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SMALL CRAFT WATERSPORTS SELECTING OPTIMAL PRODUCTION LEVELS

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CASE DESCRIPTION

This case applies spreadsheet-embedded management science tools (linear programming and regression analysis) to managerial accounting problems. The level of difficulty is approximately 4/5, as the case has been used both in undergraduate cost accounting classes as well as in introductory managerial accounting courses at the graduate level. The case is designed to be taught over approximately 1.5 class hours, and should require approximately 2 to 2.5 hours of outside preparation by students.

CASE SYNOPSIS

Small Craft Watersports (SCW) is a small manufacturer of fiberglass canoes, kayaks, and rowboats. SCW is currently operating at capacity, and, although the firm has been profitable, management is unsure whether profits are being maximized.

SCW's products pass through a three-stage production process. In the first stage, raw fiberglass is blown into molds to form the shell of the item under construction. The raw shell is then transferred to the next department where the fiberglass is finished (I.e., smoothed) and given a protective and colorful finish. Finally, the product is transferred to the fittings department where appropriate metal, plastic, or rubber accoutrements (e.g., seats, seals, etc.) are attached.

There is limited labor and machine time availability in each of the three production departments, as well as limitations on the quantity and diversity of materials which can be handled by the warehouse. You have been hired by SCW management to try to arrive at the best possible production mix. You have been provided with standard cost and resource use data on the various products being produced, but are not sure how accurate the information is.

To solve this problem, you'll need to estimate the correct cost and resource usage of each of the three products, and then use this data to formulate a linear programming problem to arrive at the optimal production mix.

This case illustrates how the linear programming tool Solver in Microsoft Excel (or Optimizer in Corel Quattro Pro) can be used to solve constrained production problems. Although students may be familiar with linear programming from a Management Science course (e.g., LINDO), the presence of Solver or Optimizer within a spreadsheet environment allows students to model a fairly complex production environment. Through the use of this case students learn how to model the firm's production environment in a spreadsheet and how to formulate and interpret linear programming problems.

ADVENTURE FILM PRODUCERS

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ABSTRACT

In this case study, students must examine a film distribution agreement to determine its validity, scope and consequences. Adventure Film Producers entered a movie distribution agreement with a large movie theatre chain, Mammoth Theatres, Inc. One of Adventure's "hit" movies was bundled with four "filler" films, each requiring a certain number of screenings. Consideration for the contract was based partly on lump sum payments and partly on the number of screenings. In exchange, the distributor was given exclusive screening rights. After the distributor discovered that the films were being shown in Canada (where Mammoth had no theaters) they alleged that Adventure breached the agreement and demanded a return of all monies paid. Students must examine whether Adventure breached the exclusivity provision of the contract by allowing showings in Canada and must then perform the financial analyses to determine revenues. In order to analyze revenue, students must prepare a budget of expected minimum revenues, apply established revenue recognition criteria, and calculate the reportable revenue using GAAP principles. Students then prepare a schedule showing cash flow and distinguish that number from revenue. Potential impact or interest: students must apply concepts learned in business law and accounting, specifically to determine the existence and meaning of contracts, to distinguish cash flow compared to GAAP income, to understand the timing of revenue recognition and to demonstrate how to budget revenue.

GROWTH FOR TIFFANY & CO.

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CASE DESCRIPTION

This case focuses on the strategy needs of an upscale retailer. The subject matter is appropriate for courses in retailing, marketing strategy, marketing management, and merchandising. The case is suitable for junior and senior undergraduate students and has a difficulty level of 4/5. It can be used for a 75-minute class discussion session, a take-home exam, or as the basis for team oral presentations.

CASE SYNOPSIS

Tiffany & Co. has stores in more than 20 countries. Its retail activities focus on upscale customers, high quality products, extensive services, premium prices, fashionable locations, sophisticated promotions, and prestige image. Management wants the company to become the preeminent jewelry retailer in the world. Consequently, adjustments are needed in strategy. Students are asked which changes should be made in Tiffany's publics, products, places, prices, promotions, performances, processes, and providers.

Students working with this case will gain increased knowledge, skills, and practical experience. Specific knowledge topics include: image positioning, market segmentation, product branding, service opportunities, pricing strategy, merchandising, store site selection, promotion media selection and message appeals, distribution channel integration, and performance measures. Skill building opportunities include: logical problem solving, oral communication, and written communication. Important experiential learning opportunities are: informative and persuasive speaking, business report writing, strategy integration, and teamwork.

BARNETT PIPE COMPANY

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The primary issue in this case is to evaluate a loan request for a rapidly growing pipe company to determine its ability to repay the loan and remain financially viable. Secondary issues examined include having students evaluate the financial statements, accounts receivable aging, banking relationship, and inventory. Interest rate risk is an additional issue, especially in light of a proposed fixed rate loan. The case has a difficulty level of three, appropriate for junior level students. The case is designed to be taught in two and one-half to three hours and is expected to require from four to six hours of outside preparation by students.

THE GREEDY SEVEN

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CASE DESCRIPTION

The primary subject matter of this case concerns identification of general management practice violations imbedded in a management scenario that describes an actual occurrence at a small university. The case depicts a business school dean's attempt to raise the salaries of seven School of Business faculty members to the 25th percentile salary level of AACSB accredited institutions. This case has a difficulty level of four. The case is designed to be taught in two class hours and is expected to require approximately three hours of outside preparation time by students.

CASE SYNOPSIS

Students are provided with a management scenario in which several general management decisions are questionable. Students are asked to review the scenario, describe solutions to rectify the decisions made, and describe a solution or solutions for long-run improvement of the organization.

To assist in their analysis, students are provided with a timeline of the critical events of the case and a comparison compensation chart. Students are asked to answer six questions that include solutions to management issues and a recommended long-term solution.

ADAM AND SKILING COMPANY

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CASE DESCRIPTION

The primary subject matter of this case is to show that strategic management is applicable to small businesses. In particular, the need for planning, human resource management, and target marketing is emphasized.

This case has a difficulty level of three or four and would be most appropriate for courses in strategic management or small business.

CASE SYNOPSIS

Adam and Skiling Company have been in the heating and air conditioning business since 1947. Adam and Skiling Company is currently owned by Ralph Smith who began gaining control of the company in 1968, at that time, he purchased one third of the company stock. Upon the death of Mr. Adam and Mr. Skiling, the company was divided amongst Ralph Smith and another partner, who in 1995 sold his interest to Ralph Smith. Ralph has been with Adam and Skiling Company since September of 1962, when he was hired not only as a technician, but also as the predecessor for Mr. Adam and Mr. Skiling.

Adam and Skiling Company have 20 employees and typically run 14 trucks (technicians, installation, etc) at any one time. The do, however, service some outlying areas, up to about 45 miles. Approximately 45 percent of Adam and Skiling's revenue is derived from residential replacement work. The remaining revenue is made up of service, commercial replacement, and new construction (residential and commercial).

Today, Ralph Smith is trying to determine whether to grow his company, and if so, how; or how maintain their current market position. Adam and Skiling have always pursued a strategy of market penetration but Ralph is now not sure what needs to be done. Should the decision be made to grow the company?

CONDUCT UNBECOMING: ALLEGATIONS OF SEXUAL MISCONDUCT AT THE UNITED STATES AIR FORCE ACADEMY

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CASE DESCRIPTION

The primary subject matter of this case involves the detection of cause factors and proposal of corrective actions to eliminate chronic sexual misconduct in an organization that rewards machismo. Despite the Academy's emphasis on officer integrity and honor, previous attempts over the last decade, to correct these problems have failed. Secondary issues examined include leadership, ethics, whistle blowing, sexual harassment, and the confidentiality of reporting along with how to develop character and plant seeds for organizational change. The objective is to make the students develop an investigative process that examines interrelated and often subtle cause factors to develop well justified corrective actions. This case is appropriate for junior or senior undergraduate students as well as graduate students studying business policy or strategy, human resource management, organizational behavior and ethics. This case can be easily varied in its scope through the array of focused discussion questions. The case is designed to be taught in one class hour and is expected to require three to four hours of outside preparation depending upon the level of sophistication; it is ideal for either individual or team assignments/presentations.

CASE SYNOPSIS

Imagine the outrage if one out of five female American P.O.Ws said they had been sexually assaulted by Iraqi. Well, that's how many female Air Force cadets say they have been assaulted -- not by the enemy, but by men supposed to be their comrades in arms. This case study documents the June-September, 2003, investigation of a decade of alleged sexual misconduct at the United States Air Force Academy. A panel of investigators, appointed by the Secretary of Defense and headed by the Honorable Tillie K. Fowler, examined the awareness of misconduct and the Academy's organizational culture, climate, structure, curriculum, reporting and response procedures and leadership (internal and external) in an attempt to identify root causes and to provide lasting recommendations for the prevention and intervention of any future abuses. This story goes beyond a record of "boys behaving badly" and a chronicle of an atmosphere that encourages machismo to raise issues of character development, sexual harassment, whistleblower retribution, toleration of misconduct and resistance to organizational change.

BACKGROUND

It was September 17, 2003 and the Honorable Tillie K. Fowler sat in her temporary office in Washington D.C. contemplating what recommendations her Panel of six investigators might give Congress next week that would finally resolve a decade of sexual misconduct at the United States Air Force Academy. Tillie, a former Congressional representative from Florida (1993-2001), had been chosen by Secretary of Defense, Donald Rumsfeld, to execute Presidential Order H.R. 1559; the review of sexual misconduct allegations at the United States Air Force Academy (USAFA). This Panel was given ninety days to investigate and prepare a report of findings and conclusions to Congress. The Panel's prime directive was to (1) review actions taken and contemplated by Academy and other Air Force personnel in response to allegations of sexual assault, (2) review the effectiveness of the process, procedures and policies used at the Academy to respond to allegations of sexual misconduct, and (3) review the relationship between the command climate for women at the Academy, including factors that may have produced a fear of retribution of reporting sexual misconduct, and the circumstances that resulted in the sexual misconduct (Senate Armed Services Committee, 2003). Note: this was the fourth investigative team chartered during 2003 to exam sexual misconduct at the USAFA and the only one not formally affiliated with the Department of Defense.

Pressure for results (and in some cases, heads) was coming from all directions and the press was fanning the flames of outrage. Government statistics indicated that three percent of women in college report rape or attempted rape-it was over seven percent at the Air Force Academy. Further, there was reason to believe that there was a higher rate of unreported cases at the Academy than a typical university. Sixty female cadets had come forward within the last year to allege that they were raped or assaulted. Sadly it appeared that senior civilian and military leadership of the Air Force and the Air Force Academy were aware of serious and persistent problems of sexual assault and gender harassment at the Academy since 1993. While numerous cause factors had been identified by previous teams, their recommendations had failed to resolve the problem. Also, it's particularly surprising that the problems haven't been resolved given that a high percentage of female cadets come from military families. Certainly, this begged the questions of whether the root causes had been truly identified and whether corrective actions had been taken with resolve.

For example: in February, 2003, Senator Wayne Allard, member of the Senate Armed Services Committee, presented the Secretary of the Air Force with a two-page letter requesting investigation and/or clarification of several constituent complaints. The following are key excerpts from that letter (McAllister, 2003).

1. There is some confusion about the number of cadets that have been raped or sexually assaulted at the Academy. Provide the number of cadets that have reported rapes and sexual assault to each of the following: the CASIE Program, the counseling center, and the Academy hospital.
2. Several cadets who may have been raped or sexually assaulted were punished before the rape or assault investigation was completed.
3. Some former and current cadets have reported difficulties in securing the rape kits and investigative reports. The AFOSI stated that their rape kits and investigative reports were lost.

4. A number of victims have complained about not being permitted to bring someone with them to AFOSI questioning sessions or to meetings with senior Academy officials.
5. All of the former and current cadets have expressed concern about not knowing whether or not their alleged assailant was punished.
6. When a cadet is raped or sexually assaulted, in many cases, alcohol is involved. While it is well-known that cadets are not permitted to drink, it appears that the consumption of alcohol is common practice. What is the Academy doing to discourage underage drinking?
7. What, if anything, did the Academy do with the 1994 General Accounting Office (GAO) recommendations to reduce an environment conducive to sexual harassment?

In March 2003, findings of the Allard investigation and interim findings of the Air Force General Counsel's investigation prompted the Air Force to issue an immediate "Agenda for Change" - a series of preliminary efforts to improve the safety and security of every cadet and regain the trust and confidence of the American people in the Academy. It was developed by officers and leaders with experience at the Academy, other academies, and Air Force ROTC in an effort to swiftly start the process of implementing decisive changes. Shortly after the "Agenda for Change" was issued, the Secretary of the Air Force directed the Air Force Inspector General to undertake a parallel investigation (to the General Counsel's) into every case where a victim felt that justice had not been done so as to assess command accountability. While the Air Force must be commended on its sense of urgency, it should be noted that many of the strategies touted as reforms are actually measures that have been tried under past administrations. Of 25 items on the "Agenda for Change" that affect cadets directly, at least nine aren't new at all.

In June 2003, Air Force General Counsel Mary L. Walker released The Report of the Working Group Concerning Deterrence of and Response to Incidents of Sexual Assault at the U.S. Air Force Academy (hereafter referred to as the "Working Group Report"). The Working Group Report covered many aspects of cadet life, Academy policies and sexual assault reporting procedures in place at the Academy during the last ten years. While the investigation found factors contributing to an unhealthy climate for female cadets (e.g., perceived negative consequences for reporting assaults), it stated that there was "no systemic acceptance of sexual assault at the academy, institutional avoidance of responsibility, or systemic maltreatment of cadets who report sexual assault. In short, it avoided any reference to the responsibility of Air Force Headquarters for the failure of leadership which occurred at the Academy. Recommendations from the "Agenda for Change" and the General Counsel's final report were translated into 63 action items for implementation and tracking (Senate Armed Services Committee, 2003).

On July 11, 2003, James Roche, Air Force Secretary, announced that General Dallager, the commander of the Air Force Academy from 2000 to 2003, will be demoted as he retires. Roche said, "He failed to detect and stop the school's sexual-assault crisis." "He should have taken notice of the indicators of the problems and he should have aggressively pursued solutions to them." The rebuke represented a reversal for Roche, who originally said the general and other academy leaders shouldn't be blamed for long-standing problems (Soraghan, 2003). (Note: The three star to two star demotion is equivalent to a fine of $10,000 per year in retirement pay)

Over the past month, at least 22 other women-13 former cadets and nine currently enrolled-have made similar charges, accusing academy officials not only of failing to investigate sexual assaults but of actively discouraging women from reporting them, and retaliating when they did. In the past decade, only one academy cadet had been court-martialed on a rape charge and that cadet was acquitted. One cadet summed up the victims' feelings toward leadership by saying, "the guy who did this to me knew nothing would happen to him" (Thomas, 2003).

Last week, the DoD IG released its follow-on report on the United States Air Force Academy Sexual Assault Survey. The survey of 579 female cadets in the Academy classes 2003-2006 (87.9% of the total female population) found that: 43 cadets (7.4% of all respondents) - including 15 members of the Class of 2003 (11.7% of that class) - indicated they had been victims of at least one rape or attempted rape in their time at the Academy; 109 cadets (18.8% of all respondents) indicated they had been victims of at least one instance of sexual assault in their time at the Academy; Cadets indicated that only 33 (18.6%) of the 177 sexual assault incidents were reported to the authorities; 143 (80.8%) were indicated as not reported; 143 of the 177 sexual assault incidents were recorded by the victims as not being reported to any authority because of embarrassment (in 77 incidents), fear of ostracism by peers (in 66 incidents), fear of some form of reprisal (in 61 incidents) and the belief that nothing would be done (in 58 incidents). The top two reasons given for why cadets thought that victims were not reporting (after embarrassment) were fear of ostracism by peers and fear of being punished for other infractions. Especially disturbing was the finding that 88.4% of cadets who were rape or attempted rape victims disagreed or strongly disagreed with the statement that "most cadets are willing to report a sexual assault incident regardless of loyalty to the offender." Obviously, things didn't appear to be getting better at the Academy despite this year's intense press coverage and investigative attention. (Panel of House Armed Services; 2003, p.63).

The last 83 days of the investigation, under the harsh spotlight of public opinion, had been intense, illuminating and at some times frustrating. Early in the investigation, there were the typical cries of "witch hunt" and "whitewash" and one of our panelists was pushed to resign after telling AP Radio that, "Due to the fact that many of the women making the allegations were involved with drinking, partying, strip poker, what I call high-risk behaviors… the veracity of theses allegations may be suspect" ("United States", 2003). As the investigation progressed, however, the press and the general public became one of our most valuable sources of information. It truly appeared that the problems were long-standing and deeply imbedded in the fabric of the Academy. Further, they appeared to be specific to the Air Force Academy; interviews with officials at the other military academies and the U.S. Coast Guard Academy and the Merchant Marine Academy said they had relatively few cases of sexual assault, and that they had rigorous systems to ensure that complaints were thoroughly addressed. We realized there weren't going to be any quick fixes. Our investigation examined the awareness of misconduct over the last decade and the Academy's organizational culture, climate, structure, curriculum, reporting and response procedures and leadership (internal and external). We experienced the gravity of this crisis first-hand. We were stunned to hear stories from victims, many still too afraid to go public with their stories and, more disturbing, too afraid to make an official report of the crime. They shared with us how their lives have been torn apart by a violent assault and an aftermath that most of them suffered alone and in silence because of an atmosphere of fear and retribution by peers aided by either indifference, incompetence or a combination of both by an Academy leadership they believed failed them. Now was the time to pull all of our findings together, identify the root causes and provide lasting recommendations for the prevention and intervention of any future abuses.

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A SUBORDINATE'S DILEMMA: DEALING WITH PEER PRESSURES AND A SUPERVISOR'S UNETHICAL PRACTICES

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CASE DESCRIPTION

The primary subject matter of this case concerns a marketing manager's dilemma when dealing with her supervisor's unethical practices. The subordinate must determine whether to follow instructions or to fulfill her responsibilities. The secondary issues involve peer pressures and divisiveness found in such situations. The case has a difficulty level that is appropriate for upper-level undergraduate business course. The case is designed to be taught in one to two hour class and is expected to require no outside preparation by students.

CASE SYNOPSIS

Shortly after receiving her MBA, Shannon Matthews accepted a position as the Marketing and Admissions Director for Eternal Care, an extended care facility. Although Shannon really enjoys her job, she has found that things are not always the way they seem. Management is so pleased with her performance that, after only 9 months on the job, Tracey Fletcher, the facility's Executive Director, begins giving Shannon more responsibility. With each new task, Ms. Matthews begins seeing some of the questionable decisions her boss has made. These create a dilemma for Shannon. She must decide to either support Tracey and keep quiet about the decisions or do what she knows is the right thing. In either case, she must handle the situation "perfectly" or risk losing her job. This case addresses the issues surrounding this situation.

