size, Daesang Bestco has acquired 20 small-medium sized distributors through M&A. However, it does not seem to have any positive consequence just yet as it has been suffering loss for five consecutive years since 2011.

Ourhome

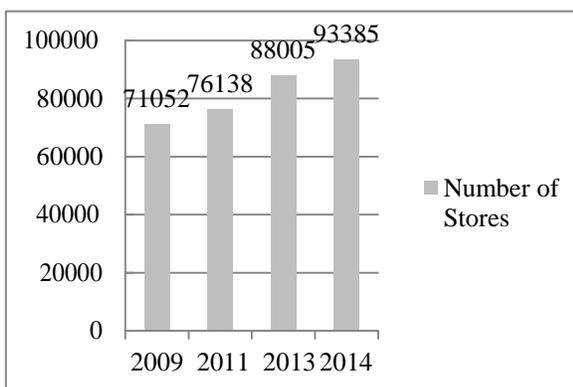
Ourhome is the strong player especially in the school food service. However, since it is acting as a fast follower in other business service, it is considered as another direct competitor of CJ Freshway. It was formerly part of LG Food Distribution, but it became independent in the year 2000. Ourhome pursues diversification strategy to enter other services such as food materials processing and food materials manufacturing by introducing several private brands and new types of processed food.

STRENGTHS OF CJ FRESHWAY

First-mover advantage as a market leader

Figure 5

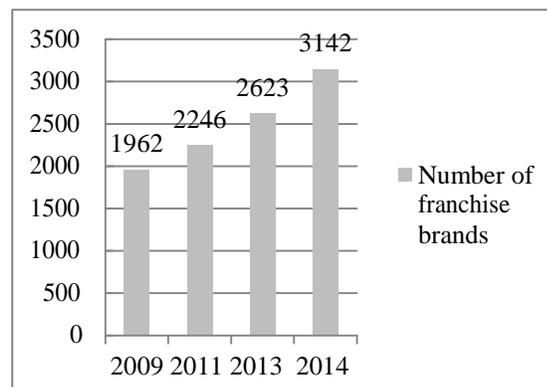
NUMBER OF FRANCHISE RESTAURANTS



Resource: Fair Trade Commission
(<https://franchise.ftc.go.kr/franchise/statistics.jsp>, 2015)

Figure 6

NUMBER OF FRANCHISE RESTAURANT BRANDS



Resource: Fair Trade Commission
(<https://franchise.ftc.go.kr/franchise/statistics.jsp>, 2015)

CJ Freshway was the first large company that entered food distribution business in Korea. CJ Freshway attracted many franchise brands as the first mover of the market. As the Figure 6 and Figure 7 show, the number of franchise restaurant brands and franchise stores are increasing over time. Many franchise restaurant brands wanted a stable and punctual supply of high quality food ingredients. Especially for franchise restaurant brands, all branches have to maintain standardized products and service to customers. The leading franchise brands such as, Seoga & Cook, Warawara, and Chilsung-Pocha are the customers of CJ Freshway.

CJ Freshway covers a wide range of the food distribution business and it helps the company to diversify risks and get more chance to grow. The biggest part of revenue comes from distributing food materials for restaurants. CJ Freshway also distributes raw materials to food processing companies, and provides contract meal service. In contrast, its competitors focus only on specific customers or market.

Vertical integration with other CJ firms

As a part of CJ Group, CJ Freshway can enjoy synergy from other CJ businesses such as CJ CheilJedang, CJ Foodvile and CJ Korea Express. First, CJ Freshway can supply food ingredients to CJ CheilJedang and CJ Foodville. CJ CheilJedang is a food company, which has various products, such as sugar, cooked rice, and ham. In addition, CJ Freshway supplies food materials to CJ Foodville, which has 14 restaurant brands and over 2000 stores. According to the interview with an executive of CJ Freshway, the revenue from CJ Group takes up about 20% of CJ Freshway's revenue.

In addition, CJ Group helps CJ Freshway to develop PB (Private Brand) products. PB product is manufactured by retailers, and it is distributed exclusively via retailer who manufactured it. PB product is the key source of competitiveness of food distribution company. When developing new PB products, it is very important to understand food culture and needs of customers. In this perspective, CJ Cheil-Jedang is perfect partner for CJ Freshway. CJ Cheil Jedang has a capability in developing food products.

PB is one of the critical sources providing the company with competitive advantage. As food distribution businesses is undergoing a long-term recession in the moment, they have turned to develop PB products as a solution. These products are cheaper as it can reduce the cost in distribution process CJ Freshway can attract more customers and increase profit by utilizing its PB products, such as, It's Well, and Freshway. PB products are expected to have prospective growth in the near future.(Lee, 2012)

Also inbound logistics and logistics between Freshway hub centers and Freshone centers are operated by CJ Korea Express. So CJ Freshway can manage their stocks efficiently with the help of CJ Korea Express, applying up-to-date SCM technology.

Reputation

The reputation of CJ in Korea attracts restaurant owners and franchise restaurant brands as customers due to its history and high quality products. Restaurant owners mainly consider two factors when choosing food material suppliers; price and reliability. In addition, franchise brands aim to expand by drawing more franchisees, and thus these brands collaborate with prominent partners like CJ Freshway. In Korea, people tend to open franchise restaurants after retirement, without any experience and knowledge in food and beverage business. Therefore, in the process of deciding on which franchise restaurant to make contract with, the reputation of CJ may give these potential franchisees a sense of reliability.

FRESHONE

In the food distribution industry, most competitors, such as Daesang Bestco expanded their businesses through M&A (Mergers and Acquisition) to gain direct control over operations and sales. In contrast, CJ Freshway formed a joint venture with small-medium sized local distributors by obtaining 51% or more of the total shares (See Table 1). This joint venture is called Freshone. The distributors of Freshone receive monthly payments, dividends, and incentives from CJ Freshway. In Freshone, actual sales and delivery of ingredients happen, whereas CJ Freshway provides distribution centers, hygiene system in delivery, and taxation

services.

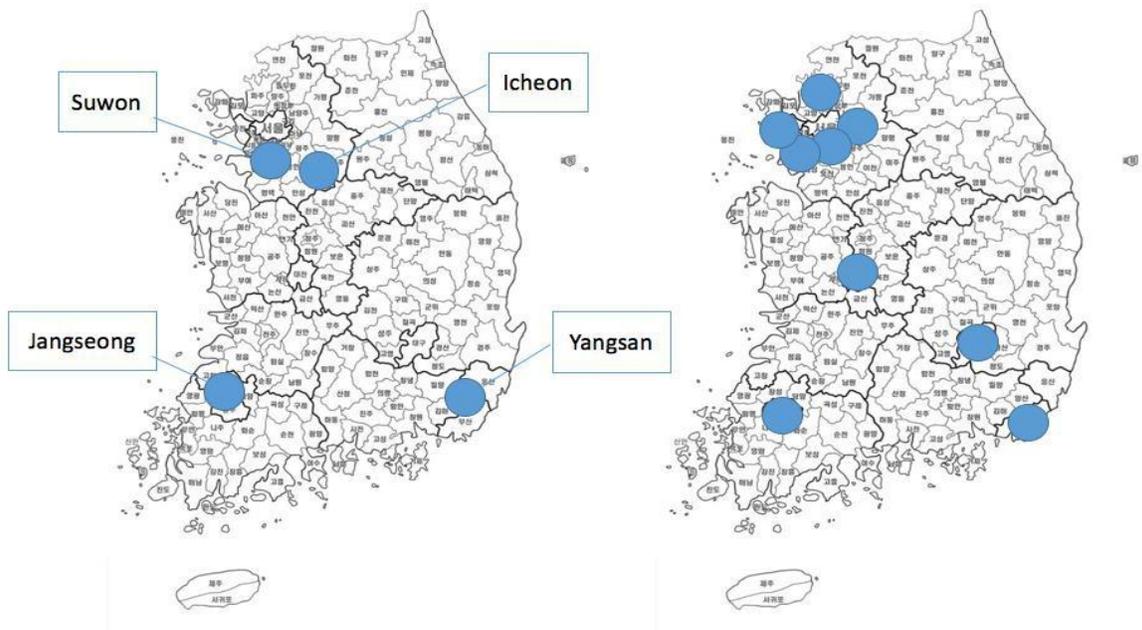
There are four CJ Freshway centers in Icheon, Suwon, Jangseong, Yangsan and nine Freshone centers including Seoul, Jungbu, Namseoul, Gangnam, Daejeon, Gwangju, Incheon, Daegu and Busan (see Figure 7). CJ Freshway centers collect food ingredients from producers and then distribute them to each Freshone center(see Figure 7).

Table 1
SHARE RATIO OF CJ FRESHWAY ON FRESHONE IN 2015

Types	Location	Settled date	Shares	Book value(USD)
CJ Freshway Qingdao corporation	China	Dec	100.00	4,104,581.96
Shanghai Blue Wish Catering Service CO., LTD	China	Dec	96.87	2,752,708.60
CJ Food Service(Shanghai) CO., LTD	China	Dec	100.00	-
CJ Freshway (Shenyang) CO., LTD	China	Dec	100.00	825,285.32
CJ Freshway Vietnam CO.. LTD	Vietnam	Dec	100.00	284,707.08
CJ Freshway America Corporatioon	US	Dec	100.00	422,039.06
Freshone Incheon	Republic of Korea	Dec	51.00	1,314,988.59
Freshone Gwangju	Republic of Korea	Dec	53.68	3,374,388.37
Freshone Jungbu	Republic of Korea	Dec	61.48	-
Freshone Namseoul	Republic of Korea	Dec	87.67	11,877,283.79
Freshone Gangnam	Republic of Korea	Dec	51.82	7,802,939.39
Freshone Dongseoul	Republic of Korea	Dec	63.28	5,327,331.98
Freshone Daegu	Republic of Korea	Dec	51.00	1,120,109.90
TOTAL				38,360,984.02