INTRODUCTION

Shannon Matthews is a twenty-six year old MBA who works as the Marketing and Admissions Director for Eternal Care, an extended care facility located on a resort island off the South Carolina coast. The job is a perfect fit for Shannon because of its diverse requirements. Her primary responsibility is to keep as many of the 88 beds in the facility full as possible. To do this, she must spend a great deal of time visiting doctors in the local area and calling on hospital discharge planners to obtain referrals. Because this type of facility has a high bed turnover rate, the competition is intense for patients who need either short-term or long-term rehabilitation or end-of-life care. Eternal Care has a competitive advantage in two areas: It is the only facility on the island that offers both resident and non-resident physical therapy. It is also the only extended care facility on the island that accepts Medicaid. Although the area is considered a high income area, extended illness can rapidly deplete an individual's resources, leaving even a once wealthy person in need of financial assistance.

Shannon faces a variety of challenges with her new position. She is responsible for maintaining ensuring at least 95 percent of the beds in the facility are occupied and that at least 13 of the patients are Medicare pay because it is the most profitable. She needs to create a positive brand image for Eternal Care and secure enough patient referrals from physicians and hospital discharge planners to keep the facility full.

After being on the job for a period of time, her Executive Director begins to give her more responsibility. It comes to Shannon's attention that many of the reports are actually the Executive Director's responsibility and she has previously falsified information in the reports. Shannon does not want to complete one of the reports because she does not want to perpetuate the unethical behavior. However, she fears that if she does not, she may lose her job.

JANET JACKSON HALFTIME SHOW

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CASE DESCRIPTION

This mini-case is designed to be easy and quick to read so that it can be used in class without advance student preparation. (The Instructor's notes include instructions for in-class break-out groups.) This case can be used as a lively class warm-up or as a break-out group case. In either format, it demonstrates the application of two important business concepts: (1) the importance of considering the context in which events occur; (2) the importance and complexity of considering multiple stakeholders (i.e., the constituencies with which organizations are involved, including society and government).

CASE SYNOPSIS

The case questions are framed around a three-part case analysis (problems, analysis, recommendations). Students can apply the multiple stakeholder models to this one incident. Business students are given the task of suggesting recommendations to a corporation in handling this issue.

INTRODUCTION

Super Bowl 38 is remembered more for the halftime show than for the close football game that decided the National Football League championship in 2004. Instead of the usual country music and patriotic themes, the show featured performers with youthful followings, such as Kid Rock, Justin Timberlake and Janet Jackson. Their performances were described by some as "watered down MTV". The producers of the show, cable TV network MTV, is owned by parent company Viacom, which also owns the broadcast network CBS on which the game and halftime were televised.

Many in the live audience of 70,000 at the new Reliant Stadium in Houston and in the estimated one billion world-wide television audience disapproved of the sexually suggestive songs and irreverent attitudes displayed in the performances, including one where Kid Rock wrapped himself in an American flag. The show is most remembered, however, for a duet between Jackson and Timberlake in which Timberlake pulled down Jackson's bodice, revealing her breast covered only by a metal ornament.

The stadium lights were immediately dimmed, but CBS phones were swamped with calls protesting the scene. NFL officials stated that MTV would never again be allowed to produce a halftime show. The Federal Communications Commission received more than 200,000 calls and promised an investigation of the incident. Jackson and Timberlake apologized for the display, blaming a "wardrobe malfunction." CBS executives also apologized and declared they had no idea that such a display was planned, although reporters revealed internal memos referring to a "shocking" performance promised by Jackson.

Weeks after the game, the halftime incident remained a topic of discussion on TV and radio talk shows and on newspaper editorial pages. Many were of the opinion that the reputations of the National Football League and of CBS had been seriously damaged by the incident. When CBS broadcast the Grammy Awards two weeks later, the broadcast was done with a five-minute delay so that any potentially objectionable language or actions could be edited out. Some legislators saw the incident as indicative of a general decline in morality in entertainment and called for stronger oversight by the government.

CASE QUESTIONS

1. Why was MTV chosen to produce the halftime show when much of the audience was too old to know or appreciate the type of music performed?

2. Why did the halftime show and the Janet Jackson incident in particular create such a great amount of protest? Identify the problems raised by this incident.

3. Who are the multiple stakeholders interested in this episode? What are some of the likely effects on these multiple stakeholders (interested parties)? For example, consider the investors, customers, and employees of the organizations involved.

4. Make recommendations to CBS's top leadership about how to address these issues.

AJ FURNITURE: A NEW BUSINESS STRUGGLING WITH GROWTH

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CASE DESCRIPTION

The primary subject matter of this case is entrepreneurship. A secondary issue examined is human resource management, including such issues as training, evaluation and control. The case has a difficulty level of three, appropriate for junior-level courses. The case is designed to be taught in one class hour and is expected to require three hours of outside preparation by students.

CASE SYNOPSIS

Josh and Angela Fauver began their Moscow, ID business in 2001 by selling carpet, blinds, lights, and other home supplies out of their home. Their business flourished early on and they decided to diversify into furniture. To accomplish this they contracted with a major furniture manufacture interested in expanding into the Moscow area. Within two months, revenues doubled, profit increased ten percent, and two new salespersons were hired. Drew and Lani exclusively sold furniture and they learned about their job responsibilities by reading the tags hanging on furniture pieces and visiting the manufacturer's web site.

The two new salespersons were able to help increase sales but customer complaints began to also increase. Josh and Angela's response was to hire two more salespeople plus a sales manager, Tim. Although Tim had prior management experience, he was not told to or given authority to train the new employees. Josh and Angela believed these employees, as earlier hires, could (or should be able to, as they had to do before) "figure their jobs out themselves." This pattern continued where new employees would be hired for specific activities but were given no specific training. Employee morale dropped and many left for new jobs, simply to be replaced by new employees who fell into the same cycle.

THE CASE OF 'FOR A FEW DOLLARS MORE'

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CASE DESCRIPTION

This case starts with a nasty divorce, but shifts to an apparently amicable ending with the husband agreeing to give his wife all of the joint assets. But he ends up murdered the day before he intends to sign the papers. With the wife set to receive all of the assets through the divorce, and since there are no children and no will to provide alternative beneficiaries, the question becomes who benefits by his death.

CASE SYNOPSIS

The most obvious suspect in the highly publicized murder is the spouse, as is often the case. And the spouse appears to have the opportunity to commit the crime, and the means (a letter opener) is not an issue, but she has no apparent motive to commit the murder. A conviction is usually a function of means, motive, and opportunity. It takes an accountant to solve the case, convict the spouse, and implicate her most recent lover.

PAUL W. BARRET, JR. SCHOOL OF BANKING (BSB): A CASE STUDY

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CASE DESCRIPTION

This case concerns the future of a regional banking school which may not be properly positioned to afford future growth, given the current banking environment. The case is written for senior business marketing students (level 5) and would be suitable for the first year marketing course (level 6) of a MBA program. These levels are five and six, respectively. The case can be taught during an hour and 15 minute session. The students will have written the solution prior to arriving in class. The total preparation should not exceed two and one half hours.

CASE SYNOPSIS

Chet Kennedy, recently hired as the Executive Director of the Paul W. Barrett, Jr. School of Banking (BSB), formerly know as the Mid-South School of Banking, is faced with a requirement to immediately prepare an initial outline of a strategic marketing plan for the school. The assignment is further complicated by the fact that the chairman of the selection committee, openly disagreed about the committee selection of Kennedy

Kennedy would replace the highly respected former school director who recently retired. Chet realized he had less than a two week honeymoon.

Chet had practical banking experience with a leading national bank and he had graduated from the Barrett School. He remained involved with the school as President of the Alumni Association. Since 1998 the banking industry had become more competitive. The years of 2000 through 2003 were really tough with bank restructurings, layoffs, early retirement packages and hiring freezes. Given the current savings and CD interest rates, consumers were restless, and many were switching accounts from bank to bank.

During 2003 the business environment of fierce competition, corporate fraud, identity theft, and rock bottom interest rates, training for bank managers seemed more important than ever. Chet believed there was an opportunity to reverse stagnant enrollments, a regional focus, the new brand name confusion of the school. But he wondered just how he would do it.

INTRODUCTION

The Board of Regents just wrapped up its first board meeting with the newly installed Executive Director, Chet Kennedy. The main point of discussion surrounding the annual meeting is the declining enrollment trend throughout banking schools. The economic difficulties of the financial industry the past few years, along with many banks training in-house, have led to the erosion of the prospective student base. The board was unsettled on Mr. Kennedy's charges: to take the school to the next level. The Chairman of the committee, who openly disagreed with the hiring of Kennedy, has given him a week to get an initial report together.

Chet had previously been a regional sales and service manager for National Bank of Commerce, a $22-billion bank holding company based in Memphis, Tennessee with locations throughout the southeast. He was a year 2000 graduate of the Barret School of Banking, and had remained involved with the school as the President of the Alumni Association.

BANKING ENVIRONMENT

Most banks have had difficulties over the past few years. The recession left banks, like most businesses, with compressed margins. Cost saving measures were the norm - layoffs, hiring freezes, salary savings by offering early retirement packages, audits of expenditures, etc. Consumers had difficulty living the lifestyle they had enjoyed in previous years, which led to increased debt and late or defaulted loan payments. That translated into the highest levels of loan losses in generations. Adding to these financial troubles were identity theft and fraudulent activity performed against consumers and banks. This epidemic has caused financial hardships all around. It costs an exorbitant amount of resources - financially and technologically - to combat. Weigh all of this against the backdrop of corporate greed and moral and legal issues with some members of upper management prevalent in Corporate America the past few years and the idea of extensive training makes more sense than ever.

BACKGROUND OF THE SCHOOL

The Barret School of Banking is an independent non-profit banking school located on the campus of Christian Brothers University (CBU) in Memphis, Tennessee. The school is governed by a Board of Regents, which includes senior level bankers from several surrounding states. They serve voluntarily without compensation, and are responsible for evaluating and providing direction in faculty, curriculum, and marketing to enhance the educational experience of industry professionals. BSB offers a three-year program with a one-week per year residency session format at CBU which provides 125 hours of classroom instruction. The students are also accountable for eight home-study assignments following the first two years. The curriculum is selected and designed to deliver a high degree of understanding, knowledge, and information essential for advancement within the banking industry. The faculty is comprised of twenty-four industry experts carefully chosen to provide the classroom leadership necessary to absorb the information. At last count, the faculty breakdown by profession was ten current bankers, ten financial services consultants, three academics/professional educators, and one regulator. To enhance learning, these faculty members are charged with passing on their industry experience through practical applications. The classes are limited in size (<40) to allow for informal interaction with instructors and peers, and small group case studies are performed during the week in a number of the classes to encourage sharing. State of the art computer simulation and audio-visual technology is available throughout the sessions.

These pragmatic teaching practices make it easy for students to return to their banks with immediately usable knowledge. See Table 1 on following page for a list of curriculum.

STUDENT ENROLLMENTS

BSB attracts the majority of its students from the states of Arkansas and Tennessee, with regulars from Missouri, Kentucky, Alabama and Mississippi. To continue to grow, there is a definite need to attract a higher number of students from Kentucky, Mississippi, Missouri, and Tennessee, with new entrants from Illinois and Indiana. The average incoming (freshman) class size is sixty-five students for a total of approximately two-hundred enrolled at one time if counting all three classes. The typical student has over five years of banking experience, is in their early thirties, hails from an institution of assets between $100-500 million, and is a college graduate. The ratio of men and women attendees is even.

HISTORY OF THE SCHOOL

BSB was established in 1972 as the Memphis School of Banking by a group of local bankers. In 1979, it became the Mid South School of Banking to reflect its regional expansion in the Midwest and Southeast. Since its inception, the School has educated over 1,700 industry associates from seventeen states. In 2001, Mid South School of Banking changed its name to the Paul W. Barret, Jr. School of Banking in honor of an $8 million grant from the Paul W. Barret, Jr. Charitable Trust. Mr. Barret was a local banker, entrepreneur, and philanthropist who contributed a great deal to the area community. The endowment made Barret the most highly endowed banking school in the country, and will provide the opportunity to keep BSB in the forefront of the financial education industry. The mission has evolved through regional expansion since its foundation, but the core beliefs are still prevalent: offer an advanced, comprehensive banking education at the best possible value. The endowment insures this vision will continue by garnering the best faculty and passing the benefits to the bankers through tuition subsidies.

COMPETITION

Kennedy's first item of business is to figure out who the main competitors are, and compare the offerings. By searching the internet, he found a number of viable competitors for students throughout the Midwest and Southeast . There are seven main competitors, but they differ in difficulty and by the type of educational experience the student will gain. Four of the schools are sponsored by state banking associations. The other three are considered graduate level banking schools. "Where do we fit in the mix," Kennedy thought while compiling the information.

Kennedy studied the curriculum feverishly. The state banking schools were not as advanced as the BSB offering, accepting newer, less experienced employees. They only have 80 total hours of instruction over two years versus 125 hours over three years at Barret. The prices are comparable, but he felt this might offer an opportunity to advance in those markets. The state schools accept funding from the state banking associations in which they reside. Kennedy spoke with a number of his Board of Regent members who reside in those states, and are members of the state associations.

The consensus was that the state banking schools are not quite the advanced quality of BSB, and they tend to rely on the banks to help fund the schools financial shortcomings; most schools do not turn a profit. They are subsidized by state associations or endowments if they are lucky. In fact, many state banking schools have folded (Arkansas) or consolidated into other institutions. Kennedy wondered if any of the state schools would consider a merger due to the endowment Barret has at its disposal. "It would be great to gain market share in surrounding states by a merger, and take the burden off of the state bank associations."

The graduate schools of banking at LSU, SMU, and Wisconsin were a different challenge. They offered an extra week each year for the three years compared to BSB. They attracted middle and senior department managers, along with experienced lending officers. The price alone, made sure the banks enrolled only the cream of the crop. Does BSB want to add to its existing curriculum to elevate to their level? It is a tough question because of the cost of additional faculty and leasing of facilities.

Kennedy wondered if the graduate schools would allow graduates of Barret to skip the first year of their programs, and enroll into the second year. They would have a great deal of educational experience through BSB, and would be able to jump right in to the curriculum at the graduate level. The cost of one year at a graduate banking school is similar to three years at Barret, so the banks will not have much additional costs if they feel an employee is worthy of additional schooling. This may help provide a niche for Kelley to expand on for the Strategic Marketing Committee.

MARKETING RESEARCH: FOCUS GROUP RESULTS

In 2002, the Board of Regents commissioned a series of independent Focus Groups charged with the responsibilities of examining the Barret School of Banking's position in the banking school realm, identifying new opportunities, and exploring new horizons for the School. The information compiled by these groups was then included in a survey completed by alumni, faculty, regents, current students, student sponsors, focus group participants, and additional industry professionals.

It was found that the scope of the marketing effort (utilization of brochures, the web site, internet, mass mailings, alumni, Regents, and face to face recruiting) needed to be increased in order to gain name recognition throughout the Midwest and Southeast. The school lost its brand name when the name changed from Mid South School of Banking to Barret School of Banking. The feasibility of BSB being a "feeder" school for the graduate schools of banking was intriguing, creating a niche for Barret. Changing the School from a general education outlet, where the student can attain a broad knowledge base, into a graduate school format by offering electives and the opportunity to specialize is an option, but could add additional expenses to the School. Extending the school to a fourth year (one-week/year) to compete with the graduate schools of banking was an option because it would allow BSB to provide a broader education. This again could add more expenses to the bottom line, but could allow the school to readily compete with the graduate schools. Provide the students with the best faculty and curriculum in the banking school industry. The regents are committed to this goal through the use of the endowment.

COMPETITIVE ADVANTAGES

Kennedy was able to uncover some of the competitive advantages he believed would help in future marketing by studying the competition and focus group results. The logistical location of Memphis, Tennessee, makes it attractive to many banks throughout the Southeast and Midwest as major interstates and an international airport provide low cost travel for bankers. The lecture series during the school session provides a distinguished speaker for all students and their sponsors to enjoy. The tuition is affordable due to BSB subsidizing about half of the cost per student. The endowment enables the school to deliver the savings back to the sponsor banks. The one-week versus a two-week format allows banks to educate their employees at a lower price than the graduate schools. The sponsoring bank may prefer the one-week format due to the inherent cost of the employee being absent from the bank for two consecutive weeks while attending school. As a result of a partnership between Barret and Christian Brothers University (CBU), alumni of BSB are eligible for six hours of graduate credit upon admission to the MBA program at CBU. BSB may not be considered a graduate school of banking, but this partnership provides a level of credibility to the educational offering. An active Board of Regents consisting of industry professionals from six surrounding states (TN, AR, KY, MO, AL, & MS) presents an opportunity for outreach, as well as an active barometer of the banking environment. The endowment makes almost any marketing idea feasible. The school is one of the most highly funded banking schools in the country.

MARKETING PLAN

"I can't believe I have to report on this tomorrow." Kelley has an idea for the strategic plan, but he is torn between competing head to head with the graduate schools of banking or creating a niche for the banking industry. The board wants to increase enrollment, along with providing the best educational value and he has to offer something to the committee tomorrow.

"There are just so many possible objectives to choose from." Go head to head with the graduate schools of banking. Increase the length of the school to a fourth year or mirror the existing graduate school schedules. Become a "feeder" program to the graduate schools of banking. Work on a merger with some of the state association schools. Increase faculty pay to equal or exceed the graduate schools of banking, therefore attracting the cream of the crop. Mass market to the entire banking industry versus a regional focus. Add electives to the existing generalist curriculum to allow for specialization. Offer refresher or elective courses to alumni to keep them involved with the school and provide an advanced degree.

Frequent banking school trade shows to market the program. Continue the lecture series, but take it a step further, and add a distinguished speaker for graduation. Offer an internet option for off-site training. Encourage Christian Brothers University (MBA partner) to offer on-line MBA courses to benefit all out-of-region students.

ST. LOUIS CHEMICAL: THE INVESTMENT DECISION

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CASE DESCRIPTION

The primary subject matter of this case concerns the issues surrounding evaluation of capital expenditures. Case provides a systematic approach to evaluating capital expenditures including a review of alternative capital budgeting methods and the relationship between cost of capital and capital budgeting. Secondary issues include cost of capital theory and the advantages and disadvantages of financial leverage. The case requires students to have an introductory knowledge of accounting, finance and general business issues thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one class session of approximately 1.25 hours and is expected to require 4-6 hours of preparation time from the students.

CASE SYNOPSIS

St. Louis Chemical is a regional chemical distributor, headquartered in St. Louis. Don Williams, the President and primary owner, began St. Louis Chemical five years ago after a successful career in chemical sales and marketing. The company reported small losses during it first two years of operation but has since reported increasing sales and profits. The growth has required the acquisition of equipment, expansion of storage capacity and increasing the size of the work force.

The unexpected withdrawal of one of St. Louis Chemical's competitors from the region has provided the opportunity to increase its packaged goods sales, in particular, sales of material in fifty-five gallon drums. However, St. Louis Chemical's fifty-five gallon drum filling equipment is already operating at capacity. To take advantage of this opportunity additional equipment must be obtained, requiring a major capital investment. It is estimated that St. Louis Chemical must increase its drum filling capacity by at least 200,000 to 400,000 drums annually. The firm has no systematic capital expenditure evaluation process or an estimate of its cost of capital.

COMPANY HISTORY

St. Louis Chemical is a regional chemical distributor, headquartered in St. Louis. Don Williams, the President and primary owner, began St. Louis Chemical five years ago after a successful career in chemical sales and marketing. In his previous employment he gained a solid understanding of the chemical industry and the distribution process. But his exposure to accounting and finance issues was limited. The company reported small losses during it first two years of operation but has since reported increasing sales and profits. The growth has required the acquisition of equipment, expansion of bulk liquid storage and warehousing for packaged goods and increasing the size of its work force.

Most initial business financing was provided by Williams, using the proceeds from liquidating his stock portfolio plus severance pay from his previous employer. Other capital was provided by an investment by his father, trade credit and a bank loan. The original bank loan was repaid last year. Williams has been reluctant to borrow funds because of the "fixed" nature of interest payments.

Despite its business success St. Louis Chemical is still a "large" small business with Williams making all important decisions. He recognized the need to develop a professional managerial staff, particularly in the area of finance. Recently, he hired Ann Bush as the company's first finance professional and placed her in charge of the company's accounting and finance activities.

St. Louis Chemical's board of directors is composed of Williams' family members and the company's attorney. The board's existence satisfies state regulatory requirements for corporations but provides no input to business operations.

CHEMICAL DISTRIBUTION

A chemical distributor is a wholesaler. Operations may vary but a typical distributor purchases chemicals in large quantities (bulk - barge, rail or truckloads) from a number of manufacturers. They store bulk chemicals in "tank farms", a number of tanks surrounded by dikes to prevent pollution in the event of a tank failure. Tanks can receive and ship materials from all modes of transportation. Packaged chemicals are stored in a warehouse. Other distributor activities include blending, repackaging, and shipping in smaller quantities (less than truckload, tote tanks, 55-gallon drums, and other smaller package sizes) to meet the needs of a variety of industrial users. In addition to the tank farm and warehouse, a distributor needs access to specialized delivery equipment (specialized truck transports, and tank rail cars) to meet the handling requirements of different chemicals. A distributor adds value by supplying its customers with the chemicals they need, in the quantities they desire, when they need them. This requires maintaining a sizable inventory and operating efficiently. Distributors usually operate on very thin profit margins. RMA Annual Statement Studies indicates "profit before taxes as a percentage of sales" for Wholesalers - Chemicals and Allied Products, (SIC number 5169) ranges from 2.1 to 4.5% with an average of 3.2%. In addition to operating efficiently, a successful distributor will possess 1) a solid customer base and 2) supplier contacts and contracts which will ensure a complete product line is available at competitive prices.

THE SITUATION

The unexpected withdrawal of one of St. Louis Chemical's competitors from the region has provided the opportunity to increase its packaged goods sales, in particular, sales of material in fifty-five gallon drums. That's the good news. The bad news is St. Louis Chemical's fifty-five gallon drum filling equipment is operating at capacity, thus to take advantage of this opportunity additional equipment must be obtained, requiring a major capital investment. It is estimated that, St. Louis Chemical must increase its drum filling capacity by at least 200,000 to 400,000 drums annually.

Williams is considering two alternatives proposed by the company's engineer. The first is the acquisition and installation of used equipment that will provide the capacity to fill an additional 200,000 fifty-five gallon drums annually. The used equipment will cost $860,000 to acquire and install. The equipment is projected to have an estimated life of three years. The second option is the acquisition and installation of new equipment with the capacity to fill 400,000 drums annually. The new equipment would have a substantially higher cost to acquire and install, $2,480,000, but have a higher capacity and an economic life of seven years. The new equipment is also more efficient thus the cost to fill a drum is less than the per drum filling cost of the used equipment. Williams asked Bush to lead the evaluation process.

Bush thinks the used equipment could be obtained without a new bank loan. The acquisition of the new equipment would require new bank borrowing. Bush feels that Williams may be willing to consider using debt if she can convince him of the advantages of using debt in the firm's capital structure.

The evaluation of each alternative will require an estimate of the financial benefits associated with each. Bush obtained projections of incremental sales of 55 gallon packaged material for the next seven years from the marketing and sales staff. Their estimates are provided in table one.

Table One

	Incremental Sales of
Year	55 gallon drum packaged material
1	170,000
2	190,000
3	215,000
4	235,000
5	275,000
6	310,000
7	370,000

During the last year the average selling price for a fifty-five gallon drum of material has been near $35 and cost has been approximately $30.50. The marketing staff anticipates no significant change in either future selling prices or product cost.

PROJECT EVALUATION PROCESS

The company has no formal process for evaluating capital expenditure projects. In the past Williams had reviewed investment alternatives and made the decision based on his "informal" evaluation. Bush plans to develop a formal capital budgeting process using Cash Payback, Net Present Value (NPV) and the Internal Rate of Return (IRR) evaluation methods. She will need to educate Williams on the superiority of a formal evaluation process and these methods. Bush understands that the first step of the evaluation process is to estimate St. Louis Chemical's cost of capital. Knowledge of the firm's cost of capital is required to calculate a project's NPV.

Cost of Capital

Using input from an investment-banking firm, Bush has estimated the company's cost of equity to be 16%. A St. Louis bank has indicated a long-term bank loan can be arranged to finance the new equipment at an annual interest rate of 10%. The bank would require the loan to be secured with the new equipment. The loan agreement would also include a number of restrictive covenants, including a limitation of dividends while the loans are outstanding. While long-term debt is not included in the firm's capital structure, Bush believes a 30% debt, 70% equity capital mix would be appropriate for St. Louis Chemical. Last year the company's federal-plus-state income tax rate was 30%. Bush does not expect the income tax rate to change in the foreseeable future.

Used Equipment

The used equipment will cost $800,000 with another $60,000 to install the equipment. The equipment is projected to have an economic life of three years with a salvage value of $50,000. The equipment will provide the capacity to fill an additional 200,000 fifty-five gallon drums annually. The variable cost to fill a drum is estimated to be $1.75. The equipment would be depreciated under the Modified Accelerate Cost Recovery System (MACRS) 3-year class. Under the current tax law, the depreciation allowances are 0.33, 0.45, 0.15, and 0.07 in years 1 through 4, respectively. The increased sales volume will require an additional investment in working capital of 10% of sales.

New Equipment

The acquisition of new equipment with the capacity to fill 400,000 drums annually is the second alternative. The new equipment would cost $2,400,000 with installation cost of $80,000 and have an economic life of seven years and a salvage value of $120,000. The new equipment can be operated more efficiently than the used equipment. The cost to fill a drum is estimated to be $1.00. The equipment would be depreciated under the MACRS 7-year class. Under the current tax law, the depreciation allowances are 0.14, 0.25, 0.17, 0.13, 0.09, 0.09, 0.09 and 0.04 in years 1 through 8, respectively. The increased sales volume will require an additional investment in working capital of 10% of sales.

REQUIREMENTS

Assume the role of a consultant and assist Bush to answer the following questions.

1) Prepare a presentation for Williams regarding the concept of WACC.
2) Calculate St. Louis Chemical's WACC (round to the nearest whole number). What arguments should be made to convince Williams of the advantage of using long-term debt in the firm's capital structure?
3) Since the used equipment will be financed with internal capital and the new equipment with a bank loan should the same discount rate be used to evaluate each alternative? Explain.
4) Explain why an accurate WACC is important to a firm's long-term success.
5) Evaluate the strengths and weaknesses of the NPV, IRR and Cash Payback capital expenditure budgeting methods. Prepare a recommendation for Williams regarding the capital budgeting method or methods to use in evaluating the expansion alternatives. Support your answer.
6) Calculate the NPV, IRR and Cash Payback for each alternative. For these calculations assume a WACC of 13%. Based strictly on the results of these methods, should either option be selected? Why? How could the analysis be improved? Solution requires preparation of a spreadsheet.
7) The projected cash flow benefits of both projects did not include the effects of inflation. Future cash flows were determined using a constant selling price and operating costs (real cash flows). The cash flows were then discounted using a WACC that included the impact of inflation (nominal WACC). Discuss the problem with using real cash flows and a nominal WACC when calculating a project's NPV or IRR.
8) What other issues should be considered before a final decision regarding the expansion alternatives is made?

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KIRKLAND'S INC.

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HOME DÉCOR/ACCESSORIES INDUSTRY

The home décor/accessories industry is a large and growing industry. In 2002, sales in this industry topped $78 billion-an increase of 7.9% over the previous year. The average net profit margin in the industry was 3.8%. Most of the major competitors in the industry are chains of 150 stores or more. Rather than franchising the stores out to owners in the different regions of the country, the stores are operated as part of corporate chains. This means that economies of scale are very important and give the chain owner a lot of leverage with suppliers. Companies in this industry rely upon word-of-mouth, catalogs, and more recently the Internet to deliver their messages. Historically, they have not spent a lot of money in traditional advertising vehicles. The average size store ranges from 3500 square feet for a small specialty retailer to 80,000 square feet for a big box store such as Bed, Bath, and Beyond.

This industry is highly fragmented. Competitors include the large mass merchandisers like Wal-Mart and Target; the specialty retailing chains like Kirkland's and Bombay; the big box (category killers) like Bed, Bath, and Beyond and Linens N' Things; the department stores like Macy's and Saks; the moderate to large size free standing specialty retailer who have chosen to use free standing stores like Pier 1; the catalog retailer; and the small specialty retailer with just one or a few stores. Ironically it seems that each of these segments of the industry have been able to carve out a niche for themselves, although department stores have been losing business to the other segments for the last 10 to 15 years.

Product innovation is one of the keys to success in this industry. Product must be cutting edge and up-to-date. Customers enter these stores looking for new and innovative ways to decorate their homes. Companies must constantly update and tweak the merchandise mix and the items carried within each product category. If a company misreads the market it can quickly lose its place in the industry to a competitor. If this happens very often the company may lose its identity-a fatal mistake in this industry.

With emphasis being placed on value focused retailing and product innovation, the management of the supply chain has become even more critical. Companies are investing literally millions of dollars in information systems that allow them to track their inventory, place orders, and shift merchandise at the push of a button or the click of a mouse. Many companies have established their own distribution systems and truck fleets. Some companies have even established buying offices overseas to cut out middle people. Companies have found that by better managing their supply chain they can lower their distribution and inventory costs, maintain their margins, and still offer the product to the customer at a lower price.

THE HISTORY OF KIRKLAND'S

Carl Kirkland, the co-founder of Kirkland's Inc., grew up in the retailing business. His father and grandfather ran a clothing store in Union City, Tennessee called Kirkland's Klothing. Carl fondly remembers that at age ten his father put him in charge of the Boy Scout department. After graduating from college with a degree in accounting, Carl went to work for a large home building firm in Memphis, Tennessee. During the mid-1960s, they develop a lot of the residential proper along the new I- 240 By-pass. Carl says that when he drives in that area today, he recognizes the houses they build and can picture what they looked like inside. As interest rate began to rise in the mid to late 1960s, the housing bubble burst and people quit buying new homes. Carl decided that he needed to look for another line of work.

In 1968, he returned to his retailing roots and opened a franchised gift shop in the recently built Old Hickory Mall in Jackson, Tennessee. Carl recalls that the store was reasonably successful from the beginning, and they did about $150,000 in sales the first year-a pretty good some of money for the times. About the same time, Carl's cousin, Robert Kirkland, opened a gift shop by the same franchiser in Nashville, Tennessee. Because of their success they began to look for other opportunities.

In the late 1970's Carl and his cousin began to travel to the orient looking for merchandise for Kirkland's. After doing this for a few years, they decided to go into the import wholesale business. At that point they started a company call CBK, which stood for Carl and Bob Kirkland. This business mainly catered to small retail gift shops, many of which were mom and pop stores that could not buy in large quantities. This business was run as a separate business, and they really never sold much merchandise to Kirkland's, Inc.

On July 11, 2002, Kirkland's Inc. went public, raising about $90 million. Robert Kirkland sold his remaining share in the business, and the company retired virtually all of its debt. It has remained debt free to this day, except for the line of credit it uses to fund inventory from time to time. Carl Kirkland is the Chairman of the Board, Robert Alderson is the President and CEO, Reynolds Faulkner is the CFO, and Chris LaFont is now Senior Vice President for Merchandising.

KIRKLAND'S TODAY

Kirkland's Inc. is a specialty retailer of home décor/accessory items. The stores have about 5,000 SKUs in a variety of merchandise categories including framed art, mirrors, candles, lamps, picture frames, accent rugs, garden accessories, and artificial floral products. The stores also offer an extensive assortment of holiday merchandise, as well as items carried throughout the year suitable for gift giving. In addition, the company uses innovative design and packaging to market home décor items as gifts.

Kirkland's purchases merchandise from approximately 200 vendors, and its buying team works closely with many of these vendors to differentiate the company's merchandise from that of its competitors. Kirkland's estimates that over 60% of its merchandise assortment is designed or packaged exclusively for the company. Generally, this is done based on the buyer's experience in modifying certain merchandise characteristics or interpreting market trends into a product and price point that will appeal to the company's customer. For products that are not manufactured specifically for it, the company may create custom packaging as a way to differentiate its merchandise offering and reinforce its brand names. The company markets a substantial portion of its exclusive or custom-package merchandise assortment under the Cedar Creek private label brand and other proprietary names. Its strategy is to continue to grow the company's exclusive and proprietary products and custom-packaged products within its merchandise mix.

STRATEGIC KEYS TO KIRKLAND'S SUCCESS

Kirkland's is very proud of its business strategy and feels it is the reason they have been so successful. There are five key elements of Kirkland's business strategy that differentiate them from their competitors and allow them to be successful where others have failed. These elements are discussed below.

Item-focus merchandising

While their stores contain a broad range of complementary product categories, they emphasize key items within their targeted categories rather than merchandising complete product classifications. They do not attempt to be a fashion leader, but their buyers work closely with their vendors to identify and develop stylish merchandise reflecting the latest trends. This allows them to respond quickly to changing trends. As mentioned earlier, approximately 60% of their merchandise is designed and packaged exclusively for Kirkland's, which distinguishes them in the marketplace and enhances their margins.

Ever-changing merchandise mix

While they maintain about 5,000 SKUs in their stores, they are constantly bringing in new "fresh" merchandise to create an exciting "treasure hunt" environment that encourages strong customer loyalty and frequent return visits to their stores. The merchandise is traditionally styled for broad market appeal, yet reflects an understanding of their customer's desire for newness and freshness. Their information system allows them to keep close track of individual item sales, enabling them to react quickly to both fast-selling and slow-moving items. They actively change their merchandise throughout the year in response to market trends, sales results and changes in season. Also, they strategically increase selling space devoted to gifts and seasonal merchandise in advance of holidays. They have a very experienced buying team-some have been with Kirkland's for more than twenty years. They work together to ensure that the products they buy will work in a Kirkland's store. Their experience and teamwork ensure that Kirkland's is constantly projecting the image of a store that offers traditional style that is current.

Stimulating visual presentation

The stores have a distinctive, "interior design" look that helps customers visualize the merchandise in their own homes and inspires decorating and gift-giving ideas. They use multiple merchandise arrangements to simulate home settings. This allows them to group complementary merchandise creatively throughout the store rather than display products strictly by category or product type. This cross-category merchandising strategy encourages customers to browse for longer periods of time, promoting add-on sales. While the average price of an item is $12.00, the average sales ticket is about $30.00.

Strong value proposition

Their customers regularly experience the satisfaction of paying noticeably less for items similar or identical to those sold by other retail stores, through catalogs, or via the Internet. The unique combination of style and value is an important element in making Kirkland's a destination store. While they carry items that sell for several hundred dollars, most of their items sell for under $50 and are perceived by the customers as "affordable luxuries." They are known in the industry as being tough negotiators on price. They are able to do this for three reasons. First, for the items they carry in their stores, they buy in large quantities. Second, they do not do a lot of charge backs to their suppliers. Third, unlike many other retailers in the industry, they pay when they say they will. Vendors have found that they can sell to Kirkland's at a lower price and do so profitably.

Flexible approach to real estate

They operate in a wide spectrum of different regions, market sizes, and real estate venues. Their lease arrangements are very advantageous. Their leases are for no more than ten years with a clause that allows them (or the landlord) to get out of the lease after five years. If the sales do not reach a certain amount by the fifth year, they can get out of the lease. Also, they have clauses in their leases that allow them to get out of a contract if other stores in the mall leave. This makes it easy for them to open stores in very desirable locations and to close stores that are not performing to expectations. Kirkland's reputation makes landlords want Kirkland's in their shopping centers. Because of their experience in opening stores and their wonderful reputation as a tenant, they can open a store and stock it for an initial investment of $300,000. They estimate their payback on a new store to be two years.

TWEAKING THE STRATEGY

While the primary business strategy has remained the same for years, Kirkland's has done several things to tweak the strategy to make it better. First, they are no longer considered a gift shop. Granted they still carry seasonal/gift items, and the fourth quarter of the year is still very important to them-40% of their sales and 80% of their profits occur during the fourth quarter. However, over the years they have moved from being a gift shop to being a retailer of home décor/accessories items. They have phased out the tableware because they could not compete with department stores that offer greater width and depth of assortment in this category.

They no long carry collectibles (such as Precious Moments) because there are a lot of small gift shops that now carry these items. At one time they had an extensive collection of dolls, but much of that business is now at Wal-Mart or other mass merchandisers. They have replaced these product categories with lamps and wall décor such as framed art. According to Chris LaFont (Senior Vice President for Merchandise), 60-70% of their business is strictly home décor/accessories purchases.

Second, while according to Robert Alderson (President and CEO), "Kirkland's grew up in the malls," they are now considering other retail venues. Their desire to have more stores and the declining popularity and number of new malls has forced Kirkland's to consider other retail venues. As Mr. Alderson said, "today's customer want to drive up in front of the store, get out, go in, get what they want, and get out quickly." Kirkland's has recognized this change in shopping patterns and is repositioning itself to reach its target market. They now have stores in power strips, life-style centers, and large-scale outlet malls.

Third, they have upgraded their information system so they can keep better control over their inventory. Over a three-year period (beginning in 1999), Kirkland's invested $6.5 million in a new information technology that tracks each store's sales and inventory. This helps them determine what merchandise needs to be replenished and what needs to be shifted to other stores. This has allowed the store manager to concentrate more on visual presentation and selling rather than managing inventory.

Fourth, in addition to the new information technology, they have established a central distribution system in Jackson, Tennessee. Previously, the merchandise was shipped directly from the vendor to the individual stores. This meant each store manager had to manage the inventory and find suitable storage space for the merchandise. With the new central distribution system, the vendor ships the merchandise to one location; and the merchandise is distributed to the stores as needed. Currently, about 75% of their merchandise is distributed this way. This has saved a lot of money in freight costs and in local storage costs. The new information technology and the new distribution system have allowed Kirkland's to reduce the individual store's inventory and speed up its turnover rate.

Fifth, while Kirkland's is still a brick and mortar business, they have established a website where customers can learn more about Kirkland's, find store locations, down load coupons, purchase gift certificates, make purchases, and communicate with Kirkland's. They plan to offer some incentives that will give them more information about their customers and allow them to communicate with customers via e-mail.