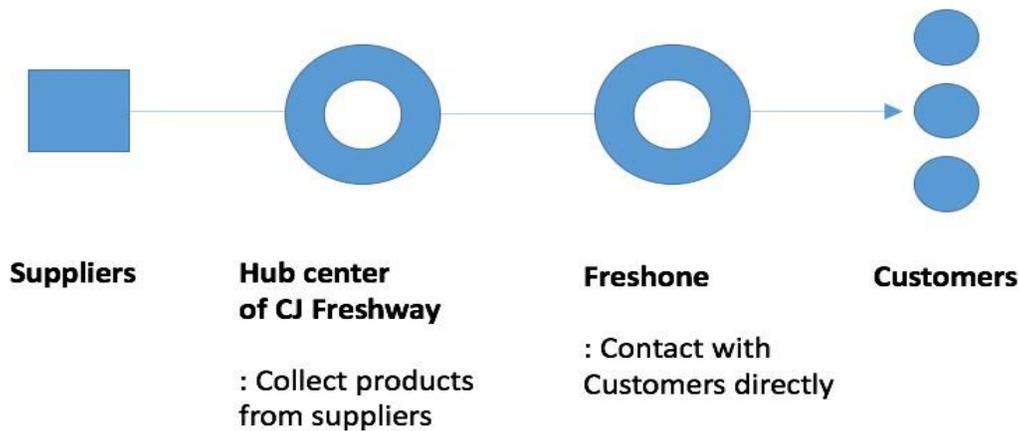
Resources: CJ Freshway

Figure 7
DOMESTIC LOCATIONS OF CJ FRESHWAY HUB CENTERS AND FRESHONE CENTERS



Resources: CJ Freshway

Figure 8
DISTRIBUTION CHANNEL OF CJ FRESHWAY



What differentiates CJ Freshway from other food distribution firms is that CJ Freshway expands their business using Freshone centers. While CJ Freshway focuses more on big business partners such as food franchises, Freshone focuses on small-medium sized food distributors. CJ Freshway is aiming to grow rapidly using Freshone. On average, the business owners that joined Freshone were gaining about 70% of their food ingredients from CJ Freshway, whereas the business owners that have not joined Freshone buy 10% of their food ingredients from CJ Freshway. Thus, CJ Freshway can increase its net sales by attracting more small-medium sized distributors to join Freshone.

CJ Freshway sends three employees to each Freshone center to enhance the communication between CJ Freshway headquarter and the local Freshone centers. These three employees belong to the HR department of CJ Freshway. They gather up information from each Freshone center once a month. In the headquarter, then, they hold a meeting and share information.

Benefits of Freshone

CJ Freshway can leverage the local distributors' know-how and networks by cooperating with the local distributors in Freshone. CJ Freshway makes new customers (e.g. local restaurant owners) by collaborating with the local small-medium sized distributors.

Daesang Bestco pursued M&A to acquire small-medium sized local food distributions and they were harshly criticized in public. There is a great concern in Korea that chaebol destroys the small local businesses. For instance, law forbids the operation of large retailers in certain weekend. Joint venture is more focusing on utilizing and enhancing the current networks of small-medium sized distributors rather than attracting them through acquisitions. Joint venture enables co-evolution between big firms of small-medium sized firms.

The increase in the number of small-medium sized distributors joining Freshone leads the increase of revenue and market share of Freshone. For example, in 2012, the number of small-medium sized distributors in Freshone Nam-Seoul increased from 180 to 230. In the same period, the profit of Freshone Nam-Seoul rose from \$780,000 to \$1,198,000(CJ, 2012). As more

small-medium sized distributors join Freshone, CJ Freshway would be able to achieve economies of scales accordingly in purchasing the food ingredients. As the quantity of food resources increases, CJ Freshway would be able to bargain and negotiate to lower the purchasing prices and this will further result in increasing the profit as a whole (Jang, 2012).

Local distributors can attract more local restaurant owners as customers and hygiene system of CJ Freshway. By working with CJ Freshway, their status and reputation is increased and they gain fixed amount of income securely. In addition, by joining Freshone, they can now get extra incentive from the company based on their ability.

The process of food distribution will be more standardized and shortened when collaborating with CJ Freshway. This makes the local distributors use more advanced equipment and devices provided by CJ Freshway.

CHALLENGES OF FRESHONE

Freshone underwent conflicts with small-medium sized local distributors. The conflict deteriorated the trust relationship between the company and distributors. Also, it gave negative impact on local distributors who consider joining Freshone. In 2011, Freshone Busan tried to draw small-medium sized food distributors, but at the same time, Freshone also attempted to open C&C(Cash and Carry) center (Byun, 2013). C&C is a market type distribution center to sell food ingredients directly to restaurant owners which excludes small medium-sized distributors in the process of food transaction. It caused frustration to local distributors about being excluded from the business by Freshone, while CJ Freshway will take away their know-how and customer network from local distributors.

Local association of small-medium sized distributors in Busan opposed to Freshone, arguing that Freshone threatened their business. The association tried to prevent Freshone drawing small-medium sized distributors, arguing that individual small food distributors would not be able to survive in the market. The association also asked the government to resolve this conflict with CJ Freshway. Finally, in 2014, it came to a settlement that CJ Freshway would try to coexist with small local distributors. Also operating C&C was prevented by the government to protect small-medium sized distributors. Freshone lost trust of local distributors and it made Freshone difficult to attract small-medium sized distributors.

Second, CJ Freshway is aiming to enlarge their shares in Freshone more than 51%. However, this might blur the idea of co-evolution between CJ Freshway and small-medium sized distributors as a form of joint venture. Small-medium distributors who are considering joining Freshone might think that CJ Freshway is not pursuing co-evolution. Also, small-medium sized distributors might assume that they will be eliminated when CJ Freshway acquires Freshone. This leads CJ Freshway to another question, whether they should keep on enlarging their shares in Freshone.

Third, Freshone is going through the difficulty in attracting more local distributors to join Freshone. According to the interview with an executive of CJ Freshway, it is not easy to draw them to Freshone. It is assumed that the benefits the local distributors gain when they join Freshone are not sufficient. When distributors join Freshone, the owners of each business become less in charge compared to being the sole owner of the business. After joining in Freshone, they have to follow the decision of CJ Freshway in the distribution process and share profit with the company. Thus, to increase local distributors joining Freshone, the benefits of

joining Freshone must be superior to the losses.

CONCLUSION

Due to the features of food distribution industry, where margin hardly gets high, the only way to thrive in the fierce environment is to realize economies of scale. As a means to gain economies of scale, it can be said that a firm is given three options: joint venture, M&A, and contacting the local distributors on their own. For CJ Freshway, it is distinguished with other firms as they formed a joint venture with small-medium sized distributors. Small-medium sized distributors can gain the standardized process and revenue increase by participating in Freshone. CJ Freshway can utilize the networks of local distributors. However, Freshone centers are currently still struggling to gain the wholesalers and small-medium sized distributors, although the features of Freshone were expected to be very attractive. Although CJ still stands as the leader in the B2B section of the industry, their market share sums up to only about 2-3 percent. As this percentage refers profits, the actual distributors who have not joined Freshone sum up to more than 97% of the whole market.(Oh, 2015)

Furthermore, CJ Freshway is aiming to enlarge their shares in Freshone starting from 51% at the beginning of contract (See share ratio in Figure 6). However, this might blur the idea of co-evolution between CJ Freshway and small-medium sized distributors as a form of joint venture, Freshone. This leads CJ Freshway to another question, whether they should keep on enlarging their shares in Freshone or maintain their shares as currently done.

	FY 15 1 st Quarter		FY 14 1 st Quarter		FY 14	FY 13
	3 months	Accumulated	3 months	Accumulated		
Net sales	307,293,887.87	307,293,887.87	355,668,045.26	355,668,045.26	1,466,555,751	1,532,947,850
Cost of sales	265,670,849.95	265,670,849.95	321,470,085.06	321,470,085.06	1,295,550,832	1,417,311,980
Gross profit	41,623,037.92	41,623,037.92	34,197,960.20	34,197,960.20	171,004,919	115,635,870
Administrative expense	37,119,290.43	37,119,290.43	32,109,409.38	32,109,409.38	145,946,070	106,984,750
Operating income	4,503,747.49	4,503,747.49	2,088,550.82	2,088,550.82	25,058,848	8,651,119
Other income	95,331.34	95,331.34	351,175.31	351,175.31	327,513	3,902,502
Other operating charges	1,470,282.69	1,470,282.69	1,205,113.05	1,205,113.05	9,987,970	6,749,293
Finance income	760,206.52	760,206.52	1,675,118.54	1,675,118.54	6,280,618	5,364,908
Finance operating charges	1,642,548.42	1,642,548.42	2,817,282.02	2,817,282.02	10,547,692	11,478,632
Income and loss before income taxes	2,246,454.24	2,246,454.24	92,449.60	92,449.60	11,131,317	(309,395)
Corporation taxes	419,398.73	419,398.73	43,307.59	43,307.59	983,288	5,759,991
Net profit	1,827,055.51	1,827,055.51	49,142.01	49,142.01	10,148,029	(6,069,386)