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CREATING CUSTOMER VALUE AT ROCKY MOUNTAIN FIBERBOARD

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CASE DESCRIPTION

The primary subject matter of this case concerns strategic planning, strategy formulation, and the alignment of functional strategies with the overall business strategy. Secondary issues examined include the incorporation of societal & environmental needs into business decisions, the strategic issues associated with staying focused, and bankruptcy. The case has a difficulty level of five. It is best suited for use in graduate level or advanced undergraduate courses given the scope of the difficulties the company faces and the complexity of the situation described. It is ideally suited for use in a capstone strategic management class because it requires the student to deal with strategic marketing, production and financial issues in an integrated manner. The case could also be used in a capstone marketing course, a small business management course, or in an entrepreneurship course. The case has been designed to be taught in 75 to 90 minutes and is expected to require four to five hours of outside preparation given the detailed financial analysis that can be done.

CASE SYNOPSIS

Rocky Mountain Fiberboard (RMF) produced particleboard out of bluegrass straw. It was established in 1999 as a joint venture between a processor of bluegrass seed and a Northwest American Indian Tribe. RMF was created to help solve the problem of waste bluegrass straw and was also part of the Tribe's effort to diversify the economic base of its reservation. RMF, however, experienced significant difficulties. It had lost $1.9 million in 2001, had $4.5 million in debt, and had no real working capital. Its Tribal owners were putting $42,000/month into the company to keep it going. While a pending grant application with the U.S. Department of Agriculture offered hope of reducing its significant debt burden, the business was also experiencing difficulties attracting and retaining customers and was experiencing significant quality problems. Luke Waterman, a trusted Tribal member who was in the process of completing a business degree at a nearby university, had recently taken over as general manager and was faced with the task of *overcoming the considerable financial, marketing, and production problems the business faced. Luke was considering three options: (i) identifying additional funds to undertake a focused marketing effort and to implement process improvements in production; (ii) acquiring equipment and licenses to produce another product - wall panels - that would use RMF's strawboard; or (iii) declaring bankruptcy.*

UPSIDE-DOWN PACKING: AUTO PURCHASE SITUATIONS

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CASE DESCRIPTION

The primary subject matter of this case focuses on applying time value of money to calculating the payment on car loans and leases. Secondary issues are car prices, price depreciation and the tradeoff between the length of a loan and the monthly payment. The case has a difficulty level of three and is appropriate for corporate finance or personal finance classes. The case can be taught in one class hour with two to three hours of outside classroom preparation by the students.

CASE SYNOPSIS

Carrie and her two roommates Shawna and Lisa are recent college graduates with new jobs. The three friends go car shopping and encounter various car purchase issues. While two go prepared to the car lot all encounter common problems. Carrie falls victim to a basic car dealership scam called packing. Shawna is upside-down in her current car loan. Lisa is going to lease a car and chooses unfavorable terms. These issues are rarely mentioned in finance textbooks but represent common situations. College students are particularly susceptible to these problems because they are likely to need a car loan and do not have much experience with credit. In addition, while learning about purchasing a car, students practice time value of money. The students are placed in the role of the roommates and must evaluate the offers from the dealership. An Internet exercise is included on car price depreciation.

GETTING READY TO BUY

"Shawna, are you ready to go car shopping with me?" Carrie asked her roommate.

"Sure. I didn't know you were ready to buy a new car. I thought you were still looking around."

"Well, my car is getting older. I think it still has some trade in value. Plus, the car dealerships are clearing their lots, as they get ready for the new model year cars. I think I can get a last year's model a little cheaper."

"I think you just want a new car," Shawna said teasingly.

"Yes, I suppose so. I am tired of my car. Besides, I finished school and I have a new job. Everyone else at work drives a nice car. I feel like an intern driving into the parking lot in my college car."

"Have you done any research on car prices?" Shawna asked.

"I researched the Internet and know the range of prices for the car I want. I looked at auction sites and in the paper to have a good idea of what my car's trade-in value is. I read over all the potential scams. I have shopped several dealerships and gotten preliminary prices. We are going to Mid-town Dealers because they have given me the most consistent information and prices over the last month. I want $2000 to $3500 for my old car and I am willing to pay around $18,000 to $20,000 for the new car. The trade-in will be my down payment. I really searched the Internet for information. There is a site called Edmond's that has a lot of pricing information. I think I am ready."

"So you already know what you want?"

"Yes, the car I am looking at has a good safety rating, gas mileage and it doesn't depreciate as fast as some other cars I was considering."

"Hmm. You have done more research than me. I know what new car I want but I haven't really looked into the pricing. As long as the payment is about the same, I should be ok," Shawna replied.

"You just got a new car last year! Are you going to trade it in already?" Carrie asked.

"Yes, I think so. I really don't like having a manual. Besides, I travel so much with work, I would rather have a SUV."

Just then Lisa walks in from getting the mail. "What's up?"

"We are just getting ready to go to the car dealership," Carrie replied.

"Lucky for you I just got the mail. Here is an advertisement from the dealership. They have zero percent financing. They also have a special on leasing," Lisa said.

"Leasing?" Shawna asked.

"Yup, my boss at work leases his car. He is able to drive a better car and pay less each month than if he bought the car. I can't afford the payment on the car I want if I buy it so I think I am going to lease," Lisa answered.

"Leasing sounds too complicated," Shawna added.

"There are a lot of special terms but my boss explained them to me. Basically, the price of the car after any discounts is called the capitalization price. The value of the car at the end of the lease is called the residual value. All you do is take the difference and divide by the number of months to get the monthly payment."

"That doesn't sound right. In finance class, we always had to do time value of money. Where is the interest?" Carrie asked.

"It is called the money factor. It is multiplied by the capitalization price plus the residual value to get a monthly lease fee. My boss told me to make sure my lease is a closed-end lease. That means at the end of the lease, I can walk away from the car no matter what the actual value of the car is at the end. Of course, I have to pay for any damages."

"Sounds too complicated. Plus, the car really isn't yours," Shawna said.

"But I would rather have a better car that I lease than the car I could buy. I want to make a good impression at work and get that promotion," Lisa said matter-of-factly.

"Well, the dealership should be happy to see us!" Carrie exclaimed. The three friends laughed and drove over to the dealership.

FINANCIAL RATIOS IN A MODERN ECONOMY

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CASE DESCRIPTION

The primary subject matter of this case is the application of financial ratios to different industries. The case focuses on how financial ratios differ by industry and how some are not applicable to certain industries. In particular, the differences among manufacturing, service, and retail firms are addressed. The case moves the analysis of financial ratios from a mechanical process to one where managerial insights come to the forefront. The case has a difficulty level of three and is appropriate for advanced corporate finance classes. The case can be taught in one class hour with three hours of outside classroom preparation by the students.

CASE SYNOPSIS

John Halvorford is presenting the financial ratios to his board in a few hours. He discovers that his intern did not complete the work and that the intern neglected to match the ratios to the appropriate firms. Students are placed in the role of John and must complete his work. As the students calculate the ratios, differences among industries emerge. The students must match the correct financial statements with the corresponding firm. Along with calculating the ratios, students practice analyzing the ratios and encounter the shortcomings of ratio analysis.

THREE HOURS UNTIL THE MEETING

John Halvorford got the work early on Friday. He was presenting to the board before lunch. The board had narrowed the number of possible investments down to ten. John's job is to present the financials of the firms and let the board take it from there. John looks over the information. It doesn't all seem to be there.

"Carolyn, do have the rest of the financials for my presentation today?" John asked.

"No, I thought Neil was working on them."

"He was but some seem to be missing. Where is Neil?"

"I don't know. I'll call his cell phone."

John rummages through the paperwork again.

"Neil is on line one," Carolyn says over the intercom.

"Neil, this is John. Where are the rest of the financials?"

"I didn't get to them. My dad called and he wanted to go out to eat. I thought you could finish them this morning. I won't be in. I'm going to the beach today."

John took a deep breath. He would love to yell at Neil, even fire him. Unfortunately, Neil is the son of the CEO. John bit his tongue.

"Ok, my one concern is that I see all these balance sheets and income statements but I don't see any titles on them. Which balance sheet goes with which company?" John asks.

"Gosh, I don't know. Can't you tell by looking at the financials?" Neil replies. "I think I am going to lose you. I am heading into a tunnel. Have a good weekend."

John can't believe it. He has to present in three hours. Not only does he have to fill in the missing ratios, he has to figure out which statements fit with each firm. Luckily, the firms are in different industries.

John gets out the list of companies.

1. A leading producer of electrical and electronic controls for the consumer and industrial markets. Products include switching gear, electric motors, garbage disposal units, environmental monitoring and control devices and temperature controls.

2. Company operates membership warehouses offering a limited selection of nationally branded and selected private label products in no-frills, self-service warehouse facilities. Presently it has facilities throughout the United States and in six foreign countries.

3. Company owns and operates electrical generation facilities. Provides electric and gas services to an extensive regional area and is in the process of developing new energy generation capacity.

4. Owns and operates fast food facilities throughout the United States and abroad. Also franchises the company name and menu for locally owned facilities. Well-known brand name requires extensive national marketing efforts.

5. Provides investment management, retail and commercial financial services, consumer finance and investment banking products throughout the United States and, for certain businesses, internationally.

6. Offers client based computer software primarily oriented toward the enhancement of Internet applications. Substantial number of product users although the product market is highly competitive.

7. Company operates more than 2,000 retail food and drug stores in more than 30 states. Also owns and operates 20 distribution centers that provide product exclusively to the company's retail stores.

8. The operating units provide less-than-truckload (LTL) transportation as well as regional overnight and second-day transportation services. Company is also providing a variety of transportation and supply chain solutions through units of the holding company.

9. Operates more than 400 family oriented, specialty department stores that feature quality, national brand merchandise priced to provide exceptional customer value. Sells moderately priced products targeted to middle-income customers.

10. Primarily engaged, together with its subsidiaries, in the ownership, management and development of hotels, resorts and vacation ownership properties as well as the franchising of lodging properties.

John looks over the financial statements in Tables 1 through 4.

"Carolyn, make a new pot of coffee. I need all the strength I can get."

CREATE-A-CANDLE, INC.

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CASE DESCRIPTION

The primary focus of this case concerns the borrowing needs of a start-up business, taking into account the financing feedback associated with interest expense. Instead of using the traditional iterative method for debt determination, enough information is provided so the better students could express the relationship in an algebraic construct and solve directly for the requisite loan amount. Secondary issues include developing a forecasted statement for the first year of a start-up business. The case has a difficulty level of three, and is positioned for use in junior level principles of finance courses as well as in integrated business curriculum classes for juniors. The case is designed to be taught in two class hours and is expected to require three to six hours of outside preparation by students.

CASE SYNOPSIS

Bob Fortune has spent a number of years in the candle-making industry and has decided to start his own business. Using a made-to-order approach, he is hoping to carve out a niche in the market. He has obtained $260,000 in equity investment for his business but still needs additional funds and plans to use a line of credit. To determine the amount he needs to borrow, Bob needs to develop his first year financials. Not only does he need to completely forecast his income statement and balance sheet, he also needs to determine the amount of debt financing needed to reach his target cash balance. Deriving the amount of financing needed is complicated by the financing feedback effect, wherein the more he borrows, the more interest he pays.

INTRODUCTION

Bob Fortune had always dreamed of owning his own candle making business. Having worked in the industry for 21years, he looked forward to less travel and to using the candle making experience he had acquired. Over the years, Bob saved $60,000 for this venture, and was eager to strike out on his own. At last he decided to make the plunge as an entrepreneur. His first problem was financing this venture.

He ultimately raised $200,000 from outside investors, but apparently he had tapped out this source of financing, as no one else seemed interested in investing equity in his vision.

Unfortunately, the combined equity from the two sources wasn't going to be enough to launch his business.

Bob had developed a great banking relationship with Dan Miller at Sunshine Community Bank. When he saw Dan at the Country Club, Bob casually asked him about arranging a line of credit.

"Sure I can arrange a line of credit for you," said Miller. "How much do you need?"

That's a good question, Bob said to himself silently, thinking about his business plan. Even though he thought he had made plenty of good assumptions about the future of his business, his financial statements just wouldn't balance.

The problem perplexed him. If he didn't know the amount of debt he needed to meet his target ending cash balance, then he couldn't calculate his interest expense. However, he couldn't find the amount of debt he needed until he took into account the interest expense associated with the debt borrowed. Bob knew that his financials had to be constructed properly in order the get the line of credit as Dan was a stickler for accurate forecasts. He wondered how he could close the loop on his financial statements and find the amount of debt financing needed.

"That's a good question," he said aloud to Dan. "I probably won't have to borrow more than $200,000, but I don't know for sure. Let me see if I can come up with a concrete number and get back to you."

"Sounds good to me," said Miller.

THE IDEA

The next day, Bob sat in his office. His idea for was to start a candle making company called Create-a-Candle, Inc. (CC) by the beginning of 2005. CC would allow for customized production of candle jars. Customization would differentiate CC from its competition as customers would be able to create the jars with their desired shape, color and fragrance. While customization was the primary selling point, Bob also believed many customers would be attracted by the opportunity to learn about the candle-making process.

Basically, he would apply the "Build a Bear" concept to candle-making. Bob figured that customers would come to the business to create a unique, personal candle, but leave with both a candle and a happy memory.

Bob opened up his business plan and started to review his assumptions. He definitely wanted to be prepared when he talked with Dan Miller again.

Finance Assumptions

Bob decided to target the year-end cash balance at $52.000, equal to approximately 2 months of SG&A Expenses. He knew that the $260,000 would not be sufficient but he didn't know the amount of the shortfall. Bob fully understood the financials, thanks to his work and individual investing experience. But in any prior forecasting, he had never worried about the exact cash balance. Now that he was using his own money, it became important to target the exact amount.

Bob first projected the cash balance with only equity financing. The shortfall from the $52,000 target balance needed to be made up with the line of credit at, he assumed, a five percent rate. But he then realized that each dollar of financing resulted in a net cash balance of only $.95. Bob reasoned that this relationship could be employed to determine the exact amount of financing he needed. He really wanted to impress somebody as fastidious as Dan Miller by demonstrating his ability to express the fundamental relationship between debt, interest and retained earnings. Bob started with the assumption that all borrowing began on the first day of the planning year and began his forecast. After he figured this out, he would call Dan Miller back and tell him exactly what the line of credit needed to be.

A TALE OF TWO AIRLINES: WESTJET AND CANADA 3000

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ABSTRACT

Over the last twenty years, all airlines, from large international carriers such as United Airlines, Swiss Air, and Air Canada to small short haul carriers such as WestJet have faced enormous risks in their operations. The Gulf War and the War in Iraq, high oil price volatility, the threat of terrorism, and lately SARS all have had a negative impact on airlines around the globe. Many airlines have seen losses, resulting in reduced capacity, large layoffs and quite frequently in bankruptcy. The troubles of the industry are such that it can be described as a battlefield littered with airline casualties. However, a few exceptional airlines have been able to stay profitable even in such a demanding business environment. In this case study we examine two Canadian airlines: WestJet and Canada 3000. The former is an example of an airline that is thriving despite the hostile business environment while the later is an example of an airline that failed shortly after September 11, 2001. Why did this happen? Both airlines were of similar size and initially followed a similar strategy. However, one succeeded, one did not. The major factors that explain WestJet's success and Canada 3000's failure are examined. Speciall, students will explore the financial and business risks associated with the airline industry. In addition students will determine what business and growth strategies an airline can pursue to help it succeed in such a high-risk industry. While this case focuses on two Canadian airlines for the analysis, the lessons learned apply to airlines around the world.

DYERSBURG FABRICS

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THE SHORT BUT HAPPY LIFE OF DYERSBURG FABRICS: PART ONE

If the life expectancy of a human being is based on how long the average person is tending to live when that individual is born, Dyersburg Fabrics no doubt outlived its life expectancy defined in individual terms. The life expectancy of a cotton mill born in 1929, in West Tennessee, although not officially established, must surely have been considerably lower than 70 years. The company that began in August, 1929, as Dyersburg Cotton Products, and later became known as Dyersburg Fabrics, lived to be almost exactly 70 years of age. Using the New International Version of the Bible, Psalm Chapter 90 and verse 10 says, "The length of our days is seventy years- or eighty, if we have the strength; yet their span is but trouble and sorrow, for they quickly pass, and we fly away." Dyersburg Fabrics (the name we will tend to use here) achieved the Biblical promise of 70 years and also experienced the promised "trouble and sorrow", and in the end, it did "fly away". However, as is often the case with individuals, many of the nearly 26,000 days the company was alive, could be considered happy and hopeful.

Dyersburg Fabrics very nearly died as a child, which is not surprising since it was born in the economic equivalent of disease epidemic. This economic disease was "The Great Depression". To better understand economic conditions that prevailed at the time of the birth of Dyersburg Cotton Products, let's recall the events of the Great Depression (based on information found on February 28, 2004 at http://chantal_pitcher.tripod.com/.)

THE GREAT DEPRESSION

In the 1920s, with the war to end all wars, World War I, behind them, Americans looked with high hopes toward happy and economically improving lives. Until the closing months of the decade, the U.S. experienced growth in industry, technology, wages, consumer spending, and availability of cash. These factors supported economic growth and confidence in the economy. Many US citizens, from all classes, invested in stocks to make quick money. As more invested, stock prices rose and the rising values spurred even more people to buy, resulting in billions of dollars of investment in the US stock market. Many invested all their savings. Some mortgaged homes, cashed in savings or took out loans speculating that the market would continue to rise. The stock market peaked at the end of August and beginning of September, 1929, when the Dow Jones reached a high of 381 after having been at 191 at the beginning of 1928.

Tuesday, October 29, 1929 ("Black Tuesday") was even worse, 16,000,000 shares were traded, billions of more dollars were lost and the stock market collapsed as the gains of 1928 and

1929 were stripped away. Stock prices dropped until November 13, 1929 when they reached an all-time low. By the time 1929 ended, stock values had dropped by at least fifteen billion dollars.

By 1933, 11,000 banks (almost half of all U.S. banks) that had invested their deposits in the stock market were forced to close (bank fraud exposed by the market crash was a major reason for many of these closures). Many industries and business that had dumped profits into stock, also shut down. These closures, resulting from the market crash led to a dramatic decline in the U.S. economy. There was no confidence in the economy, the average American spent far less, and production and employment levels fell. This fueled a worldwide economic slump known as the Great Depression.

Prior to turning to the story of Dyersburg Cotton Products, let's take one more look at relevant history by tracing the highlights of the American Textile Industry.

A BRIEF HISTORY OF THE AMERICAN TEXTILE INDUSTRY

The story of the U.S. textile industry can be reduced to immigration, migration and emigration. (Note: a primary source for the history given here was written by Barbara M. Tucker and found at: http://college.hmco.com/history/readerscomp/rcah/html/ah_085400_textileindus.htm; in February, 2004).

Immigration

The American Textile Industry was imported from England by Samuel Slater, a British Mechanic, in 1790, to Pawtucket, Rhode Island, the same year Rhode Island became a state, three years after the founding of the first three states, Delaware, New Jersey and Pennsylvania and six years before Tennessee was founded.

The American textile industry was thus a descendent of the British factory system. Samuel Slater's importation of cotton-spinning technology from England transformed New England from an agricultural to an industrial region and led to the modern corporation, owner-management separation and the development of big business. The system's emphasis on the individual rather than family or community was a major shift in American society and came to characterize the nation's industrial and social development. It also meant that the federal government would only encourage industry, not operate it. Operation would be left to private individuals.

Francis Cabot Lowell, a wealthy Boston merchant, introduced another form of textile manufacturing to New England around this time. The Lowell system, was based in larger-scale operations, used power looms and combined the spinning of yarn and the weaving of cloth. Lowell, who built a large factory in Waltham, Massachusetts in 1813, employed women and girls. These were the first "big businesses" in America. He used professional management staffs and, supported by U.S. tariffs on imported cotton and woolen goods, his factories would turn annual profits of from 20 to 25%.

By the Civil War, the Lowell and Slater systems looked a lot alike, both using immigrant and family labor, company owned tenement housing for the workers, and tight control over both the work and non-work lives of the labor force. These manufacturers used the corporate form of ownership, with professional managers and cost accounting.

The Paterson, New Jersey, venture was revived, and in Philadelphia, the textile industry flourished with factories specializing in weaving, spinning, dyeing, or finishing.

Unions won few victories during the years prior to the Civil War, as the managers successfully played women against men, adults against children and immigrants against those born in the U.S. The economic depression of 1836-1844, further hurt the cause of organized labor and thus was born a tradition of paternalism and harsh working conditions in the textile industry. Throughout the nineteenth century, New England remained the center of cotton, woolen, linen and thread production.

Migration

In the 1880s, a shift in location began to occur. Small textile mills moved south, many of them mirroring the earlier Slater system: town design based on rural villages, small-scale production, and paternalistic practices by owners. One of these small southern towns would be Trenton, Tennessee, only a few miles from Dyersburg, Tennessee, that would later become the home of the company featured in this story. The majority of this southern migration would take place down the east coast, but the fact that cotton was grown in the delta region, helped bring some of the manufacturing to that area.

Early southern mill towns were controlled by mill agents and superintendents, with the company providing jobs, houses, food, clothing, and goods. The work force was drawn from the countryside, and conditions were harsh. In the 1880s and 1890s the Knights of Labor and the National Union of Textile Workers organized southern mill workers, but strikes were largely ineffective with the national economy in trouble.

In the early twentieth century, conditions in the textile industry continued to deteriorate in the North. Major strikes organized by the Industrial Workers of the World (IWW) occurred in 1912 and 1913, with the IWW developing new tactics. One of the most successful, called the "Children's Crusade", saw workers in Lawrence, Massachusetts send their children dressed in rags to New York and other cities to parade through the streets for strike sympathy. The northern unions had some success, but mostly they helped shape management's long-term strategy, which involved seeking southern, non-union labor. As has often been the case over the years, union success led to industrial migration, in this case to the southern United States.

Emigration

Eventually, the U.S. textile industry would succumb to foreign competition, with factories leaving for ridiculously lower wages to points around the world (thus the emigration, and last, phase of the U.S. textile industry). Dyersburg Fabrics would fight the trend longer than most others. Let's return to their story.

HOW DYERSBURG COTTON PRODUCTS CAME TO BE

Ground was broken for the building in the Summer of 1928 and the first machines started spinning at Dyersburg Cotton Products on Monday, March 25, 1929, which means the company was seven-months old when the great disease (depression) struck the nation on Friday, October 25, 1929. The young company would struggle to survive the first few years of its life. However, before looking at these difficult years, we should answer the question of why the company came to be in Dyersburg in the first place.

In 1929, Oswego set up Dyersburg Cotton Products with Ladd Lewis as president. The plant was large from the early days, with around 1500 employees. This was a time when cotton production processes were labor intensive. A large number of these employees were women who cut and sewed. The mill made long-handle underwear, knit material for gloves, meat bags and knit material for sweaters and other types of clothing.

Vestiges of New England-textile practices came south with the Adrian Mills/Oswego Mills combination. Not only was the Dyersburg operation paternalistic, but it brought south ethnic groups that were in charge of various operations. These ethnic divisions had come to be because management had hired large numbers of European immigrants, when the young women in New England demanded better conditions and higher wages.

The carding operation brought down from New York was English because it was run by Bill Coward an Englishman. Spinning was done by Italians hired and supervised by an Italian named Frank Garro. The knitting operation was run by a first-generation German immigrant, Ray Weidner, who had hired other German immigrants. These workers came south with the operation, infusing the town of Dyersburg, Tennessee and the surrounding rural communities, with diversity.

In 1932, Dyersburg Cotton Products was reorganized when Mr. Wheeler convinced the accountant who had recommended liquidation that he could run the firm. The accountant, E. L. Amis, decided to join Wheeler as the financial expert and so Wheeler became manager and Ladd Lewis left the company.

After this reorganization and the assumption of leadership by Mr. Wheeler, the company began to prosper and would realize some of its finest years during World War II. The decades from the 1930s to the 1990s, are filled with stories of events that occurred in the U.S. textile industry and Dyersburg's reactions to them. Our focus here though, will be on the approach the company took toward employee relations. Along with technical and financial adjustments, this reaction to the human part of the business played a strong role in the ability of the company to endure the century.

HOW TO BUILD A COMPANY COMMUNITY

After Dyersburg Cotton Products, which later became Dyersburg Fabrics, began operations under Wheeler, the accountant E. L. Amis, was not only given the title of Secretary-Treasurer, but he was also given the assignment of employee relations. What follows is an account of the aggressive way he carried out this latter function and how it helped build a community-spirit within the company and better attach the company to the Dyersburg area.

The company weekly newspaper: The SPINNIT

According to a story that appeared in the newspaper on April 3, 1979, around the time that the company was celebrating its 50th anniversary, E. L. Amis, may well have fancied himself as something of a journalist (perhaps missing his true calling, the story's writer speculated). By 1979, Mr. Amis was already deceased, but his legacy, the SPINNIT, remained.

The SPINNIT was the company newspaper, printed every two weeks, first published on September 1, 1940. Amis edited it, drew cartoons and took photographs. The first editions were four pages long, but at the time of the company's 50th-anniversary issue in 1979 (the 39th year of the publication), the paper was 12 to 14 pages long.

Amis had the reputation of being as devoted to the newspaper as he was to the company. He was often "caught" sketching out ideas and drawings for the paper during company business meetings. The fact that the paper thrived long after his death was testimonial to the fact that Amis was not the only one with a deep affection for the newspaper.

The first edition of the paper in September of 1940, indicated that the company had 630 names on its payroll the week before. This means that the company had settled into far fewer employees than they had at the beginning, when the number is reported to have been as high as 1500. During those days of large numbers, the ranks were inflated by the number of women in the large sewing operation. By 1940, the sewing operations had dwindled until the number of men was 370 and the number of women employees was 260. The Sept. 1, 1940 paper also said that the average age of the men was 34 and that of the women was 32.

The Hankering and Hunkering Club

After Mr. Amis became ill, sometime in the 1940s, and left the company, Fred Childress, the personnel director, took over editorship of the paper. It was Fred Childress who invented the fictional Hankering and Hunkering Club and wrote stories of supposed events that occurred during the periodic meetings of the club. He used names of actual employees in his humorous accounts, which served as an additional source of mirth.

The paper featured a free want-ads section where people would list cars and other items for sale. Looking at back issues of the paper suggests the great variety of company-sponsored events and services. These included, free help for employees filling out their tax returns.

The staff of the SPINNIT were pictured in the April 3, 1979 edition. All the men had on suits, light-colored shirts and ties. The women were all decked out in hats. There were 17 women who sat for the picture and 10 men. These people were the ones who wrote the stories describing recent goings on in their respective departments.

Company-sponsored activities, benefits, events, services

The company had its own bowling league that played on Tuesday nights. In 1979, the company gave employees who had been there 25 years or more, four weeks of paid vacation. Each December, on a designated Saturday morning, they had a pancake breakfast that was apparently well attended. The mill had winter and summer unpaid closings, of about ten days each. They also held an annual employee-recognition dinner in November of each year, at which time those who had been with the company twenty-five years were honored.

The War

The SPINNIT also reported on the company's contribution to WW II. Apparently two people who had worked for Dyersburg lost their lives in the war: Arthur O'Malley, a former employee of the Cotton Spinning Department and Edward B. Jones, a former Knitting employee, the former dying in a plane crash and the latter when the ship he was on was attacked. The SPINNIT was able to find where at least 70 Dyersburg employees fought in the war.

Play Ball

The company sponsored a semi-pro baseball team made up of mill employees, called the Cotton Products Panthers, which was organized and managed by Ray Weidner, head of the Knitting Department, himself a former semi-pro baseball catcher. He started the team in 1940 and according to the SPINNIT, they played in "just about every cow pasture in this part of the country".

Later on, the mill built the team a park of their own in Dyersburg, with part of the money coming from W. H. Burnham of Adrian, Michigan, one of the early members of the board of directors of the company. The park was named for Mr. Burnham and called, Burnham Field. The park was dedicated on May 23, 1941.

Mr. Weidner managed the team through the 1948 season (during which three players actually left the company for professional baseball, two of whom played in the major leagues). They had a record during those seven seasons of 102 and 42, which means they played an average of a little over 20 games a year. Mr. Weidner retired as manager in 1948 and the team folded in 1949, donating Burnham Field to the City of Dyersburg for the city's youth baseball program.

Setting the tone

It was during the war years that the community and company became galvanized around one another and this relationship would last until the plant's inordinately sad closing in 1999. At the time of the closing, the plant employed around 800 people. In some cases, as many as four generations of family members worked for the company, and in a lot of these instances, three generations were working there at the same time. The years between the war and the closing are filled with interesting events, but the focus of this account has been the early formative years, when the company culture was set and during which the mill and the community bonded in a way that is most likely thing of the past in the United States.

A DAY AT THE MOVIES

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ABSTRACT

Draw your students into a scenario that they will identify with quickly. A busy, stressed college student rushes to get to the movie theater, on time, to see the latest big movie hit. The student unwittingly become part of a captive audience that must sit through twenty minutes of commercial advertisements before the movie actually begins. Instead of complaining about the cost of a movie ticket or the price of the food sold there, the student is fuming because he had to sit for twenty minutes for nothing, thinks the movie is a bust, and wants his money back. When the manager refuses to return the price of the movie ticket, the student ponders whether he has a good lawsuit against the theater on behalf of all moviegoers. The theater receives a letter of complaint from the student and speculates that other theaters may have received similar complaints from other moviegoers. Your students will embark on a search for answers to a variety of questions. Was there a contract between the student and the theater? If so, what were the terms of the contract? Was there a breach of contract by the theater? What are the remedies, if any, available to the student? Has the theater made an innocent misrepresentation or has the theater acted fraudulently? Should the theater owners settle or contest the class action lawsuit? Do the theater owners need a survey to assist them in making that decision? If so, how should the theater owners assess the survey results? Are there any ethical issues raised by a theater owner's conduct of showing twenty minutes of commercials to a captive audience?

DONOVAN PRODUCTS, INC.
A CAPITAL BUDGETING DECISION

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CASE DESCRIPTION

The primary subject matter of this case concerns calculation for and discussion of capital budgeting for mutually exclusive projects. Secondary issues examined include projects with uneven lives and investments, opportunity costs, sunk costs and externalities. The case has a difficulty level of four (appropriate for senior level) or five (appropriate for first year graduate level) The case is designed to be taught in two class hours and is expected to require four hours of outside preparation by students, more if a group presentation is given where each member of the group represents a different member of the board of directors.

CASE SYNOPSIS

This case involves the conflict between the president of the company who has been making capital budgeting decisions on what feels right and his sister who has recently received her MBA and want to employ a more formal capital budgeting process. Various members of the board of directors are brought into the case to present alternative points of view. The decision is between to proposals for the use of an existing warehouse. The proposals have different size investments and different lives. In addition, desire by the production manager to try new computerized equipment is weighted against the option of abandoning the project if the other proposal is accepted and sales are less than expected. Using a group presentation where each member of the group represents a member of the board of directors can be especially valuable to discuss the alternative points of view.

ECAMPUS.COM: UP FROM. THE ASHES

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CASE DESCRIPTION

The primary subject matter of this case concerns the revival of an e-commerce company after bankruptcy. It includes information and issues concerning how a successful e-business ran into trouble, declared bankruptcy, sold at federal bankruptcy auction, restructured under new management and is now trying to survive. This case is suitable for both graduate and undergraduate strategy classes and has a difficulty level of four though six depending on the depth of analysis the instructor desires. This is an e-commerce case that would be appropriate for management information systems, e-commerce or entrepreneurship classes. The students should be prepared to spend from six to twelve hours outside of class analyzing the case depending on the breadth and depth of the analysis.

CASE SYNOPSIS

Ecampus.com is a fully-transactional Internet electronic retailer of college textbooks that went online in 1999. Investors wanted to cash in on the hot IPO (Initial Public Offering) market of the late 1990s. The plan for Ecampus was to a big splash quickly and then hit the IPO market in 2000.

Investors put up $49 million to kickoff Ecampus. Twenty million dollars was spent on cable television advertising during its first eight months. The ads were highly effectively in generating name recognition in its target market. The ads garnered a great deal of press and awards for their quality and creativity, but only generated $2 million in sales. Ecampus purchased the distribution center from its alliance partner in October 1999.

When the IPO market soured in 2000, a decision was made to delay the IPO. Meanwhile, Ecampus continued its marketing campaigns even through sales remained flat. By 2001, the huge personal debts of the principle investor, Wallace Wilkinson, began to worry suppliers and creditors. Ecampus needed more capital to continue its advertising campaign and operations, but investors and creditors were reluctant to put more into Ecampus. In April 2001, Ecampus laid off most its executive management, office staff and programmers. In June, Wilkinson was forced into personal bankruptcy. Within days, Ecampus was forced into bankruptcy too. The federal bankruptcy court allowed Ecampus to continue operating until it was sold at auction.

Ecampus was purchased at bankruptcy auction by a company that headed by the Director of Information Technology and two major creditors. The new owners drastically slashed costs and improved efficiency in advertising, operations, information system and overhead. The industry highly competitive with a couple highly capitalized threats. The primary competitive advantage is *its brick-and-mortar warehouse distribution system. However, while somewhat unique, its operations could be copied by an aggressive competitor.*

COMPANY BACKGROUND

In the spring of 1998, the University of Maryland issued a RFP for the management of its bookstores. Maryland required the managing company to include an on-line transactional component for its bookstore that could handle global online orders, shipping and payment. The Maryland was a huge account for Wallace's College Textbooks, Inc. because of Maryland's vast overseas programs. Although Maryland was the first university to require online service a part of an overall management contract, the management of Wallace's was sure it was a sign of things to come.

The selling of textbooks on the Internet was seen as a major threat to Wallace's position in the college textbook market. While Amazon.com had quickly become a prominent force in the e-tail book market, it was not seen as a major threat because it did not focus on the college textbook market. Barnes & Noble and Follett, however, were major college textbook competitors and were expected to be on-line by September 1999. In addition, new companies, VarsityBooks.com, BigWords.com and Textbooks.com, would be selling college textbook on the Internet by the summer of 1999.

Ecampus.com was created to be the online retail outlet for Wallace's. The plan was to make Ecampus, a closed corporation, the number one on-line textbook seller as fast as possible. Then, parlay that success by going public with an IPO offering and cash in.

Wallace's College Textbook Company was a critical alliance partner for Ecampus. Wallace's was one of the largest full service college bookstore and wholesale distributor of new and used textbooks in the United States.

In January 1999, a group of ten people laid the groundwork for building a "click and mortar" e-commerce company to sell textbook to college students. The development of the application programs, web pages and interface software began on February 1. The company, Ecampus.com, was incorporated by April 16, and by May 17, moved into its headquarters in Lexington, Kentucky. Ecampus officially went live on the Internet forty-six days later, July 2, 1999. Its initial promotional campaign was an overwhelming success. The incoming traffic to the website was so heavy, the web servers were overwhelmed. Processing almost came to a standstill. The system was retooled over a two-day period to increase its capacity and scalability.

The sales volume and rate of increase were much greater than management had expected. Ecampus got a lot of attention in the media and in its industry because of its high Internet traffic and high sales-to-hits conversion rate of 14%. Ecampus.com was one of the hottest places on the Internet. It achieved its three-year traffic and sales goal within its first few months of operation.

Ecampus was well capitalized at the start, and freely spent large sums on advertising, promotions and salaries. They paid top dollar for thirty Java programmers and for a bevy of experienced executives. The plan was to be a fast success and go IPO (initial public offering) in one year. However, the IPO market for dot com businesses began to deteriorate in January 2000. A decision was made to hold off on the IPO until the market improved. However, the IPO market did not recover in 2000 or 2001.

Even though sales continued to grow, the personal financial problems of Wallace Wilkinson began to worry Ecampus investors and suppliers. In early 2001, as Wilkinson's financial problems worsened, he fired the company president and took over the position himself. This action worried the investors and creditors even more. There was no money for the summer and fall advertising campaigns and for replenishing inventories. A few of the highly-paid executives left the company during the early spring. In April 2001, Ecampus released" all of its Java programmers, most of the executive officers and office staff. In June 2001, Wilkinson was forced to file for personal bankruptcy protection. He was more than $400 million dollars in debt. Wilkinson's bankruptcy caused Ecampus' creditors to force it into bankruptcy also. At the time, Ecampus' largest capital asset was an $11 million dollars unsecured promissory note from Wilkinson. The note was now worthless and Ecampus was insolvent.

The federal bankruptcy court allowed Ecampus to keep operating during the bankruptcy proceedings because it was more valuable as an ongoing business than its total assets. Finally, in early 2002, Ecampus was put on the federal bankruptcy auction block. The only bidder was aBookcompany, LLC., paid $2.5 million for Ecampus, which was the assessed value of thee information system and the automated warehouse. The principle owners of aBookcompany were, Brent Tuttle (the former Director of IT Operations Director for Ecampus) and Ecampus' two largest creditors. Tuttle, who had installed the original information system for Ecampus, became the chief operations officer.

FINANCIAL STRATEGY

The initial financial strategy of Ecampus.com was to make a big splash early, get a lot of attention as a successful e-commerce upstart, then cash in by going IPO after the first year. The IPO market was hot in the late 1990's and many investors in e-commerce upstarts were raking in huge sums of money when their companies went IPO. Wilkinson was gambling on Ecommerce being a "cash cow" that would cover his increasing personal debts. Other investors knew that Ecampus was a high risk investment, but were attracted by the potential for extremely high returns if it hit the IPO market while it was hot. According to Doug Alexander, they turned potential investors away. Several large financial institutions approached Ecampus with offers of venture capital when Ecampus established itself as a market leader.

Ecampus.com did not operate under a recognizable capital budget because they considered their budget to be virtually unlimited and that spending money freely was viewed as a necessity. In October 1999, an additional $40 million was raised from investors. Mostly of this money was to be used for advertising and promotional expenses for the coming year. The money spent on advertising was successful in getting over 80% name recognition among college students, but only generated $2 million in sales.