Resources: CJ Freshway

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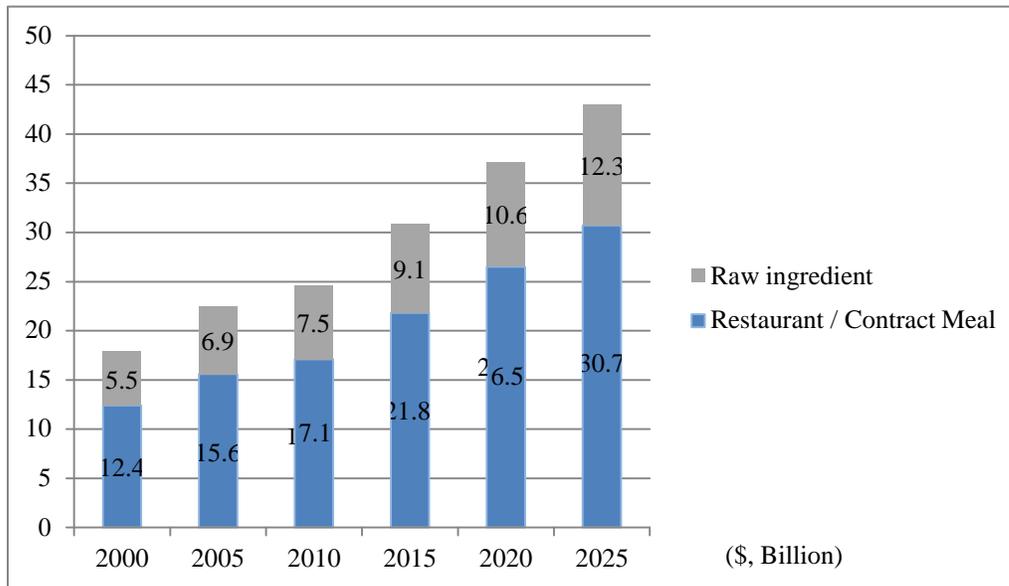
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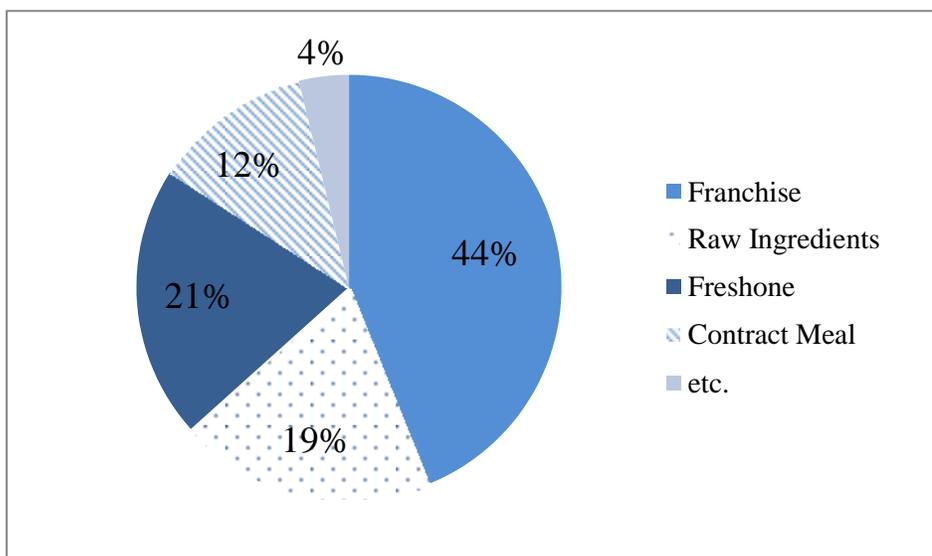
APPENDIX

Appendix 1. B2b food ingredient market development and forecast



Resources: Yearbook of Food Service Industry(2010), The bank of Korea

Appendix 2. Sales portion of each business units in cj freshway in 2014



Resource: CJ Freshway, Samsung Securites(Nam, 2014)

Appendix 3. Benchmarking Model: Sysco

Sysco is a food distribution company that takes up the largest market share with 18% in the US. Many companies in Korea are benchmarking Sysco, since Sysco made success through integrating many small-medium sized distributors with M&A. As there are many small-medium sized distributors in Korean food distribution industry, many companies try to refer to Sysco’s case. Other than their successful M&A, there are also other factors that made them superior than their competitors.

First, by expanding their distribution centers aggressively, Sysco could cut cost by shortening delivery route and attracting new customers. This led to curtailing the total cost of logistics and improvement of quality and stock management. Therefore, this system became one of the main drives of rapid growth.

Second, Sysco satisfies various segments of customers with PB (private brand) products appropriate for each segment. As the figure shows, there are four brands of products that are segmented with different quality and price. With segmented products, Sysco could target customers with different needs more efficiently. (Oh, 2015)

SYSCO'S PRIVATE BRANDS

Brand	Supreme Sysco	Imperial Sysco	Classic Sysco
Brand Symbol			
	<ul style="list-style-type: none"> - Top quality - Ankus beef, Imported Products, Colombian coffee 	<ul style="list-style-type: none"> - High quality - Canned vegetables, Oil, Seafood, Frozen products, Dairy products 	<ul style="list-style-type: none"> - Middle quality - Meat, Seafood, Juice, Vegetable, Fruits, Dairy products - Widest range of products
Brand	Reliance Sysco	Natural Sysco	Serene Sysco
Brand Symbol			
	<ul style="list-style-type: none"> - Low priced - Canned Fruits, Frozen products 	<ul style="list-style-type: none"> - Fresh products that are delivered right after cleanse 	<ul style="list-style-type: none"> - Napkins, Forks etc. - Disposable products

Resources: Sysco

Appendix 4. CJ Freshway introduction video



Resource: Youtube(<https://www.youtube.com/watch?v=R12LZkFcAQc>, 2013)

DISCHARGING STUDENT LOANS IN BANKRUPTCY: GOOD LUCK WITH THAT

Michael Forrest, University of the Incarnate Word
Joseph Labatt, University of the Incarnate Word
Robert Swartz, San Antonio

CASE DESCRIPTION

This case speaks to the real financial fears resulting from burdensome student loan debt experienced by millions of students upon leaving college. Unlike other types of debt obligations held by creditors, student loan debt falls into a special category and is not readily dischargeable in bankruptcy, absent proof of “undue hardship” that precludes paying back the loans. The major topics of the case are bankruptcy, consumer protection, legal environment of business, and ethics. Given the applicability of the topic to students who will soon be obligated to make student loan payments, the case is appropriate for students in a business law class that covers bankruptcy. The case is designed to be taught in one class period, with the expectation that students will have spent two hours in preparation outside of the classroom.

CASE SYNOPSIS

In his 2016 State of the Union address, President Barack Obama argued that “We have to make college affordable for every American. No hardworking student should be stuck in the red.” Indeed, “stuck in the red” is an all too common condition for American students. Outstanding student debt in the United States, by some estimates, stands at \$1.2 trillion, held by borrowers numbering in the tens of millions. For these debtors, what began as an optimistic investment in higher education has turned to deep disillusionment and a sense of betrayal. High paying jobs students counted on too often fail to materialize. Instead, college graduates are caught in a perpetual struggle to manage high loan payments. What follows is a story of one such student.

The case chronicles the vicissitudes of Rory Grette, who borrowed money to pay for a prestigious undergraduate degree and graduate school that he did not finish. A family crisis, economic downturn, lost job, consumer debts, and unexpected medical bills left Rory in financial straits. He seeks to discharge his student loans and other debts in bankruptcy. The question is whether the required payment of his student debt constitutes an “undue hardship.”

CASE BODY

The Facts

Middle class parents in a mid-sized town in the Midwest raised Rory Grette. Their dream was for him to go to college and maybe even get his M.B.A. someday. Rory was an excellent student. He had no trouble being admitted to a nearby state university. Rory had bigger dreams, however. He studied intensely for the SAT test, scored high, and chose an elite Eastern college over the hometown state school. Rory’s parents explained that had he chosen the local option he

could have lived at home, paid lower tuition, and earned a degree with little or no student loans hanging around his neck. Instead, Rory graduated in the middle of his class from “Ivy U” with \$150,000 in student loan debt, but kept his eye on the prize of owning a successful business someday. Apprehensive but undeterred by his financial obligations to a faceless “State Higher Education Financial Services Corporation” (at least that was what was printed on student loan payback notices), Rory vowed to continue his education by returning home to get an M.B.A. at the state school. “Defer and pay” was his mantra. More student loans paid for graduate school tuition, which seemed high to Rory even though he got the in-state rate.

While in graduate school, Rory quit his studies to help his parents who had suffered financial and health setbacks. His outstanding student loans then totaled \$175,000, for which he had to show a B.A. in Economics and one-half an M.B.A. (not a degree at all).

Economic times in Rory’s area of the county were dire. Manufacturing plants had been closing steadily because of foreign competition and high labour and legacy costs under contracts made with unions struck in better times. Not to mention 40,000 pages of new government regulations added by the administration, which increased the cost of business. Rory’s parents were casualties of the downturn. They were both laid off from jobs long held. Neither had the will to continue looking for meaningful work, which led to the couple experiencing despair and depression. Determined to keep the family afloat, Rory took a job as a strategic planner with a defence manufacturer, even though the idea of working for the “military industrial complex” violated all of the ideals with which he had been inculcated in college. Nonetheless, his pay was more than enough to maintain his parents’ household and make regular payments on his student loans. Twelve months; twelve \$500 loan payments dutifully posted.

Things were sailing on an even keel until the federal budget was sequestered and the administration cut the allocations for defence. Rory lost his job, his steady income, and his health insurance. He networked, searched, and applied for any job that might come his way, but his efforts to find employment were for naught. Even when he would get a nibble on a job lead, potential employers shied away because his Ivy League pedigree made him appear to be overqualified—if not desperate.

At wit’s end, Rory signed up to drive for Uber. This required that he get a late model car. He found a one-year-old Mazda that fit the bill and paid for it with a high-interest car loan in the amount of \$15,000 at 5% interest. All earnings went to pay down the car loan; he stopped all student loan payments. Dunning letters from the State Higher Education Financial Services Centre went into the trash. Gas, food, and rent were the priorities for his family.

One day while sitting in his car hoping to catch a fare, Rory had a revelation sparked by a YouTube video he watched on his iPad. The speaker encouraged listeners to look beyond their own circumstances and find ways to help people without resources improve their lives. Rory realized he was too caught up in his own misery over financial pressures and decided it was his mission to help denizens of the inner-city take control through sustainable initiatives. He immediately drove to the nearest church and walked up to the padre, who spoke in broken English. Rory pitched the idea of a community garden—small-plot gardening as a means to give people the skills to grow their own food, improve their diet, and make a contribution, however paltry, to the fight against world-wide famine and the scourge of global warming. This idea was fostered by discussions in an Economics class that followed a viewing of “An Inconvenient Truth.” Rory was a new man. Even though his dreams of being a corporate giant were long ago extinguished, he revealed in his newfound mission to serve mankind and Mother Nature. He maxed out his available credit on two cards buying tools, bags of organic fertilizer and seedling

trays full of vegetable sprouts. On an especially pleasant day, in the middle of demonstrating hoeing techniques at a planting clinic at the church, Rory suffered a minor injury to his foot. Just a scratch, really. A rambunctious youth had grabbed a three-pronged cultivator. While stabbing at the ground, he nicked Rory's foot, through the boot. The skin was barely broken. Thankfully his tetanus shot and booster were still current. A week later, Rory was in the emergency room. His foot was terribly swollen with the poison from the infection already up to the knee. That is where the doctors cut—at the knee. Rory was in the hospital for six weeks. His obligations on the medical bills (for deductibles, a prosthetic device, and rehabilitation) totaled \$30,000.