RESURRECTION

After buying Ecampus at the bankruptcy auction, the new owners began to rebuild Ecampus from the ground up. Their first objective was to create a lean company by drastically cutting costs. First, they replaced the expensive Sun E6500 application server and the Unix-based Solaris platform with the less costly Microsoft Server 2000. They also converted the Java programs into ASP, which is used by Server 2000. The programming rewrite was outsourced "offshore" to a firm in India. As Tuttle explained, "We paid $7 an hour to get high quality programmers to rewrite the code. We would have had to more than $30 an hour to have it done in the U.S." It took six weeks to covert the code to ASP. "Then it was sent to South Africa for quality checking." After that, Tuttle and two programmers installed the software on the new IT platform and tweaked the code to make it execute more efficiently.

"Now the new system runs faster, uses less computing power and runs on a much cheaper computer platform. In the process, we discovered problems in the Java code where processes were not getting closed. As a result, the unclosed processes would build up and cause system performance to degrade. For two year we thought we had a hardware problem, so we tried to solve it by adding more powerful and more expensive hardware. Now, we have a $250,000 SunE6500 mid-range computer we don't need. We can handle all the Ecampus information needs with 80% less computing cost."

The new Ecampus cut its annual advertising outlays from $20 million to $1 million, and still generates about $2 million in sales. Personnel levels were cut by two-thirds and overhead was slashed by moving the office operations to the warehouse facility. What has emerged is a streamlined organization that closely controls costs.

WHAT NEXT?

The new company is now lean and cost conscience. Costs were cut drastically without adversely hurting sales. They now sell textbooks out of the warehouse to walk in customers from the colleges and universities in the Lexington area. Ecampus still has high levels of name recognition in its market, but suppliers are taking a "wait and see" approach to extending credit to the company. This had forced Ecampus to purchase book inventories in smaller lot sizes. This has caused problems when the demand for some textbooks exceeds the stock on hand, additional books have to be ordered from suppliers and that delays getting the book to the buyers. These delays have hurt Ecampus' reputation for fast, reliable service. The IPO market and the excitement about e-commerce of the 1990s have not revived, which make very difficult to raise more capital.

The organizational culture is now more subdued, but still there is a close knit family attitude among the survivors. The revamped information system now runs on a less expensive and more reliable platform. They still have state-of-the-art distribution system that produces almost error-free order fulfillment. However, the stigma of the bankruptcy had made it difficult to purchase inventory on credit, which, in turn, is affecting its ability ship orders to customers in a timely manner. The failure to meet customer expectations for quick delivery has hurt the company's reputation.

The college textbook market is now seeing a potential threat of exported textbooks being re-imported and sold at significantly lower prices. Also, the existing companies are not making above average returns. A thinning of the competitors is a threat. The better capitalized companies, such as efollett and Barnes & Noble, might start to consolidate the market by acquiring the weaker competitors like Ecampus. Recently, Wal-Mart began selling college textbooks in some of its stores. Wal-Mart is known as the 800-pound gorilla when it comes to price competition.

If Ecampus is to survive it needs to have a sustainable competitive advantage. The stigma left over from the bankruptcy hinders its ability to raise large amounts of capital for growth, it has substantial competitors and the threat of more competitors entering the market, and finally its technology is fairly easy to acquire and replicate. Ecampus has risen up from the ashes, but can it survive?

MILLER'S PROFESSIONAL IMAGING 1999 (A)

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CASE DESCRIPTION

The primary subject matter of this case concerns the business strategy that needs to be employed at the largest film processing firm in the United States at the beginning of the year 2000. Secondary issues include HRM policies and operations strategy. The case has a difficulty level of four and is appropriate for seniors. The case is designed to be taught in one fifty minute class and is expected to require two - three hours of outside preparation by students.

CASE SYNOPSIS

At the end of 1999 Miller's Professional Imaging was facing several business challenges. Despite an enviable track record of exponential growth and above industry profits for the proceeding twenty years, they had run out of capacity and were unable to accept new customer accounts. This $60 million business was a commercial film processor that focused on the professional photographer who specialized in "people pictures" – graduation, wedding and school photographs. They were (in 1999), the largest "player" in this niche market in the United States. The firm was located in Pittsburg, Kansas – a small rural community with a population of about 18,000. This community had experienced declining population for the preceding twenty years.

An additional challenge facing the firm is what Andy Grove (Chairman and CEO of Intel) called an "inflection point" – a radical change in the industry and market for the firm that would probably require an entirely new business model. That change was the emergence of digital photography.

INTRODUCTION

Miller's Professional Imaging (Miller's) is a 450 person commercial film processor located in Pittsburg, Kansas. The firm serves professional photographers (SIC 7221) who are primarily "people photographers" – those who take wedding, prom and school pictures. Miller's prides itself on customer service, quality and very rapid delivery of prints utilizing an exclusive contract with Airborne Express.

The firm was founded by William S. (Bill) Miller in 1939. Bill was a professional photographer who developed film in a small lab adjacent to his studio. With black and white film, a modest investment in darkroom equipment was sufficient to produce high quality prints. Most professional photographers (at that time) developed their own prints.

The widespread adoption of color photography in the 1960s created a need for commercial film development services because developing color film is a more complex and costly process than developing black and white film. Bill Miller began to develop color film for other professional photographers in 1968 and this service gradually became the primary business of Miller's. By 1999, Miller's was the largest independent film processing lab in the United States with revenues in excess of $60 million.

ORGANIZATION

Miller's is a privately held Subchapter S corporation and all stock is held by members of the Miller family. Richard Miller is the President and CEO and he joined the company in 1971. Bill Miller's son-in-law, Dick Coleman is Vice President and Bill's grandson, Todd Coleman, is Chief Operating Officer. The company is organized into nine departments and the hierarchy is quite flat. It is a "fast, fluid, flexible" organizational structure that facilitates communications and very quick responses to customer needs and problems (Peters, 1994).

Miller's has a penchant to measure virtually every aspect of the operation on an individual and group basis. "Stretch" targets have been established for virtually every position in the organization and progress towards achieving those targets is measured daily. Miller's seems to exemplify some aspects of a Low Cost Leadership strategy – very tight control systems and a high degree of automation to minimize labor costs, but they also differentiate with a well-developed customer service orientation and very high quality standards (Porter, 1980).

The company and Richard Miller and Dick Coleman individually have been very active in the Pittsburg, Kansas community. They have made substantial contributions of time and money to a variety of charities and are major benefactors of Pittsburg State University. They are one of the major employers in the community and have a well-deserved reputation for community involvement.

MARKETING

Miller's (in Pittsburg) has two major business lines – film development and cut negative orders. After a photo "shoot", the photographer ships their undeveloped film to Miller's by Airborne Express. Film development yields a cut negative and a proof for each image which is returned to the photographer within two days – in all cases. The photographer then reviews the proofs (often with his or her customer) and returns an order which is also processed in two days or less. It is of interest to note that approximately 99% of all customer orders are <u>actually</u> processed in one day.

Pricing of services is "market pricing". Miller's has a large number of competitors around the country – offering a range of prices and services – and thus the industry is highly competitive. Miller's prices in the middle of the range (Miller, 2003) and is able to generate an exceptional profit at this level probably because of the high level of service provided and the sophistication of the operations side of the business.

Miller's employs no salesmen. Promotion is essentially "word of mouth" and the company's reputation for very high quality, very fast order "turnaround" and a 100% satisfaction guarantee have generated an exponential growth rate over the last 25 years. Miller's serves customers in all 50 states and, as yet, has not engaged in foreign sales.

OPERATIONS

The essence of Miller's operations can only be described as "high tech". Richard Miller states, "We believe in being leading edge with technology and we are always on the lookout for better ways to handle our business" (Miller's Professional Imaging, 1994). Automation is a key word at Miller's. They utilize advanced work stations to control every aspect of order processing, scheduling and delivery. Computerization also plays a major role in their electronic imaging services. The firm uses multi terabyte servers, hundreds of high powered Dell computers, Durst Theta and Lambda large format laser printers, Kodak RP30 laser printers, and Fuji's Digital Mini-lab systems. Eight staff members handle the hardware maintenance, and three staff members are responsible for the software maintenance. Richard Miller (a Mathematics graduate with a Master's degree from the University of Missouri) brought the first computer to Miller's in 1973 and wrote the entire initial programs himself. Today Miller's uses 775 custom-designed computer programs to run every aspect of the business including a highly sophisticated control system that monitors every aspect of the business each day.

Film development for new orders begins at 6 AM each morning. Film rolls are sorted into product groups that share a common development process. Each roll of film is assigned a unique bar code and then the film is racked and dipped into chemical baths for processing. Completed negatives are placed in protective sleeves and they are moved to a "proofing" station where quality is assessed and optimal print settings are developed on an analyzer. Printing begins at 9 AM and a "proof" of each negative is created. The proofs are again reviewed and completed orders move to processing where each day's outbound shipments are prepared along with shipping documentation and invoices.

After a customer has reviewed the proofs and determined how many of each portrait they wish to order, the negatives are returned to Miller's (by Airborne Express) and each order is assigned a unique bar code. A 4" x 5" test print is generated first and compared to standards. Necessary adjustments are made and the negatives are loaded into one of six printing machines. An infrared scanner reads the barcode on the placard holding the negative to determine optimal print settings and quantities and the prints are made automatically. Because of the very high degree of automation, only two employees are required to run the six printing machines. All portraits are then sent to shipping where orders for that day are ready for pickup by Airborne at 5:30 PM. Prints completed after the shipping "cut off" are shipped the next day.

In 1999, the lab processed over 2 Million rolls of film with as many as 20,000 print orders per day during the fourth quarter of the year. Accuracy rates run from 95 to 99% and employee productivity is exceptional. Sales per employee were more than $100,000 annually and this is more than double the productivity of competing labs.

HUMAN RESOURCE MANAGEMENT

Miller's is an "enlightened employer" (Peters, 2003). Employees are held to very high standards in terms of both accuracy and speed, but they are also provided extensive "on the job" training. Employees are also cross trained as a matter of company policy so as to preclude any shut down as a result of absenteeism or inclement weather. Annual reviews of performance are conducted for each employee, but management prefers to give timely, frequent feedback on performance. There are, generally, no surprises at the annual performance review.

Benefits are extensive and well beyond what most firms in the area provide. A profit sharing system has been in place since 1976 and it returns 20% of profits to the employees as a percentage of annual earnings. Three fourths of the profit sharing funds are paid in monthly bonuses and the remainder is invested in a retirement plan. This profit sharing distribution typically equates to more than 50% of an employee's annual base pay. Miller's also conducts many social events for employees – such things as picnics, ball games in Kansas City and canoe outings. There is a real sense of "family" among the Miller's employees.

FUTURE CHALLENGES

In 1999 and early 2000 the company faced a severe capacity constraint. Due to the rapid growth in demand for their services, they were unable to accept new customer accounts. Although it seems obvious that capacity expansion was the answer to this dilemma, there are labor constraints in the Pittsburg community.

Secondly, the industry (Film Processing) was facing what Andy Grove (Chairman and CEO of Intel) describes as an "inflection point". A transition was beginning from film to digital photography. This new technology brought with it several challenges – no longer would film be processed from negative to print. The images would be stored in digital files and downloaded for printing on dedicated printers. Also, digital imaging requires access to employees with well developed expertise in this medium – a real challenge in the small Pittsburg community.

DISCUSSION QUESTIONS

1) Conduct a SWOT analysis of Miller's Professional Imaging in 1999.

2) Technology solves some management control problems but can create other control or strategic problems. Comment on this irony.

3) What Generic Strategy is Miller's following? Is this what they should be doing? How does their strategy correspond to Porter's ideas about Generic Strategy?

4) What are the Strategic Issues facing Miller's Professional Imaging in late 1999 and early 2000?

5) What specific strategy do you recommend for Millers' as they go forward to the 21st Century? What are the important implementation considerations?

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SETTING STANDARDS

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CASE DESCRIPTION

José's Hot Habañeros is a case that deals with setting standards in a more realistic manner than is usual for junior accounting students. Students seldom have to deal with buying materials in bulk. This case requires the student to buy pepper mash, vinegar, bottles, packing boxes, and shipping boxes in large quantities for three different types of hot sauce—Red Hot, Green Hot, and Dragon Breath; and then set the standard for each. A secondary issue arises because the original data is based on engineering estimates of the quantities needed. Students are asked to consider the method one would use to set standards in the long run. For example, can the bottling process be expected NEVER to break a bottle, etc. Last, the students are asked to compute materials variances for the price and usage of the materials.

BETHLEHEM STEEL: DOWNFALL OF A GIANT

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CASE PURPOSE

The purpose of this case is to showcase the downfall of an industry that could not survive the demands of a changing economy and environment.

CASE SYNOPSIS

The Bethlehem Iron Company was formed in 1861 in the town of Bethlehem, Pennsylvania. Early construction of the manufacturing mills was delayed due to the Civil War disturbance in 1863. However, the first iron rails were rolling from the mill on September 26, 1863. The Company prospered due to its prime location in the Lehigh Valley of Pennsylvania and its close proximity to the ore and fuel supplies. The Company drew attention and interest of steel men for its ingenuity, engineering skills, and its exceptional high quality output. Soon, the Bethlehem Iron Company became known as Bethlehem Steel Company.

During the next twenty years, the Company expanded to manufacture heavy materials, including forging for large caliber guns. It became known as a leader in the design and development of ordnance equipment used in the United States and other countries around the world.

Mr. Charles Schwab brought his large-scale business practices to the Company in 1900. He brought about a sharp distinction between management and labor. He also instituted the revolutionary "bonus system", which rewarded individuals for high production levels. Under Charles Schwab, and with help from World Wars, Bethlehem Steel increased in production and size. This brought about the mentality that Bethlehem was a prosperous "steel town," which caused the population and financial backing to skyrocket.

CASE SITUATION

Mr. Charles Schwab understood the precariousness of relying solely on government contracts for his steel. He aimed for expansion. He concentrated on owning all stages of supply and production of steel. By 1910, Bethlehem Steel's profits grew significantly from rising sales and increased efficiency that he brought.

Then in 1914, World War I broke out in Europe. Bethlehem Steel was the first American company to get a "war order." There was a great demand for steel, but there were not many men available in the workforce. This was not a problem for Mr. Schwab; he installed women to man the assembly lines, and since child labor laws were not in effect yet, he employed children to work along side their mothers. The war effort helped the Company triple its capacity from 1 million tons of steel per year in 1914 to 3 million tons per year in 1918. The workforce also expanded from 9,712 employees in January 1915 to 21,705 by January 1918. The first half of the twentieth century was known as the "Golden Age" for the steel industry. World War II and the American infrastructure continued to increase the demand for steel. Mr. Schwab was given all the credit for this.

Under the management of Eugene Grace, differences between management and labor was encouraged. He worked hand in hand with Mr. Schwab to help build Bethlehem Steel into the number two steel producing and number one shipping company in the world. He created, "the Loop" program – an elite group that trained new managers for the Company. This group also incorporated the role of judging the social and personal lives of its workers. At this time, labor became more united through the National Steel Worker's Union, and management began to lose control of the employees.

By the 1960s and 1970s, there was much change and confusion in Bethlehem Steel. The rapid and constant turnover of management and the labor workforce every few years caused a problem with continuity and the constant change slowed down processes. The Company was becoming outdated, and drastic changes had to be made to maintain profitability. Competition from smaller mills and foreign imports threatened the Company. Decades of executives with large salaries and expensive "perks" became harmful to the Company. Laborers were protected by the union and enjoyed high wages and job security. By 1980, Bethlehem Steel was tied to a single industry and began its downward spiral.

OUTCOME

Changing markets and outdated practices had taken its toll on Bethlehem Steel. The Company filed Chapter 11 Bankruptcy on October 15, 2001. They blamed their demise on not balancing strategic alternatives toward organization, a seasonal decline in steel shipments, and the increased cost of raw materials. The automotive business, which was a large steel purchaser, was a good customer but other markets were down.

The only alternative for Bethlehem Steel was to close or sell to the highest bidder. The Company was an oligopoly at one time and the American dream for its workers. It was still a good steel producer, but with no ability to increase its customer base, the Company chose to sell out to a competitor who might be able to re-create the steel business in the global economy.

International Steel Group (ISG) acquired all of Bethlehem Steel through its sale of the Company on May 7, 2003. ISG is the fourth largest steel company in the United States and the newest competitor in the global steel industry. Bethlehem Steel's vision and mission catered only to the United States, whereas, ISG was more focused on the global economy.

FUTURE EXPECTATIONS

Bethlehem Steel Company is no longer a viable company. However, its name is still a symbol of greatness in American society. Anyone associated with Bethlehem Steel will be looked upon favorably. ISG will do well to maintain a close relationship with Bethlehem Steel's name and trade on its reputation.

The Transition Management Team, set up by ISG, will maintain continuity of operations at the Bethlehem facility and meet the satisfaction of its customer base. Former employees of Bethlehem Steel will be given training opportunities to move into new positions in the company. ISG will complement Bethlehem Steel by using fully established facilities, which will represent the potential for great cost savings and possibly create cross-selling opportunities. ISG is focused on making the facilities the industry benchmark. They will strive to incorporate a committed and dedicated workforce and overcome the challenges of an on-going business.

ISG produces a wide-range of steel products. Its markets include automotive, construction, machinery and equipment, appliances, containers, service centers, and rails. ISG is actively engaged in integrating specific customer service quality system certification requirements into its business processes.

ISG re-started Bethlehem Steel, and with a new labor agreement, it can create a great new company. The twenty-first century will re-engineer the steel industry with robust partnerships, integration of research and education, and global reaching. By incorporating these advancements, ISG is and will continue to be a leader in the restructuring and consolidation of the North American Steel Industry.

DISCUSSION

The problems addressed through discussions between Bethlehem Steel and ISG, before the acquisition, showed a real need for radical change. A strategic advantage for managers in both companies should have had them envision change in the industry structure, their people and their culture, their products and services, new technology, and the thought of moving forward.

Bethlehem Steel concentrated in shipping using railroads, which limited its customer base. The Company was located in Lehigh Valley, Pennsylvania not far from the Philadelphia Naval Yard, but the thought of this useful resource as a customer and a shipper never was a priority for them. The potential for expansion and growth was never envisioned. Management and labor were too self-enclosed and formal in their business practices. They concentrated on how they did business without realizing what was happening around them. Because of this, like IBM, they were in love with their product and processes. They ignored new ideas and possibilities, while maintaining the status quo. They were too much a mechanistic structure in their approach to managing the organization.

ISG, on the other hand, realized the importance of the shipping industry and increased its annual shipping capabilities by more than 16 million tons last year by using the shipyards and railroads throughout the country. ISG's idea of boundary spanning brought in new and fresh ideas, new people, and new processes. From experience, ISG learned that managers and supervisors needed to allow employees some freedom to do their jobs. They allowed them to create business plans and make their own rules as they implemented new ideas. Their employees are empowered to create a changing environment in the company, which allows for a fast-paced and goal oriented workforce. Their hierarchy of authority and communication goes both horizontal and vertical, but mostly horizontal. There is more discussion by employees and management about what new systems, processes, and businesses to focus attention on at any time of the year. Their environment remains somewhat stable, but communication is open, and the flexibility to cross-train and do work in other departments helps maintain a more organic structural approach.