During his absence, the “mankind and Mother Nature” program (as it was called) collapsed. Most recruits found it was a whole lot of bother for not much bounty. Instead of hoeing, planting, fertilizing, watering, and fighting insects, it was easier to go to the corner market to take advantage of government food stamps. The final straw was an early freeze that killed most of the plants.

Fortunately, Rory's injury did not preclude his profession as an Uber driver. He has returned to picking up fares and brings in on average \$2,000 a month. This amount barely pays for household expenses. He still resides with his aging parents, who are on Social Security. Rory receives demand letters from his creditors almost daily. Bankruptcy may be Rory's best option for a chance to discharge his debts and get a fresh start.

The Bankruptcy Proceeding

Rory filed his petition for bankruptcy relief under Chapter 7 of the United States Bankruptcy Code. He seeks to discharge debts that are primarily consumer debts, defined in 11 U.S.C. § 101(8) as "incurred by an individual primarily for a personal, family, or household purpose." Notably, the Bankruptcy Code at 11 U.S.C. § 523(a)(8)(B) also provides that educational loans can only be discharged if payment “would impose an undue hardship on the debtor and the debtor's dependents.”

The schedule of Rory's assets and liabilities is as follows:

Name of Schedule	Assets	Liabilities	Other
Real Property	\$0		
Personal Property	\$10,000		
Secured Claims (Car)		\$15,000	
Unsecured Claim (Student Loans)		\$173,000 (loan payments made largely went to	
Unsecured Claim (Credit Cards)		\$12,000	
Unsecured Claim (Medical Bills)		\$30,000	
Current Income (Monthly)			\$2,000
Current Expenditures (Monthly)			\$2,700
Total	\$10,000	\$230,000	

While waiting for fares, Rory researched the Internet for solutions to his financial dilemmas. He found a story about Mark Tetzlaff. Tetzlaff was unsuccessful in discharging his student loan debt of over \$250,000. The case made national news when the United States Supreme Court declined to hear his case, which challenged the circuit court ruling that his financial and personal hardships were insufficient reasons to have his massive loan debt discharged in bankruptcy.

Rory learned from his research that different bankruptcy courts apply various legal tests in determining whether student loans can be discharged in the case of an undue hardship. These inconsistencies, called a “split in the circuits,” mean that the different tests used by the various federal courts produce varied results that affect student interests. What are the three Circuit Court tests and when applied to Rory’s facts, what would be the likely outcome under each test? What policy changes—such as limiting loan amounts, restructuring repayment options, and/or easing loan forgiveness rules—could be made by Congress to bring more certainty to the issues of managing excessive student loan debt?

Here are the results of Rory’s research:

News Stories

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SYSTEMS ANALYSIS, DESIGN, AND DEVELOPMENT CASE STUDY: MEDALLION THEATRE – TICKET SALES SYSTEM

Terry L. Fox, University of Mary Hardin-Baylor

CASE DESCRIPTION

The primary purpose of this case study is for Systems Analysis and Design, Systems Development, and Database courses. Students examine realistic dialog and Interview Notes, as well as existing documents. For Systems Analysis and Design courses, the students should be able to follow this realistic and fairly common case study of a small organization and conduct the planning, analysis, and design phases of the System Development Life Cycle (SDLC), using either a traditional or object-oriented approach. Deliverables would include process and data diagrams and modelling, and user interface designs, and should require approximately 14-17 hours to complete, outside normal class time. In System Development courses, e.g., capstone courses for a computer information system major, student can use this case study to not only analyse and design a solution, but actually develop the solution using various windows or web-based tools. The entire project should require approximately 22-28 hours to complete. For Database courses, this case could be used to illustrate database design techniques, resulting in the creation of appropriate data models and physical database designs. This should require approximately 10-12 hours to complete. The case study is of moderate difficulty – ranging from a four to five, and is designed for junior and senior level students, but could also be used for graduate courses.

CASE SYNOPSIS

Dr. Thomas Waggoner, an information systems professor at the local university, is at the Will Call window at the Medallion Theatre, trying to pick up tickets he had reserved. However, do to an oversight which turns out to be rather frequent, his tickets were sold to another patron. Fortunately for Dr. Waggoner and his wife, who are celebrating their wedding anniversary, the box office manager finds two box seats which had not been claimed. In talking with the box office manager, Dr. Waggoner starts thinking that he could perhaps help the theatre avoid this type of problem in the future. His students could design and build a system to help keep track of ticket sales, and hopefully help the theatre become more efficient.

INTRODUCTION

Dr. Thomas Waggoner waited at the Will Call window for the evening's theatre production at the Medallion. He had reserved center orchestra seating tickets for he and his wife for this showing of Les Miz' more than two months ago, and for some reason the box office couldn't find his reservation and had sold his tickets to another patron.

"I am not sure what could have happened to your tickets. But we have already sold the seats you said you reserved – D18 and D19," said the young lady behind the glass. "We are sold out for tonight's performance."

"That's very disappointing, particularly considering we are celebrating our anniversary tonight and have been looking forward to this for a long time," responded Dr. Waggoner. "Are you

very sure there are no seats left?”

Overhearing the conversation between the ticket clerk and Dr. Waggoner, the Box Office Manager moved over to the window.

“Dr. Waggoner?” she asked. “Actually I remember taking your phone reservation. I am so sorry. I wrote down your reservation on the phone list, but evidently it somehow wasn’t transferred to our master seating chart. I wish I could say this is the only time this has ever happened, but unfortunately it happens at least once a week. As it turns out, there are two box seats available tonight. The patrons who have those season tickets are not able to attend tonight - you can have those tickets. And, because it was our mistake, the tickets are on us – no charge.”

“Fair enough,” replied Dr. Waggoner. “What could have been a lousy evening looks like it will work out even better than planned!”

“Thank you for understanding. I hope we can figure out a better process so this doesn’t happen again.”

“Well, if you are interested, I think I could probably help you with that. I teach several systems analysis and development courses at the university, and I think my students could develop a computer system which can automate much of what you are currently doing manually. I can meet with you later this week to start talking about your processes and information needs,” offered Dr. Waggoner.

“That would be wonderful! Thank you so much for your understanding, and your offer to help us. Enjoy the show!”

Later that week Dr. Waggoner met with the Box Office Manager to develop an overall understanding of their business processes, the information they maintain, and the reporting needed. Dr. Waggoner compiled this information and presented it to a group of his students. The detailed requirements are listed below.

The Medallion Theater: Detailed Requirements

The Medallion Theater Ticket Office keeps track of patrons, productions, performances, and seats. The Medallion likes to keep track of their patrons so they can notify them of upcoming events, and identify those who frequently support the theatre. Information kept on patrons include first and last name, street address, city, state, zip code, cell phone number, and email address. For the purposes of a computerized system, a unique patron number will need to be created.

With regard to productions, the Medallion maintains information on the name and type of the production, such as play or concert. With respect to performances, the theatre tracks the date of the performance and whether it is a matinee or evening performance. A production can, and usually does, have multiple performances, and can have both a matinee and evening performance on the same date.

The theater has a total of 602 seats. Each seat is available for each performance. The seats are in four categories, and the seat numbers are assigned as shown in the following table:

<u>Seating Category</u>	<u>Seats</u>	<u>Price</u>
Orchestra	A1-A30, B1-B30, C1-C30 D1-D30, E1-E30, F1-F30	\$65.00
Mezzanine	G1-30, H1-30, I1-30, J1-30 K1-30, L1-30, M1-30, N1-30	\$55.00
Balcony	AA1-30, BB1-30, CC1-30 DD1-28, EE1-24, F1-24	\$40.00
Box	X1-16	\$85.00

When a patron calls or stops by to reserve a ticket, their name, address, and contact information is recorded, if they are not already in the files. The patron can then select the performance, including the date and whether it is matinee or evening. The patron then selects their seats from those available for a particular performance. The ticket thus identifies a specific seat for a specific performance.

Appropriate and user-friendly data entry/edit screens need to be created to enter and edit information for patrons and performances, as well as ticket sales for a specified seat selection.

The system should generate a report of seats sold or available for a particular performance, and should be able to show the seats purchased by a patron (based on name or patron number) for a specific performance.

Dr. Waggoner explained to his analysis and design students what the Medallion really needed was a database system which would maintain information about each event and tickets sold, and the patron to whom the tickets are sold. The system should also generate reports on the number of tickets sold/available per performance, and tickets purchased by a specific patron.

After gathering the detailed requirements for the system, Dr. Waggoner assigned his students the requirements shown below. His SAD students began developing data and process models and designing the user interfaces. As the semester progressed and the analysis and design phases were completed, Dr. Waggoner had his system development class use the specifications and start creating the working system. By the end of the semester the system was completed and implemented, and The Medallion Theater was able to keep track of each event and ticket sales much more efficiently.

Requirements for Systems Analysis and Design Students:

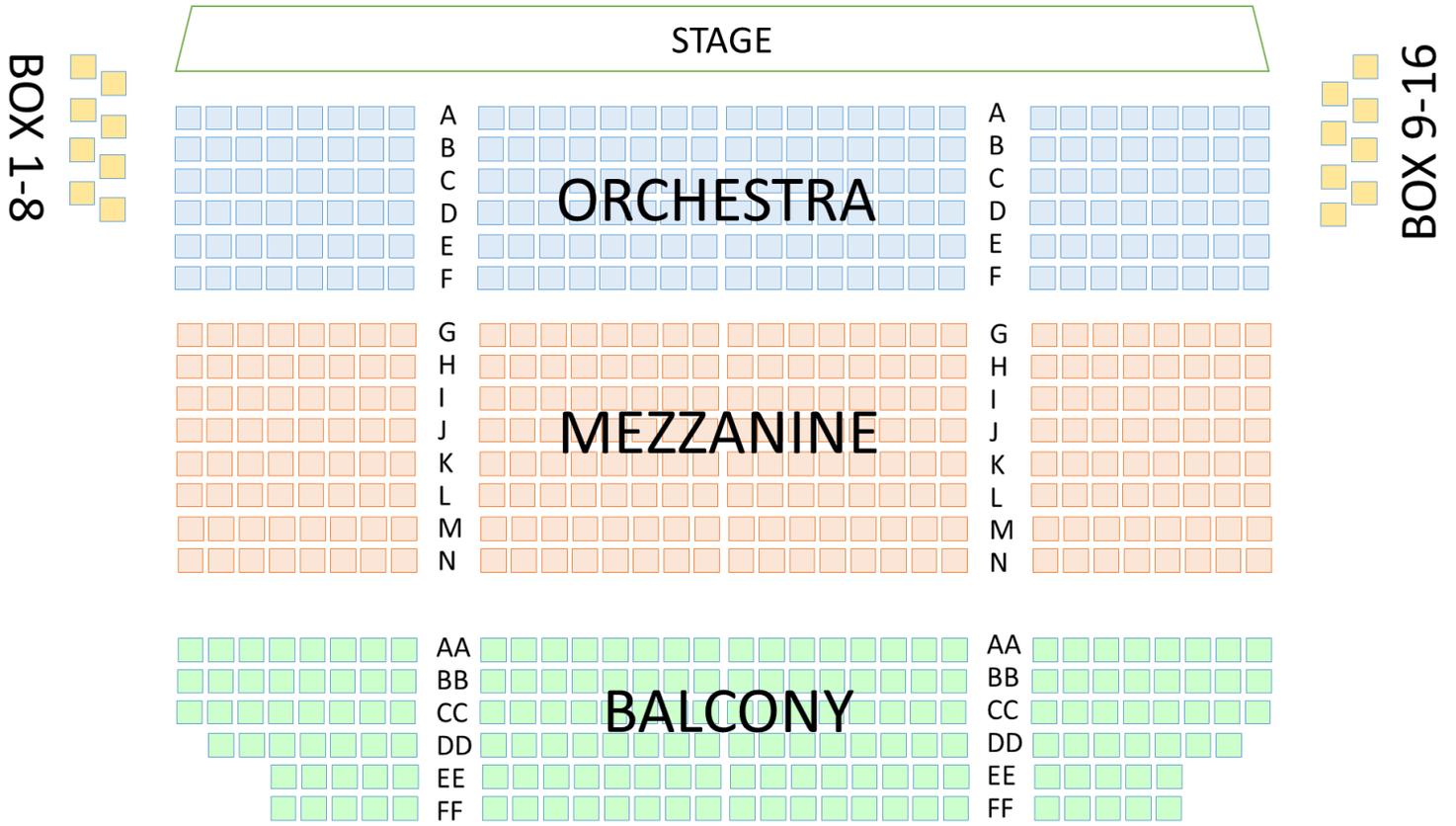
1. Prepare a system proposal that includes an executive summary, the requirements of the system, and identification of your team members.
2. Develop appropriate process models (Use Case Descriptions/Diagram or Data Flow Diagrams – context level, level 0, level 1) per your professor's instructions.
3. Develop the appropriate data model (Class Diagram or Entity-Relationship Diagram) per your professor's instructions.
4. Develop preliminary screen and report designs for each user interface identified above.
5. Prepare a one-page "pre-implementation review" outlining lessons learned - what went right and what went wrong on this project.

Requirements for Systems Development Students:

1. Complete the above requirements, or refer to the packet of materials provided by your professor.
2. Using Microsoft Access, Visual Basic, or other appropriate development tool, develop a comprehensive, user-friendly, working system that will meet the requirements of The Medallion Theater.
3. Prepare a user manual describing how to use the system.
4. Prepare a one-page "post-implementation review" outlining lessons learned – what went right and what went wrong on this project.

APPENDIX

THE MEDALLION THEATER SEATING DIAGRAM



WILL CALL RESERVATION FORM

		Will Call Reservation Form			
First Name	<u>Barbara</u>	Last Name	<u>Aidy</u>		
Street Address	<u>2725 Oaklawn Drive</u>				
City	<u>Evansburg</u>	State	<u>IA</u>	Zip	<u>52501</u>
Phone Number	<u>442-333-0101</u>	Email address	<u>baidy@aol.com</u>		
Performance	<u>Les Miserables</u>	Date	<u>09-17-xx</u>	Time	<u>Evening</u>
Seats	<u>D18, D19</u>				
Total to be Collected	<u>\$ 130.00</u>				

MEDALLION THEATRE LOGO



SYSTEMS ANALYSIS, DESIGN, AND DEVELOPMENT CASE STUDY: SARAH'S SHORT CAKES – SALES ORDER SYSTEM

Terry L. Fox, University of Mary Hardin-Baylor

CASE DESCRIPTION

The primary purpose of this case study is for Systems Analysis and Design, Systems Development, and Database courses. Students examine realistic dialog and Interview Notes, as well as existing documents. For Systems Analysis and Design courses, the students should be able to follow this realistic and fairly common case study of a small business and conduct the planning, analysis, and design phases of the System Development Life Cycle (SDLC), using either a traditional or object-oriented approach. Deliverables would include process and data diagrams and modeling, and user interface designs, and should require approximately 12-15 hours to complete, outside normal class time. In System Development courses, e.g., capstone courses for a computer information systems major, students can use this case study to not only analyze and design a solution, but actually develop the solution using various windows or web-based tools. The entire project should require approximately 20-25 hours to complete. For Database courses, this case could be used to illustrate database design techniques, resulting in the creation of appropriate data models and physical database designs. This should require approximately 10-12 hours to complete. The case study is of moderate difficulty – ranging from a three to five, and is designed for junior and senior level students, but could also be used for graduate courses.

CASE SYNOPSIS

Dr. Thomas Waggoner, an information systems professor at the local university, is at a small bakery waiting to pick up cupcakes for his daughter's birthday party. The lengthy and unorganized approach to waiting on customers presented Dr. Waggoner with an idea which he shared with the owner of the bakery. His students could design and build a system to help track sales orders, and hopefully help the business become more efficient. Sarah, the owner of the bakery, was very excited about the possibilities, and they decided to meet later in the week to discuss the details.

INTRODUCTION

Dr. Thomas Waggoner was number 43. The sign said currently serving number 34. All he needed to do was pick up the three dozen cupcakes his wife had ordered for their daughter's birthday party, which was going to start in just under an hour. As Dr. Waggoner waited semi-patiently, fortunately (for him, but unfortunately for the store) one by one several potential customers got tired of waiting and left. Unfortunately, as tasty and expertly designed as Sarah's cupcakes were, there was a significant problem with keeping everything organized. Ten minutes later, Dr. Waggoner's number was finally called. After the clerk retrieved his cupcakes, Dr. Waggoner decided to ask if the seeming disorganization was normal.

“Is it always this busy?”

“Most days, yes. When the owner, Sarah, started the business about a year ago, she was worried whether we would have enough customers to make it work. Now, we are worried about whether we will be able to handle all the customers we have. We currently bake and sell between 80 and 100 dozen cupcakes each day. We can handle the daily sales – no problem. Every morning we make several batches of cupcakes in different flavors and with different colors of icing. These go in the display cases. We almost always sell these by the end of the day. The bigger problem is trying to keep track of the different custom orders, such as yours. And, on top of that, Sarah wants to open a second location sometime next year. I am not sure how we are going to manage all that, but fortunately that is Sarah’s concern, not mine!”

Dr. Waggoner decided to probe a little deeper, although he was also aware of the time and pending party. Since the store was actually void of customers at the moment, he asked,

“Do you have a system to help you track the orders? I actually teach several computer systems courses at the university, and I might be able to help.”

At that moment, the owner of Sarah’s Short Cakes walked in from the back room and answered Dr. Waggoner’s question.

“The answer to your question is, ‘Not really’. The answer to your offer is ‘Great!’” interjected Sarah. “I suppose have a ‘system’ but it is stored in my head. We write down the details on a sales order form so we get the orders correct, but we sometimes have trouble keeping track of how many orders we have promised for a particular day, and also in having enough of the right ingredients on hand.”

“I have to get these cupcakes home, but would you like to get together later this week so I can get a better understanding of your business? This could make a good project for my students”

“That would be great! Thanks, and tell your daughter Happy Birthday!”

Dr. Waggoner met with Sarah later that week to start understanding how her business operated (and enjoy a free cupcake!). He then asked a group of his students to contact Sarah to meet with her and develop a list of detailed requirements for a new system to help keep track of custom orders and ingredients inventory. The detailed requirements are listed below.

Sarah's Short Cakes: Detailed Requirements

Custom Sales Orders

When a customer places a custom cupcake order, Sarah or one of her employees will take the customer's name (first and last), email address, and cell phone number. For an additional fee, cupcakes can be delivered. For those orders, the street address and city is also recorded. Once a customer is in the system, they will not be required to submit the information again, unless something has changed. A customer can (and hopefully will!) place many orders over time.

On the sales order, the number of cupcakes required, the flavor of the cupcake, the flavor of the icing, and the color of the cupcake and icing (depending on flavor) are all recorded. In addition, if there are any special decorations requested (e.g., princesses, horses), they will be noted on the order. Customers can order as many cupcakes as they would like, and each cupcake can be different (flavor, color, decoration). Thus, a one-to-many relationship must exist between the order and the cupcake(s) line item. Currently, Sarah's Shortcakes offer the following flavors of cupcakes and icing, but are regularly adding more flavors:

<u>Cupcakes</u>	<u>Icing</u>
Vanilla	Vanilla
French Vanilla	Butter Cream
Chocolate	Lemon
White Chocolate	Cream Cheese
Double Chocolate	Cookie Crumbs
S'mores	Strawberry
Strawberry	Peanut Butter
Peanut Butter	Oreo
Pumpkin Spice	Champagne
Blueberry	Mint Chocolate
Apple Cinnamon	German Chocolate
Cookies and Cream	Espresso
Champagne	Pink Lemonade
Chocolate Chip Cheesecake	Maple Bacon
Mississippi Mud	Dark Chocolate
Red Velvet	Milk Chocolate
Coconut	Coconut Pecan

If the customer chooses vanilla, white chocolate, or champagne flavored cupcakes, they can also select a custom color, such as blue, purple, green, red, orange, or yellow for their cupcake. If the customer chooses vanilla, butter cream, cream cheese, or champagne icing, they can also select a custom color (same as cupcake colors) for their icing.

The sales order will also note the date of the order, whether the order is to be delivered or whether the customer will pick it up, the date and time the order is needed, and any notes that might be needed to help explain the order. If the cupcakes are to be delivered, the time needed is the time the cupcakes are to be delivered. If the cupcakes are to be picked up, the time needed is when the customer expects to arrive to pick up their order.