Bethlehem Steel had the philosophy of keeping management and labor separate, and the longer they were in business, the more the separation of the two functions increased. Although both areas were given good salaries, the disparity was beginning to take its toll, especially after the United Steel Worker's Union came about.

ISG's philosophy has been to divide activities into functions by specializing areas throughout the company. They have incorporated competitive salaries and wages for staff, simplified job classifications, created flexible work rules, and established new pay, and incentive and benefit programs. This was a revolutionary change in the industry.

Bethlehem Steel had lost track of their operative goals. Seemingly overnight, Bethlehem Steel had gone from industrial titan to struggling dinosaur. They never saw change coming. They were no longer cost efficient or cost effective. Their legitimacy for being in business had gone awry. They continued to try to be customer oriented and to establish good relations with its workers, but had no vision for the future. They chose to buffer themselves, and to insulate their workers, who then became slow to react to change. There were no long-term goals or strategy for the future in the steel industry. They didn't see how they could re-invent themselves or start something new. The business's processes were out of date, and no one envisioned a new way of doing business in the global economy. They had different leadership over the years, which should have revitalized the company and the culture. Normally, changes in top management provide for new ways of thinking and gives new direction. Unfortunately, this was not the case for Bethlehem Steel.

ISG's concept was to consolidate functions and then have smaller focused companies. This was a new and revolutionary idea in the steel industry. They agreed that they had to be flexible and adaptable to appeal to a variety of ever-changing regions of the world. They maintained a productive and efficient company, even in a worsening steel market, and still made money. They developed a good business plan, which concentrated on cost and debt structure and labor agreements. ISG did what Bethlehem Steel said they couldn't do, to increase contract business. This helped to tighten its grip as leader of the consolidating North American Steel Industry. They didn't want this designation, but they were thrust into this role because of the ability to keep costs down and establish a cooperative working relationship with the United Steel Workers Union.

Also, ISG saw the opportunity of new technology – the Internet. E-Commerce and new business-to-business transactions was seen as the wave of the future. ISG sees this as an opportunity to bring an adequate return on prices and to fill orders quickly. Inventories can be increased, which brings in more business and creates more jobs for American workers. Organizations like ISG will be a leader in their industry, if they can establish a differentiation strategy that will distinguish their products above others.

CONCLUSION

If Bethlehem Steel had half the vision of ISG, they would still be in business. If they had maintained their focus on contract business, the use of resources close to home (the Naval Yard), and new technologies (the Internet), their company would be the one buying other, smaller, inadequate steel companies. Also, it is too bad that Bethlehem Steel didn't use ISG to benefit them in some way, as they could have formed a strategic alliance or joint venture.

ISG needs to maintain their momentum and keep the lessons learned from the demise and downfall of Bethlehem Steel from happening to them. This will be possible if they continue to improve their business practices, set new goals, and assess the results of their goals. Adapting and surviving in a changing economy makes it critical to remain focused on the goal and remain creative in achieving that goal. Their creative use of strategy, structure and technology will meet the needs and demands of the global economy.

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TEACHING IDEAS:

Bethlehem Steel made textbook mistakes even during its successful period. These mistakes led to its final demise as a competitive organization and led to its sale. A wide variety of courses would be interested in using this sort of case. Types of classes that could use the case:

Organizational Development and Change: It kept an inward focus and failed to change.

Organizational Theory: It used buffering and did not use boundary spanning in a way that would bring in new ideas.

Strategic Management: A classic case that could be used in a one-hour class discussion of ways a firm can or should attempt to re-invent itself to survive in our market economy.

International Management: Bethlehem Steel has been bought out by a firm that is more successful in the global economy.

THINKING ON YOUR FEET DURING A CRISIS: THE FAILURE OF THE LAST ANGLO-SAXON KING

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CASE DESCRIPTION

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

The most important skills that a leader can have in dealing with a crisis are the ability to reasonably and objectively evaluate real-time feedback, and the ability to adapt to your surroundings and change course, quickly and decisively, as the situation evolves. The Battle of Hastings demonstrates the failures that can occur when a leader does not have these skills. Crisis management and leadership are the primary topic areas covered. The case is designed for senior level undergraduates or entry MBA level students (difficulty 4/5). It is designed to take one hour of class time with one hour of outside preparation.

CASE SYNOPSIS

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

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

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

THE CASE

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

Harold Seizes the Throne

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

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

The Invaders From Norway

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

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

Hardrada was the first to make a major attack, finally landing near York in the central eastern part of the island. King Harold was alerted to the landing and told of his enemy's progress by series of signal pyres, fires atop huge towers set up along the road from York that could send a signal down to London in a matter of hours. When the siege began, King Harold left London for York with his army.

The siege at York lasted two or three days, but the city fell on Sunday the twenty fourth of September.

Harold Moves Towards York

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

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

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

The Norwegians Fall

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

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

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

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

William Moves Towards Hastings

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

And, he did.

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

And, it did.

Harold Moves Towards Hastings

While William was making noise at Hastings, the king was force-marching again back to London, this time at 35 to 40 miles per day. He had to leave most of his army behind though, as many were not able to keep pace. Luckily, when he arrived at London on the sixth of October, there was a sizable force of men waiting for him. These were the levies he had called up from the more remote regions of his kingdom to help fight at York. These men were not as seasoned as those who had fought at Stamford Bridge, and most were relatively untrained. But, they would have to do.

Harold spent only five days in London. Then, as he had done to reach Stamford Bridge, he force-marched his army to meet William. It took him only two days to get to one of his prepared sites, the one nearest to Hastings - a place called Battle. It was an excellent site for a defensive fight, a narrow approach up a steep ridge, flanked by nearly impassable bogs on either side. Unfortunately, that is not what the king wanted.

A forced-march of this kind is most effective when it gives the marchers the element of surprise for an attack. Often, a rout occurs before the enemy knows what hit him, and the battle is over quickly.

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

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

The Battle Begins

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

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

These Norman archers advanced first, firing into the English shield wall. Perhaps not surprisingly, the wall held, as the arrow and bow of the did not pack enough punch to go through a thick wooden shield of an English infantryman.

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

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

The Battle Turns

Upon seeing the retreat, many Englishmen broke from their positions and charged after the Normans in small groups. But, for infantry to charge in small clusters, horribly undisciplined, over mostly open ground is suicide if knights are on the field and ready to attack, no matter how primitive those knights are. The Norman knights were ready to attack. Those Englishmen who had foolishly charged were slaughtered.

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

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

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

DISCUSSION QUESTIONS

Question 1 - What is a crisis? Is War a crisis?

Question 2 - Clearly Harold was in a crisis, and clearly he did not manage it well - as he lost. The first stage in crisis management is pre-crisis preparation. Was Harold's failure a lack of preparation?

Question 3 - Why did Harold fail to properly evaluate the feedback before moving on Hastings?

Question 4 - He was effectively blind in the days leading up to the Battle of Hastings. Why did he march to it anyway?

Question 5 - The battle did not go as planned. Why didn't the English make adjustments?

Question 6 - What should Harold have done?

REFERENCES *(available on request)*

IS ULTRA SHINE® REALLY TOUGHER ON GREASE? SURPRISINGLY, THE ANSWER MIGHT NOT DETERMINE HOW A CONSUMER PRODUCTS COMPANY WILL PROCEED IN LITIGATION

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ABSTRACT

This case addresses important and interesting practical issues that business students may overlook when analyzing legal claims. Imagine that you work in the legal department of a large publicly traded company that manufactures consumer products. Your company is served with a lawsuit filed by Max Dogooder, on behalf of himself and the "general public," for the false and misleading advertising of one of its products. Max Dogooder specifically alleges that your company's representations that its Ultra Shine® hand dish detergent is tougher on grease and allows the consumer to use less concentrate than regular dishwashing liquid are false and misleading. In a moment of reflection, you recall being copied on an email exchange some years ago where one of your company scientists questioned the validity of the technology results of the Ultra Shine® formula and the representations that the company was making about the product. The Director of Risk Management ("DRM") asks you to review the complaint, interview potential witnesses, and prepare a memorandum analyzing the company's exposure to claims of fraud and/or negligent misrepresentation, defenses, a possible award of punitive damages, and a possible order directing payment of attorneys' fees to the firm representing Max Dogooder. Importantly, the DRM also asks you to explain Max Dogooder's purpose for alleging alternative theories of recovery in his complaint, how it is possible for a court to order the company to pay Max Dogooder's attorneys' fees and to analyze why the company should possibly consider settlement of the case.

MIDWEST DOCTOR ASSOCIATES: IMPLEMENTATION OF A PURCHASED SYSTEM

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CASE DESCRIPTION

The primary subject matter of this case focuses upon the management of the information system function of an organization that has outgrown its current system. Secondary issues examined include aligning Information Technology (IT) goals with corporate strategy, application of technology to business processes, end user involvement, project management, data backups, implementation strategies and the acquisition process. The case is appropriate for senior undergraduate and Master's students. The case is designed to be taught in a one hour session and requires approximately two to three hours of preparation.

CASE SYNOPSIS

This case describes a multitude of errors associated with the issues leading up to, during and resulting from the purchase and installation of a new technology package for a multi-doctor medical clinic. The central focus of the case is the purchase of a suboptimal beta system applied to the wrong business context. The case illustrates the importance of aligning business and IT strategy as well as the necessity to use qualified people for making purchasing decisions. Secondary issues of the case include system implementation strategies, project management, IT contracts, the importance of maintaining backups, the necessity of gaining end user support as well as keeping the lines of communication open within the organization.

Midwest Doctors' Associates decided to replace their inadequate and outdated medical office system during a time of tremendous restructuring in the medical software industry. In their impatience, Midwest chose a system that would better accommodate the needs of a hospital rather than a medical clinic. The system that they chose to purchase was under development and had not been fully tested before it was hurriedly installed as Midwest's main system during a cutover implementation.

Software company representatives failed to live up to their original promises as deadlines passed and the employees were trained in the last days before the cutover. Training took place on a portable network brought in by the sales representatives using manufacturer's test data. After the problems started to escalate the manufacturer's help line no longer provided assistance and Midwest was left to solve its own problems.

TQCLEANING, INC. AND MASTER FRANCHISING

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ABSTRACT

The primary subject matter of this case study is entrepreneurship and strategic planning. The case has a difficulty level of four, appropriate for senior level courses. The case is designed to be taught in one class hour and is expected to require three hours of outside preparation by students.

The case is about a privately-owned commercial cleaning company, TQcleaning, Inc. located in South Florida. The company wants to expand to a national, and eventually, international level. The case begins by reviewing the history of the company, including pre-start up, start up, and early growth issues. Rather than hire cleaning personnel, the company developed a franchise model and has sold over 200 local franchises in less than 10 years. The company provides marketing and management support for the franchisees who operate as independent owners.

The focal point of the case is on whether the company should expand by selling Master Franchise contracts to individuals in other states of the U.S. or to continue to develop its individual-owned franchise network. A Master Franchisee purchases the exclusive rights to a defined territory and is authorized to sell unit franchises.

The case study explores the current commercial cleaning industry, the major national competitors, franchise laws and the projected costs and revenues expected from the Master Franchise strategy. It also explores the support structure which would be required for this approach. Given the data provided, the student should be able to conduct a SWOT analysis for this business and make a recommendation whether to pursue this strategy or continue to expand using the current franchise model. All events are real, but the names of the organization and its managements have been disguised.

THE ENTREPRENEUR AND THE LADY

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CASE DESCRIPTION

The primary subject matter of this case involves the first three years of the life of a small business and the decisional journey to ensure that the business will succeed. Secondary issues for discussion concern management concerns of growth, expansion, and personality styles of the owners. The case is designed to be taught in three to four hours of class time, and should require two to three hours of outside preparation. It is intended for use in an undergraduate business policy or strategic management course, as well as, an undergraduate marketing strategy course, management course, or small business course.

CASE SYNOPSIS

This case depicts the formation of a small business. It describes decisions facing a new company, as it sees a growing demand for its product. It demonstrates the uncertainty of expansion with a new business, and follows the various marketing decisions that must be made in competitive retail, gift and tourist markets. It also allows the reader to evaluate these various markets, identify problems, and define ways that a small business may continue to make itself successful.

GRITS, INC. opened its doors in July, 1996 in Birmingham, AL, selling t-shirts embroidered with southern sayings. All of the sayings were associated with the word "grits," which in this case is an acronym for "Girls Raised In The South." It all started as an idea for a volleyball team slogan and the business then began in the garage of the founders, Deborah and Jim Ford. It outgrew several warehouses and far exceeded the company's initial projections every year for the first three years.

The case covers the time frame of 1995 until 1999 and watches the growth explosion of GRITS, and the contributions of the founders, who are very different individuals. The Lady is very creative and the Entrepreneur is a risk taker and a very driven businessman. However, it ends on a note of uncertainty, which will allow the student to walk the journey to that point and then speculate about the outcome.

THE LADY

Deborah sat in her office at the local high school thinking about her volleyball team that was to play on the road for their next two games. Every year when she readied the team for their first road trip, she provided them with t-shirts and a slogan to use for the year. Deborah had always dabbled in arts and craft shows, as she was quite creative, but she was especially fond of sewing and sewed for herself and her daughters. The girls on her team were always excited to see their new shirts each year, as it was kept as a surprise until the last moment. It was that very thing that Deborah pondered as she sat in her office. What new saying would provide the needed spark for her team? She almost wished that she had not started this tradition.

Deborah suddenly decided that she wanted a slogan that reflected the South, which was where she had grown up. She began to think of southern traditions, such as pearls, magnolias, good manners, etc. and what would fit the girls on her team. Then a phrase that she had often heard as a child came to mind, "Girls Raised in the South." She jotted it down and began to look at it, when suddenly the first letters of each word leaped out spelling "GRITS." She immediately liked the combination of an acronym for a southern dish and a southern saying. She had a slogan for her southern team! It might not be politically correct, but then many things southern are not!

This happened in the fall of 1995 and Deborah had no idea where she would be within one year. She was dating a man, Jim Ford and they were to be married the following spring in 1996. All year before they married, Deborah kept having requests from students and parents for t-shirts like the ones she had made for her team. She would spend all of her time after school working on these requests, as time permitted. Finally, Jim said, "If all of these people want one of your shirts, there must be some money to be made. Let's give it a try!" So instead of giving away shirts, a new business was created (Tomberlin, 1996).

THE ENTREPRENEUR

Before launching this new ship, Jim Ford, who had previous experience as a marketer and in product licensing, decided to trademark the expression "Girls Raised in the South." Then he and Deborah designed a logo and began to produce t-shirts. Jim and Deborah got married and on their honeymoon took several of their samples to the beach to sell at the local craft market. They sold so quickly that their next stop was the Atlanta Apparel Mart, where they sold $65,000 worth in one weekend. It was then that they decided it was time for each to quit their respective jobs and go to work for GRITS on a full-time basis (Bystrom,1997).

The first major decision to be made was whether to keep operating from their garage, which would save money, or to go ahead and rent space. Jim decided to rent a small warehouse with approximately 1000 square-feet. They were handling start-up costs using personal financing. Initially funds were used to introduce and market their products, purchase equipment, and fund working capital. The second decision to be made was when Jim discovered that they needed some help. He hired two employees, one to help Deborah pack the orders, and an accounting assistant to assist him with billing and accounts. They tried to keep overhead as low as possible.

The third decision to be made was whether Deborah should continue to embroider the logos on the shirts, or whether this should be contracted out. Deborah voiced her concern about quality, and as she was quite sure that she could continue to handle the sewing, Jim decided to keep the embroidery in-house for the moment. He began to concentrate his efforts on the marketing aspects.

There were even more decisions to be made. Jim began to call on specialty stores and gift shops to try and place their shirts in as many stores as possible. He also called on college bookstores and gift stores near the campuses. He was quite successful and orders began to roll in, especially from their exposure at the Atlanta Apparel Mart. It was at this time that they decided to expand their product line and slogans, as well. They made a list of possible product lines, and decided to try sweatshirts, hats, mugs, beach bags, visors, aprons, nightshirts, sundresses, beachwear, sox, throw blankets, boxers, and pillows by adding a few of these along for the next few months.

They were so excited about the prospects of these new products that they continued to brainstorm at every opportunity to find new slogans and products. For the college campuses they designed a slogan using the school colors, for example, “Southern Girls Know Their Primary Colors…Orange and Blue.” They decided that the initial focus would be on the Southeastern Conference and Atlantic Coast Conference schools (Bystrom,1997).

Other products and slogans that were developed over the course of their brainstorming sessions were products for men using slogans such as, “Guys Raised in the South,” and for the golfers, “Golfers Raised in the South.” Expansion of slogans included, “Girls Raised in the Snow,” “Grandmothers Raised in the South,” “Girls Raised in Texas,” and “Girls Raised in Tennessee,” as examples. Deborah’s ideas for these slogans came easily, as they began as part of her southern heritage that reminded her that certain behaviors, like them or not, were part of the tradition of growing up in the South (Taylor, 1995).

Business was booming! It was apparent that they would no longer be able to produce all of their product lines in-house. They were already having difficulty with current orders processing out on time. Jim and Deborah began to contract their business to local companies, with Deborah overseeing the quality aspects and continuing her role as project creator. Additional funding was sought from various investors, as well.

JIM’S MARKET ANALYSIS

Almost two years later, Jim Ford was sitting in his office, which was lined with mementos and framed articles about his accomplishments as an entrepreneur. He was thinking about the past two years and the growth that GRITS had experienced. They had moved to a larger facility, as they had outgrown the small warehouse in only eight months, and had leased a warehouse with more than 8000 square-feet in March, 1996. Now he was realizing that, they had outgrown the second warehouse and needed to expand again. They now had about 1250 accounts and 10 employees. Their accounts included primarily specialty shops, but they were beginning to pick up major retail accounts, such as Mercantile, which owns Gayfers, Maison Blanche, J.B. White, Bacons, McAlpine, and Caster Knotts in the Southeast. He was also elated to have struck a deal with Hallmark stores and Cracker Barrel stores throughout the country (Tomberlin, 1997).

From July, 1996 until July, 1997, GRITS had doubled the first year’s projections. These projections for 1996-97 were for sales to reach $360,000, while the projection for 1997-98 was for the volume of sales to be $5 million. However, at the end of the first year, sales were approximately $1.7 million, and sales for the second year were approaching projections with one quarter still remaining (Tomberlin,1997).

It was a true fairy-tale, but Jim realized that while he had worked hard to start this new business, and had been quite successful, he still had to use all of his expertise to keep GRITS alive for the future. That would be the most difficult challenge he had ever faced. Jim knew that too often, small businesses would take off, only to fade after the new wore off. His thoughts as he sat at his desk were centered on the market for women's apparel and gift items in the United States. He really needed to rethink his marketing strategies.