The system must provide appropriate and user-friendly data entry forms to maintain customer information and order information. In addition, the system needs to generate a report of custom orders needed to be processed each day. For delivery orders, the system needs to generate a report for the driver showing the order information and customer information, including the address.

Dr. Waggoner explained to his analysis and design students what Sarah really needed was a database system which would maintain information about each custom order. The system should also generate daily reports on what orders need to be processed.

After gathering the detailed requirements for the system, Dr. Waggoner assigned his students the requirements shown below. His SAD students began developing data and process models and designing the user interfaces. As the semester progressed and the analysis and design phases were completed, Dr. Waggoner had his system development class use the specifications and start creating the working system. By the end of the semester the system was completed and implemented, and Sarah's Short Cakes was able to keep track of their orders much more efficiently.

Requirements for Systems Analysis and Design Students:

1. Prepare a system proposal that includes an executive summary, the requirements of the system, and identification of your team members.
2. Develop appropriate process models (Use Case Descriptions/Diagram or Data Flow Diagrams – context level, level 0, level 1) per your professor's instructions.
3. Develop the appropriate data model (Class Diagram or Entity-Relationship Diagram) per your professor's instructions.
4. Develop preliminary screen and report designs for each user interface identified above, adhering to proper user interface design principles.
5. Prepare a one-page "pre-implementation review" outlining lessons learned - what went right and what went wrong on this project.

Requirements for Systems Development Students:

1. Complete the above requirements, or refer to the packet of materials provided by your professor.
2. Using Microsoft Access, Visual Basic, or other appropriate development tool, develop a comprehensive, user-friendly, working system that will meet the requirements of Sarah's Short Cakes.
3. Prepare a user manual describing how to use the system.
4. Prepare a one-page "post-implementation review" outlining lessons learned – what went right and what went wrong on this project.

Additional Resources:

The following are addresses to YouTube videos which provide a very useful inside view of the operations of a bakery. These videos may help with your understanding of the business processes.

<https://www.youtube.com/watch?v=Dim-w4rRT4c>

https://www.youtube.com/watch?v=k_YEECQJoco

<https://www.youtube.com/watch?v=5WRswXTW8r0>

APPENDIX

Sales Order

Sarah's shortCakes						
Sales Order						
Sales Order #	2331	Sales Order Date	09-23-xx	Date Needed	09-30-xx	
Customer Name	Brian Whiteside			Time Needed	2:00pm	
Email Address	bwhiteside@hmail.com		Phone	443-660-0007	Delivery or Pickup?	
Street Address	2231 Maple Street		City	Caldwell	Pickup	
Quantity	Cake Flavor	Cake Color	Icing Flavor	Icing Color	Decoration	Cost
6	Chocolate	N/A	Butter Cream	White	red rose	\$ 24.00
6	Strawberry	N/A	Butter Cream	Red	blue rose	\$ 24.00
12	Vanilla	Blue	Butter Cream	Blue	white rose	\$ 48.00
Total Cost						\$ 96.00

Sarah's Short Cakes Logo



DR. SHOPPING, HER BUSINESS PARTNER, AND THE NEW RETAIL STORE EXPERIENCE

**Cara Peters, Winthrop University
Jane Thomas, Winthrop University**

CASE DESCRIPTION

The primary subject matter for this case concerns retailing. Secondary issues examined include marketing strategy, channels of distribution, and consumer behavior. The case has a difficulty level appropriate for freshman, sophomore, and junior level courses. The case is designed to be taught in one class session equivalent to one and a half hours (specifically if an assigned group of students does a 20-30 minute presentation of their analysis and recommendation and the rest of the period is spent for discussion (through question and answer)). The case is expected to require between four and six hours of outside preparation by students.

CASE SYNOPSIS

Clarisa Eliot and Janay Richards were two consultants who received a request for proposal (RFP), inviting them to submit ideas for a new retail store experience within Mattel's division of American Girl. Eliot and Richards had expertise in this domain and saw it as an exciting opportunity to potentially work with a larger client, so they got to work conducting research on American Girl. They wanted to get a thorough understanding of American Girl's, product line, brand, and retail stores. The consultants then generated a list of ideas for a possible new retail store experience for their proposal. After reflecting on the list, the consultants were unsure which idea they should choose to have a winning proposal.

INTRODUCTION

Clarisa Eliot clicked on her inbox and spotted an email with "Mattel" in the subject line. Eliot was immediately curious and clicked it open, even though she was busy working on a report that was due the next day. The email was a request for proposal (RFP) that invited marketing consultants to submit ideas for a new retail store experience within Mattel's division of American Girl. Eliot was excited because this kind of project fit her expertise and played to the strengths of her business partner, Janay Richards, who had become known in the media as "Dr. Shopping." Dr. Shopping was a nationally known expert in retailing and a regular presenter on the subject via national media outlets, such as the Huffington Post and Washington Observer. Eliot thought that if they could create an innovative proposal that was selected by Mattel, this project could help them leverage their consulting company beyond its typical small, regional clients to larger, national companies in need of consulting services.

THE CONSULTANTS

Eliot first met Janay Richards when she interviewed for a marketing job. At Eliot's interview, the two women hit it off immediately, and, as soon as Eliot was hired, they began to work on projects together. From the beginning, it was clear that Richards was the creative partner in the relationship; she often led in generating ideas and building connections in the local business community. Eliot, on the other hand, was more of the operations type and preferred to handle tasks like data analysis and report writing.

It was a symbiotic relationship, and Eliot and Richards were soon featured in the Washington Post for their work on Black Friday shopping. The story in the Washington Post quickly spread among the news networks and more than thirteen newspapers published articles about their Black Friday work that year alone. Richards was a natural with the media, and before long, those same newspapers, magazines, television, and radio stations that ran the Black Friday stories began to invite her to speak on a variety of marketing and retailing topics. Richards then built an in-depth social media profile that made it easy for the media to find her biographical and contact information online. She became known as Dr. Shopping on social media and soon developed a fan following.

Eliot and Richards enjoyed a new challenge and both wanted to develop a thriving consulting business. Given their success in the domain of Black Friday shopping, Eliot and Richards knew that they could share their marketing and retailing expertise with local businesses and charge accordingly. They took on a couple of small projects with local companies that proved successful, but Eliot and Richards were not satisfied with just targeting smaller companies. They wanted to consult for bigger companies in places like New York and San Francisco.

Shortly after the Mattel RFP came into Eliot's inbox, she called Richards. "What's up?" Richards said as she answered her cell phone. Eliot explained how she was on an email list that was seeking experts to submit proposals for company projects and that she had received an interesting one from Mattel. Richards asked, "What does Mattel want?" Eliot explained, "Mattel is looking for consultants to help create the next in-store experience for American Girl." Richards said, "That sounds like so much fun! What do we need to do to get started?" Eliot said, "I will email you with details from the RFP. In the meantime, let's start doing some research on American Girl."

AMERICAN GIRL

Pleasant T. Rowland created the American Girl brand in 1986. Rowland was a teacher who thought that the history of the United States was not being taught well in schools, and at the same time, she was also a mother of two young girls and did not like the doll options available when she was shopping for their Christmas gifts. Rowland came up with the idea to start a line of dolls that were accompanied by a set of books about the doll illustrating a particular historical time period in the United States. Rowland also planned to produce and sell clothing for the dolls and the merchandise would be sold exclusively through her own channel of distribution (Olson et al., 2006).

Rowland quickly developed a detailed business plan and invested \$1 million of her own money in the start up venture. The goal was to have American Girl dolls available for the 1986 Christmas shopping season. Because the company was on a limited budget, Rowland could not

afford to develop a television advertising campaign for American Girl. Instead, she decided to invest her money into buying a mailing list of 500,000 names and creating an American Girl catalog to send to this list. This strategy proved quite successful as she sold \$1.7 million worth of American Girl products during the 1986 Christmas shopping season (Olson et al., 2006).

By 1987, company sales had grown to \$77 million and in 1998, two important events happened for the brand. The first American Girl store opened in Chicago (just off of Michigan Avenue and the Magnificent Mile) and the store grossed \$40 million in revenues that year (Olson et al. 2006). What was even more astonishing was that most visitors to the Chicago store traveled three to six hours to get there, with the average visit lasting four hours. Approximately 1.5 million people visited the store each year and the experience seemed to reinforce mother-daughter relationships, helping to build life long memories (Hammonds, 2006). The second important event in 1998 was that Rowland sold her company to Mattel for \$700 million. Mattel planned to add additional American Girl retail stores in places like New York and San Francisco. The company also planned to expand the product line and grow the company's revenues.

THE PRODUCT LINE

In 1986, the product line began with three 18-inch dolls (each representing a 9-year old girl from a different historical time period), a book about each doll, and related clothing and accessories. This line was called the American Girl Collection and illustrated inspiring characters and timeless stories from America's past. The characters included Kirsten Larson, a pioneer girl from 1854; Samantha Parkington, a Victorian girl from 1904; and Molly McIntire, a World War Two-era girl from 1944. The collection targeted girls aged 7 through 12, and, unlike other dolls, presented the opportunity for young girls to explore the past through play, making the dolls well-liked by parents and grandparents. The company continued to add more dolls to the collection over time, such as Josephina (a Hispanic girl growing up in New Mexico in 1824), and Addy (an African American girl growing up during the Civil War; Olson et al., 2006).

When the company first started, the price for an American Girl doll was \$87, which represented a premium price for the doll market. Additional outfits and accessories were not included and ranged in price, depending on their complexity of construction. For example, Josephina's herb gathering outfits cost \$24 and American Girl doll wheel chair cost \$30 (Power, 2006).

In 1992, Mattel launched the American Girl magazine with content intended to bolster self-esteem, celebrate personal achievements, and foster creativity (Olson et al., 2006). The publication featured art projects along with puzzles and quizzes. The magazine ranked among the top ten children's magazines in the United States, won awards for its design, and had a circulation rate of more than 450,000 girls. It was most likely the largest magazine that exclusively targeted young girls in the United States.

Beginning in 1995, American Girl released a line of contemporary dolls and accessories called My American Girl. My American girl products offered different combinations of skin tones, facial features, eye color and hair types so the target market could choose a special doll that looks just like herself. The company also sold matching outfits and accessories for both the girl and her doll.

To expand its target market, American Girl also created several products designed for younger audiences. The company created Betty Baby and Betty Twins, which were 15-inch soft-bodied baby dolls for girls, aged 3 to 6. The company also created Hopscotch Hill, which were

smaller, pose-able dolls accompanied by early reader books that targeted 4-6 year olds. And they produced Angelina Ballerina products, named for a talking English mouse that wanted to become a ballerina, also targeted toward this age group (Olson et al., 2006).

In 1999, the company launched www.americangirl.com, which included e-commerce for online sales. And, in 2001, a new doll called Girl of the Year was added to the product line. Girl of the Year dolls were marketed as showing girls how they can make anything possible by building confidence, connecting with others, and making a difference in the world. They were released every two years with new stories and characterizations, such as Isabelle, the 2014 Girl of the Year, who was an inspired dancer.

THE BRAND

The essence of the American Girl brand was based on empowering young women. Unlike Barbie, who was known for a focus on outer beauty, the American Girl brand was built on empowering girls from within and teaching them universal values, such as the importance of relationships with family and friends, trust, and perseverance (Diamond, et al., 2009). Furthermore, the brand served as a type of “cultural shield” against the many sexual themes of modern society and provided girls an alternate model to emulate (Diamond, et al., 2009).

Successful and compelling brands have a strong narrative and provide the consumer with a multisensory experience (Sherry, et al., 2009). For American Girl, the brand narrative was founded in the connection between the doll and the doll’s historically based story as presented in the accompanying book. A multisensory experience was created via the visit to the store, participation in the various activities offered at the store, and the purchase of accessories, such as clothes that compliment the interaction between the target market and her doll.

To understand the positioning of American Girl, Elliot and Richards examined two successful doll product lines, Barbie and Bratz. Barbie was introduced by Mattel in 1959 and for decades dominated the market as a doll for young girls and tweens. While some complained that Barbie and the corresponding accessories (i.e., fashionable clothing, Barbie Dream house, and the pink convertible car) encouraged girls to focus on superficial attributes (such as appearance and status symbols), Barbie remained the number one selling doll for more than 50 years. Also, in 2001, Micro-Games America (MGA) introduced the Bratz line of dolls as an alternative to Barbie. This line of dolls was “younger, hipper and edgier” and quickly began to outpace Barbie in sales (Fugate, et al., 2014, p. 2). Young girls liked Bratz because the doll had cartoonish features and ethnic skin-tones. However, critics of the brand said that the Bratz dolls portrayed images that were too sexy for the target market of young girls (Fugate, et al., 2014).

By exploring the history of these two successful doll brands, Elliot and Richards began to grasp the positioning of American Girl in the doll market. The American Girl brand was unique because, unlike other dolls where the interaction was between the girl and the doll, American Girl had created a brand where daughters, mothers, and grandmothers participated in the creation of extended family memories that occurred at the store and in the home (Kozinets, et al., 2005). Furthermore, the in-store experience served as a “dynamic interaction” of women family members connecting through the doll (Diamond et al., 2009, p. 130). These experiences not only reinforced the value of the traditional female role in families and society (which mothers and grandmothers liked), but the characters in each book also empowered girls to take risks and taught them they could achieve any goal. In essence, the American Girl brand was a carefully

constructed narrative that combined history, stories, nostalgia, family, and education through play and learning (Borghini, et al., 2009).

THE STORES

From the beginning, Rowland had the idea of focusing the design of the American Girl stores on entertainment (Olson et al., 2006). So the first American Girl store that was created in Chicago was designed with entertaining experiences in mind. The store was 52,000 square feet and included space for a shopping boutique, a musical theater, and a café. Over time, the store added a photo booth, hair salon, and a station in which a girl could design and produce a custom doll outfit or backpack. The store also offered special events (such as “Meal & Memories with Mom” in which girls and their Moms ate lunch and played games at the store) and birthday parties for young girls, their friends, and their dolls.

The boutique had sections with displays of the different product lines available for purchase. For example, the American Girl Collection with the original historical characters was displayed separately from the contemporary My American Girl dolls. For the American Girl Collection of historical characters, the products, clothing, and accessories were displayed in a museum-like format. The displays depicted the dolls as individuals who would have lived in their respective time periods, utilizing related clothing and accessories as historically and culturally appropriate props. The contemporary My American Girl dolls were displayed collectively where a girl could compare the variations in facial features, skin tones, eye colors, and hair types as she was trying to choose her ideal doll or find the one that best matched herself. A variety of clothing was also displayed for the contemporary dolls with matching outfits for the girls, as well as a full set of accessories for the dolls, such as glasses, braces and headgear, and pets with collars and leashes.

The boutique part of the store contained the American Girl library with displays of the books written about the historical dolls and also contemporary stories about the My American Girl dolls available. All the books were available for purchase at \$9.99 each (and box sets were also available). These books were popular among parents because they provided an educational element to the American Girl dolls. In addition, the company also made and sold books about personal grooming, social etiquette, and relationship issues for young girls. These American Girl books were a hit among parents because they provided an age-appropriate, easy-to-use guide to socialization of young girls.

The American Girl store also offered a theatre with an “American Girl Musical Revue.” The theatre had approximately 100 seats, and the Revue gave girls the opportunity to attend a play, which was a performance featuring actual girls playing the parts of the doll characters and acting out scenes from their favorite American Girl books with assistance of real actors and musicians. The historical tales were supported with inspirational music and song lyrics. The cost of participating in the Musical Revue was \$32.

In addition, the store had a separate section for the American Girl Café, which offered brunch, tea, lunch, and dinner for girls and their dolls. An average price for lunch was \$22. The cafe was covered in pink and the restaurant promoted “Dolls Eat Free.” The café was designed as an upscale, fantasy experience with the dolls receiving their own chair and a set of doll sized cups and dishes, served with a tiny portion of real food from the menu. The café was an educational experience as well, in which girls were expected to drink tea and exhibit table manners. Soft drinks were not served and the tea was unsweetened to promote an upscale

atmosphere. The food selections also tended to be upscale, with offerings such as red pepper quiche. Interaction was encouraged at lunch and in the middle of each table sat a tiny box with different topics on paper cards girls could read aloud to their families and friends to prompt discussion. The café experience promoted a fun way to reinforce bonds among the girls and their family, friends and dolls.

Eventually, the Chicago store added an American Girl Photo Booth, which provided girls with an experience that could be captured and preserved as a special, personalized souvenir. There, girls were able to dress like their favorite American Girl doll and pose with their doll in a professional picture. The picture was printed and placed on the cover of the American Girl magazine, which the girl could purchase for \$24.95.

Furthermore, The Chicago store had an American Girl hair salon in which girls could choose from a variety of hairstyles to be created on their dolls by a professional doll hair stylist. The cost of the service varied from \$10 to \$25, depending on the type of hairstyle selected. The salon also offered other add-on services, such as ear piercing, deluxe spa and pampering packages, and hearing aids. All of the add-on services varied in price (depending on complexity), and advance appointments and reservations were not accepted. Once a customer arrived at the store, she had to make a same day, time specific appointment for all hair salon services. Although the hair salon did not provide services for the girl's hair, the target market was there to watch, learn and enjoy the experience with her doll. The stylists taught the young girls about how to brush their doll's hair and showed them techniques for braiding and styling.

The most recent addition to the 52,000 square-foot Chicago store was the Truly Me Signature Studio. In this part of the store, the girl could step into the role of fashion designer by creating a customized doll outfit or girl-sized backpack. For the design work, the girl was given a computerized tablet, which walked her through an array of images and patterns from which she could choose to make her design. The girl selected her choices, submitted her design, and the outfit or backpack was produced on site to be taken home that very same day. A customized Truly Me doll outfit cost \$32 and the customized girl-sized backpack was \$45.

Because of the success of the Chicago store, Mattel began to add American Girl stores throughout larger cities in the United States. New York and San Francisco were obvious locations, but they also added stores in places like Minneapolis, Minnesota and Dallas, Texas. By 2014, the company had 18 American Girl stores located throughout the United States, Canada, and Mexico, and the price of an American Girl doll had risen to \$115. Moreover, Mattel planned to build additional stores, as they were highly lucrative; the average purchase amount at an American Girl store was \$400 (Greenberg, 2013); and the American Girl division of Mattel earned over \$600 million in revenues in 2014.

THE REQUEST FOR PROPOSAL

After Eliot felt she had a good understanding of the American Girl brand, she decided to email Richards with details about the request for proposal. The key pieces of information she provided in the email were as follows:

-American Girl was a wholesome brand that celebrated young girls' interests with engaging products and experiences. The American Girl retail stores were highly experiential and provided a special place for girls to make lasting memories with their families, friends, and dolls.

-The American Girl brand targeted girls ages 3-12 and experiences were at the heart of the success of their retail stores. The Hair Salon experience had been a huge success for the company and they wanted help in generating ideas that will have similar appeal with the target audience.

-Key goals for the proposed idea included the need for the activity to generate repeat visits; the activity needed to be doll-centric (i.e., focused on the doll, not the girl); the activity needed to be easy to operate; and the idea must be consistent with the wholesome, educational brand image of American Girl. Furthermore, high tech approaches that involved expensive electronics and technology were not of interest.

-The proposal to be submitted must include a description of the space and activity; the time required to complete the activity; cost estimates; and a space and traffic flow plan that would accommodate different store sizes.

Eliot and Richards decided to take two weeks to each come up with their ideas for the proposal. At the two-week mark, the consultants met and created the following list from their collective thoughts.

AROUND THE WORLD

Around the World was based on the idea of educating young girls about other countries in the world. The main idea of this concept was that each month, over the course of a year, the store would create a booth that featured one country and girls would bring their doll to experience the culture of that country. For example, the girl and her doll would watch a short video about what it was like to live in that country. The doll would then receive a mini version of the currency from the country. Traditional doll outfits from that country would also be featured and available for purchase. A special meal would be added to the menu in the café that represented traditional fare from the featured country. Upon the first visit to the Around the World booth, a passport would be made for the doll and then a stamp would be collected inside the passport from each country “visited” in the store throughout the year. At the end of a year, a full passport would then be redeemed for a mini sized globe to be added to the doll’s accessories.

GET FIT WITH AMERICAN GIRL

Get Fit was a sports-themed activity that seemed to coincide with the brand’s efforts to build the self-esteem of young girls. The idea behind this concept was that there would be several sports stations set up in the store for the doll to do yoga, play golf, bowl, and swim in a mini-sized pool. For example, there would be mini yoga mats set up with a store employee leading a 5-minute yoga class. Then there would be a screen set up with a grass field pictured on it, in which the doll could hit 10 plastic golf balls into the screen using mini-sized golf clubs. There would also be a doll-sized bowling alley with mini balls and pins. The doll could bowl three rounds and even compete against other dolls at the same time. And finally, there would be a mini-sized swimming pool in which the doll could get in a swim a few laps. A full set of clothing and accessories would be displayed and available for sale related to each of the featured sports.

AMERICAN GIRL ART

The arts center allowed girls to create different kinds of art with their American Girl doll. At the center, the girl could make a mini scrapbook about her doll, make friendship bracelets for herself and her doll, and help her doll create a mini-sized painting. There would be a variety of merchandise to choose from, such as stickers, stamps, markers, pens, beads, stretch wire, mini canvases, paint, brushes, and easels. The art activity would be akin to a crafting session where girls could create something to build a connection with their doll and have an object to take home as a permanent memory of the store visit. This concept was a fit with the American Girl brand because it allowed girls to explore their creative side, along with their dolls.

WRITE BACK SOON

The consultants also had an idea for a letter writing activity in the store. Letter writing seemed to be consistent with the old-fashioned, traditional values that the American Girl brand was built upon. For this concept, the girl would bring her doll to the store and pose with her for a picture. The photograph would then be printed on a postcard. Girls could then sit at a special, pink desk and write a letter on the postcard, from her doll to one of the other American Girl characters. The store would then mail the postcards to another store in a different region of the United States, Canada or Mexico, and the receiving store would then display a selection of the postcards on a bulletin board in their writing center. Each month, American Girl would randomly select a postcard or letter to be featured in the American Girl magazine and on their social media websites.

DANCE PARTY

The musical extravaganza concept was to feature “Let’s Dance” videos made by American Girl. Inside the store, there would be a large TV placed with a dance floor in front of it. The girl would choose a song and make her doll dance to the moves as shown on the screen. The doll dance would then be recorded and placed into a video with a background so the girl can play back and watch her doll dance in her own music video. Along with purchasing the video on CD, the girl could buy dance costumes and musical instruments (like microphones, guitars, keyboards, and a mini karaoke machine) for her doll. Eliot and Richards thought this idea fit with American Girl brand because it promoted physical activity in a fun way among young girls.

SUPER SCIENCE

Eliot and Richards also had an idea for a science lab in which girls could bring their dolls to the store to participate in age-appropriate science experiments. Similar to the café, the girl would receive science lab equipment and the doll would be seated next to her and receive a mini size set of the same equipment (i.e., goggles, a beaker, and tiny test tubes). The girl and her doll would then participate in creating a science experiment, like trying to paint over wax, making ice cream with rock salt, mixing diet coke with Mentos, getting a clock to work with a potato battery, and making a homemade compass with kitchen magnets. There would also be additional doll sized science clothing, accessories, and merchandise available for sale, such as a white lab coat, mini microscope, science kits that could be done at home, and books about notable women in science.

THE DECISION

After they had shared all of their ideas, Eliot looked at Richards and asked, “Have we considered all the possible options or are there more ideas we should add to the list? We don’t have much time to create a full proposal and ancillary materials, so I guess we need to select one so that we can move forward. If you put on your Dr. Shopping hat, what do you think are the strengths and weaknesses of the different concepts? And does one of these ideas seem like a winner?”

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AN ENTREPRENEURIAL MARKETING DILEMMA: THE CASE OF THE MELTED BUTTONS

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CASE DESCRIPTION

This case involves an unsatisfied customer, a retail store, and the Better Business Bureau. It is important that all parties, whether the consumer or the manufacturer, know their rights and responsibilities. Incidents such as this frequently occur in the retail, as well as the whole sale business sector. This case deals with major issues such as entrepreneurial marketing, customer rights, regulations, public relations, and manufacturing requirements. In any business, achieving well developed entrepreneurial framework requires that all of the aforementioned issues are considered. Business owners need a solid customer service blueprint to increase customer value by reducing the inconsistency in employee-customer interaction. This case helps expose the various flaws that can occur when implementing a new non-standardized policy.

RETAIL SMALL BUSINESS MARKETING AND ETHICS

Linda was a sales associate employed by a smaller, entrepreneurial retail store. She had eight years' sales experience working on commission in the women's career clothing department. She worked an average of thirty-five to forty hours per week, and was considered a permanent employee. Her compensation package was based on the market's base wage, merit, commission, and benefits. She was awarded five percent commission on each sale.

When Linda first started at the store, she attended an orientation session to learn the company's practices and policies. During her orientation, the store's supervisors stressed the company's philosophy, "the customer is always right." At the end of these sessions, the associates were given a human resource policy handbook. Each associate was asked to thoroughly read the handbook and sign a form stating that he/she had read and understood all of the information presented.

When Linda joined the company in 2000, the merchandise return policy was quite rigid. The policy requires that the customer either have the original receipt, and/or leave the merchandise tags intact in order to get credit or cash back for any purchases. The store began to question the flexibility of the return policy when the local competitors relaxed their merchandise return policies. In essence, these policies allowed the customer to return merchandise with no questions asked—with or without a receipt. In 2008, this particular department store strategically implemented a more flexible policy in order to remain competitive and increase customer satisfaction. All associates, including Linda, were verbally informed of this change by their supervisors and department managers.

The department store's new return policy was implemented immediately. Each associate was given a copy of the new revised policy manual and requested to read and sign an acknowledgement form confirming they understood the revisions. Customer return guidelines were established. The associates were told to "trust their own instincts." If there were any questions concerning the trustworthiness of the customer, they were to contact a supervisor and/or the security department. At that point, the supervisor or the security personnel would take

over the transaction. In essence, the associate was supposed to adhere to a hassle-free return procedure.

The commission procedures were also revised to comply with the new return policy. If the customer did not have a receipt when returning merchandise, the associate was to return the merchandise on the cash register using the number (9999). This procedure guaranteed that if the customer was returning commission merchandise the associate did not sell, it would not be charged against their personal account. If the sales associate that the item had been purchased from was known, the associate was to credit the return using the sales associate's personal account number. This would automatically deduct the commission for this particular sale from the proper associate's paycheck. The idea behind these new procedures was to insure good customer service while conducting returns. Unfortunately, these procedures were not audited on a daily basis. As a result, conflicts due to lack of trust constantly occurred among the commission department's associates. The commission department began to show a weekly profit loss. Many associates were either taking advantage of the (9999) policy or returning the merchandise on another associate's personal number.

Linda's annual performance appraisals, consistently rated her in the average range. Linda had gained a good reputation for her product knowledge, her candidness when giving fashion advice to customers, her suggestive selling skills, and her customer prospecting skills (keeping outside personal contacts with customers, informing them of new merchandise, sales, etc.). Linda had built a loyal following of customers. Her selling skills and techniques proved quite profitable to both the company and herself. Although Linda's productivity and selling skills were excellent, she tended to be somewhat terse with customers concerning merchandise returns. During the course of a year, five separate customer complaints were filed concerning her interrogating and intimidating conduct when merchandise was returned. With each complaint, Linda's supervisor, Susan, suggested that she improve her conduct and let a supervisor handle all returns. Two written warnings were signed and dated by both Linda and Susan and added to her file. Linda continued to upset customers despite direct suggestions and warnings.

Mrs. Jones was a mid-career professional. She frequently shopped the urban shopping center in which this particular clothing retail store was located. Mrs. Jones was among Linda's loyal clientele who frequently purchased career apparel from her department. Mrs. Jones purchased a \$248 national brand name two-piece suit that was made of 50% acetate and 50% rayon. On the suit jacket there were five fashionable star-studded buttons made from plastic and other synthetic materials. The washing instructions inside the suit stated that the garment was to be dry-cleaned only. Unfortunately, when Mrs. Jones picked up her garment, the buttons had melted and the suit jacket was ruined. The damage to the jacket was irreversible because the buttons had melted into the fabric. The dry cleaner would not take responsibility for the incident, claiming that the manufacturer was at fault because the buttons were defective. Mrs. Jones was told that she should take the dress back to the store where it had been purchased and request a full refund.

Mrs. Jones had misplaced the receipt and could not remember when she had purchased the suit. However, she was sure that she had purchased the merchandise from Linda's department. Mrs. Jones immediately took the merchandise back to Linda demanding a full refund. After Mrs. Jones explained the situation, Linda became quite curt. She suggested that although the store carried various suits with that identical national brand name, her department had not carried that specific suit. Mrs. Jones continued to claim that she had purchased the merchandise from Linda. An argument between Linda and Mrs. Jones ensued, attracting a great

deal of attention from shoppers and store personnel. Once again, Linda failed to call one of the five supervisors on duty. Linda briskly told Mrs. Jones that even if her department had carried the suit, she would not reimburse her because the dry cleaner was at fault for not having removed the buttons prior to cleaning. Mrs. Jones became livid, embarrassed, and humiliated. She stormed out of the store with the suit. She decided to immediately contact the Better Business Bureau rather than contacting one of Linda's supervisors.

The Better Business Bureau (BBB) is a business-sponsored, nonprofit organization whose main purpose is to protect consumers. The organization has no legal power, yet it keeps records of any consumer complaints made to the organization. It often intervenes on behalf of unsatisfied consumers who have dealt with businesses which have not attempted to settle complaints. Most businesses recognize that it is in their best interest to satisfy the customer before the BBB is contacted. Satisfied customers increase goodwill and build a positive reputation for a company (LaForge, Morris, & Schindehutte (2002). The Better Business Bureau documented Mrs. Jones complaint, then proceeded to contact Mr. Marcus, the store manager, on behalf of Mrs. Jones. Mr. Marcus had not been informed of this situation prior to the BBB's contact. He listened intently while the representative politely explained the circumstances and suggested that this matter be handled immediately. The BBB had concluded the manufacturer was at fault. The BBB advised the store to return the merchandise to the manufacturer and offer the customer a full refund. Mr. Marcus apologized and acknowledged full responsibility for the improper handling of the incident. Immediately, Mr. Marcus investigated the situation by interviewing everyone involved (Linda, Susan, and Mrs. Jones), as well as checking the store's merchandise records. Upon researching the incident, Mr. Marcus found that the particular suit in question had not been part of the store's merchandise selection after all.

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