Jim knew that the market for women's apparel in the United States is very diverse. There are low barriers to entry, but many competitors both large and small. With his entrepreneurial expertise, he also knew that both men and women want their products to be on the cutting edge. He had already decided that the market for their merchandise was a crossover for apparel and gift retailers. The fact that a synergy is created between these two, where stores that sell gift lines also will sell apparel, and vice versa was important.

It also occurred to Jim that the market that attracts those who want personalized gifts, have a pride in heritage, or simply want to take mementos home from an enjoyable trip was there to be tapped. The tourist industry has always supported the sale of items, such as t-shits, hats, sweatshirts, and pillows for people wanting to remember (Lee, 1998).

There is a distinctly southern market, as has been evidenced by the public's appetite for this area of the country in recent years. For example, the John Grisham books and movies, as well as others set in the South, magazines such as "Southern Living," restaurants serving "southern cooking," and others. Jim's intent was to attract a special clientele that wanted unique products, but would not want to see them at a "flea market" (Bystrom, 1997).

As Jim knew that the competition in the apparel industry is keen and that the important factors in the women's market are innovation and cost, he decided to target the leisure segment of the industry by choosing to market products through the gift medium, rather than only through the apparel markets. The main focus would be to tap the unique southern market, especially the middle and upper class.

FUTURE ISSUES

Once the marketing strategy was defined, Jim and Deborah began to think about future issues. Jim and Deborah discussed a very relevant issue. What could they do to further tap their potential markets? Then, suddenly Jim broached a subject that they had never even considered. He said, "Deborah, you know at some point, we may want to sell this business while we are growing." Deborah was silent for a minute, and then she replied, " I am not sure if I can do that. I have put so much of myself into it." After some discussion, it was clear that this was the first time that they could not agree. Jim decided not to push the issue at that point and Deborah hoped it would not come up again. Rather, they began to concentrate on growing their business and market potential. Jim, however, wondered whether they had really dealt with what they needed to do in the future.

QUESTIONS

1. Evaluate the market for women's apparel paying particular attention to the differences in retail, gift, and apparel segments. Are there problems that small businesses might encounter in each segment? Identify the target market for GRITS.
2. What future marketing strategies should this company consider? Why?
3. Define types of unique products that may be developed for market and product expansion, which would be compatible with the current strategy.

4. How could GRITS insure a strong customer base with loyal customers and repeat purchases?
5. What problems could be anticipated with GRITS that might cause it to fail?

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KSB ARGENTINA

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CASE OVERVIEW

Andres Kessen, General Manager of the Argentine subsidiary of the German pump manufacturer KSB AG, is requesting permission from KSB AG headquarters in Germany to allow him to begin manufacturing pumps in Argentina for export to markets elsewhere in the world, primarily Less Developed Countries (LDCs) such as Egypt, Uzbekistan, Venezuela, etc. The pumps produced in Argentina would compete with pumps already produced by KSB manufacturing plants elsewhere in the world. Advantages of the KSB Argentina-produced products would include shorter delivery times (60 days vs. 120/150 days). In addition, use of KSB Argentina's obsolete technologies (not available elsewhere in KSB's system) offer lower manufacturing costs and higher margins. Kessen must decide what arguments he will offer to KSB AG's Board of Directors, in support of his proposal that KSB Argentina be allowed to expand its operations in this way. Kessen believes deeply in the merits of this proposal. However, he knows already that KSB AG's Director in charge of operations in the Americas (that is, the Director to whom he reports) is against the idea, because it would challenge and disrupt KSB AG's existing Global Manufacturing Network, which KSB Argentina (a small subsidiary using obsolete technologies) has not been invited to join.

The case is based on discussions conducted by the authors in Argentina. The case is appropriate for senior-level undergraduates as well as students in MBA and Executive Development programs. It is designed to be taught in a class session of 1.5 hours, and is likely to require a couple of hours of preparation by students.

CASE SYNOPSIS

Andres Kessen is General Manager of the Argentine subsidiary of the German pump manufacturing company KSB AG. The business involves designing, manufacturing, marketing, selling, and servicing pumps and related equipment. The markets served include water, sewage, industrial applications, energy, movement of water and/or waste water in buildings, oil and mining. Historically, KSB Argentina has manufactured a very limited range of pumps for the local market, and has imported a wide range of pumps produced elsewhere for applications not covered by its local manufacturing efforts. To date, KSB Argentina has not been involved in manufacturing pumps in Argentina for export. However, given the current economic situation in Argentina (unemployment is high, pressures for increases in wages are low, etc.) plus the fact that, over the last two years, the peso has depreciated 70% against the U.S. dollar, Kessen believes that substantially increasing his *production would make it possible for him to produce (at very reasonable prices) enough pumps not only to cover local needs but also to provide a substantial number of pumps for export to develolping world markets such as Egypt, Uzbekistan, and Venezuela. However, before producing pumps for export, he needs to receive permission to do so from world headquarters in Germany.*

Data in the case include:

1) *Description of the challenge faced by the company*
2) *For Argentina: Historical overview, plus a sample of recent statistics from the World Bank and (for benchmarking purposes) comparable statistics for the United States.*
3) *On KSB AG: Historical overview and current performance.*
4) *On KSB in Argentina: Historical overview and current performance.*
5) *On the opportunity Kessen sees for KSB Argentina: Information on the strategy currently being used (markets targeted, products offered, prices of those products, the route to market used, (that is, characteristics of the channels of distribution), promotional initiatives, and so on. Also, characteristics of the competitive situation in the pump industry in Argentina.*

ASSESSING AGE DISCRIMINATION AT THE ACME CORPORATION

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CASE DESCRIPTION

The primary subject matter of this case concerns human resource management, particularly the issues of discrimination, and the Age Discrimination in employment act. This case has a difficulty level of three to four, and is appropriate for an upper division, undergraduate level. This case is designed to be taught in one class hour, and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

Doug Jones, freshly out of college, with a degree in human resource management, was hired to be the first human resource manager for a small firm, Acme Corporation*. Acme, until recently, had been run solely by the general manager, Bob Xander*, two production managers Phil Masters*, and Susan Douglass*, and several line supervisors. However, recently, complaints have been filed, by several employees, alleging discrimination. Since none of these managers have HR degrees, or training, they decided to create the position of HR manager, and hire someone with a degree in the field, to help with these problems. He comes in to find several cases of alleged age discrimination have been reported. The focus of this case is to assess with of these, if any, are actually age discrimination, and if so, whether they are covered under the ADEA.*

INTRODUCTION

Acme Corporation is a small, light manufacturing firm, located in the Southeastern United States. Begun as a small, proprietor-owned institution, Acme has grown over the years. Initially, they had only 30 employees, and produced one product. Currently, Acme has over 1500 employees, most of them production workers, and produces a diversified line of consumer products, at two plants, located in the same medium sized city. Acme's products generally fall in the leisure product category, ranging from patio furniture, to beach accessories, and sporting supplies. Over the years, Acme developed a reputation as a producer of quality products, and among employees, as a good place to work. The owner, and General Manager, Bob Xander, had always shown consideration for employees, and fostered a family-like culture.

Because he had always encouraged a friendly, family-like atmosphere, Bob was surprised when, one day, an employee entered his office with a complaint, alleging he had been discriminated against, due to his age. His surprise turned to shock, as this complaint became the first of many complaints, all coming quickly on the heels of the first. In order to find out what was going on, Bob called a manager meeting, and discussed the complaints with his production managers, and supervisors. The responses of the managers varied, from comments about the employees being whiners, to one comment from a supervisor, that maybe the employees had a point. The conversation quickly degraded into an argument, and the meeting ended with nothing settled. It was clear to Bob, that something had to be done, quickly, before things got worse. Since all the current managers were production-oriented, there was nobody within the firm, who had the expertise to figure out what to do. A job search led to the hiring of Doug Jones, a recent college graduate, with a degree in management, with a focus in human resources.

THE FIRST DAY ON THE JOB

Doug showed up for work, on his first day, with an optimistic attitude. When he was hired, he had been told that the company had never had an HR manager, and he would have the opportunity to craft most of the HR policies and procedures from scratch, or modify the current ones. However, he was not prepared for the problems he was presented upon beginning work that morning. Shortly after arriving, and being shown to his new office, Doug was surprised to see Bob, the company General Manager, in his office doorway, with a stack of files. Bob, entered his office, closed the door, and began to speak. He explained that the files he had, were all age discrimination complaints, filed by employees. He had managed to keep the employees from going to the EEOC, by promising to create the HR manager position, and have the person hired look into the complaints. The manila folders he had brought, 5 in total, were the complaints that the employees had filed. Bob asked Doug to look over the files, and, by the end of the day, indicate which, if any of them, had merit, and were in fact indicative of company violations of the Age Discrimination in Employment Act.

THE COMPLAINTS

File Number 1:

This complaint, was filed by a 27 year old employee, who was upset, because she had been passed over for a promotion, in favor of an 52 year old female employee. Both employees were production workers, with similar job seniority, and similar rating, although the younger employees performance had recently been higher. When she asked why she did not receive the promotion, she was told that the other employee was "More mature" and that eventually, she would be considered for the position, but at this time was considered "too young" to hold a supervisor's position. In addition, she was told that the other employees were more likely to listen to, and follow the lead of, an older employee.

File Number 2:

This complaint, was filed by a number of employees, protesting a change in the company's retirement plan. Fourteen employees, aged 41 to 48, signed a complaint, alleging age discrimination, due to the elimination of a retirement health benefits plan. Employees who were OVER 50, on the date that the plan was changed, were allowed to keep their retirement health benefits, while those under the age of 50, were told that they would not receive this benefit upon retirement. The workers were not contractually guaranteed these benefits, and had not been promised them upon hire.

However the company HAD provided health coverage to retirees in the past, as part of their "family oriented" culture.

The fourteen employees in this complaint, pointed out that they were within the ages covered by the ADEA, and therefore this action constituted discrimination based on their age.

File Number 3:

This complaint was signed by over 30 employees. In substance, it was similar to complaint number 2. A group of employees were unhappy with the change to the retirement health benefits. However, everyone one of these employees was between the ages of 18 and 39. In their complaint, they indicated that they wished to sign complaint number 2, but the employees who wrote that complaint would not allow them, saying they were not a "covered class of worker".

File Number 4:

This complaint was filed by one employee, a 72 year old production worker. In his complaint, he alleged that his supervisor was pressuring him to retire, and saying he was no longer any good at his job. He alleged that this is age discrimination, and pointed out that he had never yet failed to exceed his minimum quota for the day. His supervisor had written a response to the complaint. The response made the following points: 1) the employee's performance was lower than it had been in the past. 2) The employee was his second lowest producer, yet had the highest pay in the department, as raises were based partially on seniority. 3) he was concerned that the age, and physical condition of the employee made him more likely to be injured. 4) at 72, the fellow should have retired long ago, and should be enjoying his senior years at the beach in Florida.

File Number 5:

This complaint was filed by a 22 year old female employee. She alleges that she was passed over for a promotion, in the outside sales department, due to her age. Her supervisor made a comment, when explaining his decision, regarding her age, and the stage of her life. He suggested that, as a young, recently married woman, she was likely to have children soon, and that this would affect her ability to travel, which is an important part of this job. He indicated that, if she was older, and had adult children, or none, he might have chosen her.

DISCUSSION QUESTIONS

1) Examine each case. Which, if any, are actually cases of discrimination?
2) For the cases you identified as being discrimination, which are violations if the Age Discrimination in Employment Act?
3) Are any of these cases violations of OTHER equal employment laws?
4) What would you recommend the company do, to address each of these cases?

HALLIBURTON IN IRAQ: THE GASOLINE OVERCHARGE ISSUE

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CASE DESCRIPTION

The primary subject matter of this case concerns business ethics. Secondary issues include the political environment of business, international business, media bias, and subcontracting. This case has a difficulty level of three to four, and is appropriate for an upper division, undergraduate level. This case is designed to be taught in one class hour, and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

In 2003, newspapers and TV news shows were filled with stories, decrying the "war profiteering" of Halliburton Co. and saying that Halliburton had overcharged the US Government over $61 million for fuel provided to Iraq, under a no-bid contract. Previous ties between Halliburton and Vice President Dick Cheney were pointed out, implying that the process had been fixed, and that Halliburton was guilty defrauding the government. However, many of these stories provided little, or no, detail into what actually happened, and who, if anyone, had actually been involved in fraud. Eventually, this issue was pushed off the front page by other stories, and little has been said since.

This begs the following questions: What actually happened in Iraq, with these fuel charges? Was the government really overcharged for their fuel? If so, who was responsible? This case examines this situation, the parties involved, and what wrongs were done. Discussion questions focus on the issues of legal, ethical and moral responsibility for this situation.

INTRODUCTION

In December, 2003, News stories broke, about an "apparent...overcharging of US taxpayers by Halliburton, Vice President Dick Cheney's old firm" (Khan, 2003). These stories alleged that Halliburton had abused their ties with the VP to obtain No bid contracts, and then had gone on to overcharge for the services provided by the contracts. One of these contracts, worth 1.2 billion dollars, was one to provide fuel to Iraq, for consumption by Iraqi civilians, through their subsidiary Kellogg Brown and Root (KBR) (Cummins, 2003). The fact that Cheney was CEO of Halliburton until 2000, when he ran for president, was pointed to as evidence that there was something sinister going on (Khan, 2003). President Bush was quick to respond, saying that, "if there's an overcharge, like we think there is, we expect the money to be repaid."(Bush Tells, 2003) This apparent overcharge, was first uncovered by Pentagon auditors, was based on differences in price, between gasoline purchased from Turkey, and gasoline purchased from Kuwait (Cummins, 2003).

Halliburton's response to this was that they had not overcharged, through their purchases of more expensive fuel from Kuwait, but had instead SAVED the government $164 million, by opening a second route of supply from Turkey. The remainder of this case, examines the circumstances which led up to this situation, the parties involved, and their role in this problem.

BACKGROUND

Halliburton Corporation, consists of "two 'wholly-owned operating subsidiaries' ..Energy Services Group and KBR (Kellogg, Brown and Root)" (Disinfopedia, 2004). The former is primarily in the business of providing products and services related to the exploration and drilling of crude oil. The latter provides products and services related to the refining and distribution of petroleum-based products, as well as having a non-energy construction and facilities maintenance division. In September, 2002, KBR entered into a multifaceted contract with the US Government, to set up "tent cities" to house soldiers, Mess halls to feed them, and among other diverse areas, to provide gasoline for the civilian population of Iraq. (Disinfopedia, 2004). At the time of the allegations against Halliburton, the fuel supply contract had already exceeded $1.2 billion in revenues for the company, with an expected minimum value of $2.26 billion, and a possible maximum of $7 billion (Cummins, 2003). However, due to terms of the contract, Halliburton was not completely free to select any subcontractor of their choosing, to supply the fuel. The US Army Corps of Engineers approved only one of four contractors that KBR had chosen in Kuwait, Altanmia Commercial Marketing Company. A senior contracts negotiator for the Army Corps of Engineers also sent KBR a letter, citing political pressures from the Kuwaiti Government, and the US embassy in Kuwait, to negotiate exclusive contracts with Altanmia (Cummins, 2003). Due to these pressures, Altanmia was chosen as the sole supplier of gasoline, for the KBR contract. However, the reason officially given for using Kuwait as a supplier by the Army was: "The initial import of fuel was in response to a request by General Sanchez to do this because there was an uprising in Basra, over the lack of gas and cooking fuel. Basra is near the Kuwaiti border. The fastest way to get it there is Kuwait. So we directed them [Halliburton] to do that". They went on to explain that providing this fuel quickly, regardless of cost, probably avoided civil unrest, and riots (York, 2003).

ISSUES

This initial contract to supply Basra, quickly expanded into a contract to provide gas and cooking oil to the general civilian population of Iraq. The further they got from Basra, the longer the shipping lines became, and the more sabotage, and terrorist attacks they encountered. So, for both security, and price reasons, KBR approached the army about the possibility of using a different supplier. As Altanmia was the ONLY approved supplier, KBR continued to ship ALL the fuel from Kuwait, while seeking approval for new suppliers, and searching for better prices. On September 30th, they finally received approval to obtain fuel from a source in Turkey. This new contractor gave them a MUCH lower price. The Turkish supplier, who had JUST been approved by the Corps of engineers, was significantly cheaper, than the Kuwaiti supplier. Also, as the vehicles supplying fuel from Kuwait were being frequently ambushed, it was safer and more reliable to provide fuel from Turkey. At this point, the Corps of Engineers encouraged KBR to use BOTH contractors, as supplying from "both the North and South" would increase the security of the supply (Cummins, 2003).

In December, 2003, Pentagon auditors noticed a discrepancy in the per gallon charges, for fuel delivered by KBR, for the period prior to October 2003, and the period after. For the earlier period, all gasoline supplied through the KBR contract, was sold at a price of $2.27 a gallon. From October forward, the majority (150 million gallons) of the gasoline provided was sold at a price of $1.18 per gallon, with only 56.6 million provided at the $2.26 price. Auditors concluded that this indicated an overcharge for the 56.6 million sold at the higher price, which amounted to an overcharge of $61 million (Ivanovich, 2003). The fuel that was sold at the higher price, was the fuel that continued to be shipped from Kuwait, as the purchase cost for this fuel was higher, and shipping it was more perilous and costly. Delivery of fuel from Kuwait, could take 15 days, traveling though hostile territory. Three drivers were killed, others injured, and 60 vehicles damaged, on this route (York, 2003). However, KBR continued to use this route, as Turkey alone did not have sufficient fuel to provide all of Iraq (York, 2003). Pentagon Auditors, however, felt that this was indicative of a failure on the part of KBR, to adequately seek out alternate suppliers, and therefore, held that KBR was responsible for the difference.

DISCUSSION QUESTIONS

1) Did Halliburton do anything wrong?

2) Did any other parties in this situation do anything wrong?

3) To what degree does Vice President Cheney's role as former CEO of Halliburton, affect this situation?

4) What could Halliburton have done differently, in this case, to avoid this situation? Alternately, what can they do in the future, to assure it doesn't happen again.

5) If you were put in charge of Halliburton today, what changes, if any, would you make?

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ASSET-LIABILITY MANAGEMENT AT IDAHO STATE UNIVERSITY FEDERAL CREDIT UNION

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ABSTRACT

***Interest-rate risk** results in changes of profitability that a depository institution experiences from changes in interest rates in the economy. This risk is transmitted through their asset/liability structure, since asset yields and liability costs (largely interest paid on deposits) will have different sensitivities to interest changes. Increasingly, the National Credit Union Administration has emphasized that credit unions show that they understand interest-rate risk due to their asset/liability structure and that they are able to manage it. This is referred to as **asset-liability management (ALM)**.*

The most basic measure of interest-rate risk uses **gap analysis**. *To find the gap, the analyst has to examine all the assets and liabilities and determine which ones are interest-rate sensitive. Rate sensitive means that the interest rate of the asset or liability will change in the period of examination if interest rates change in the economy. The "gap" is calculated by taking the interest rate sensitive assets minus the interest rate sensitive liabilities. The gap can then be used to calculate effect of changing profitability resulting from changes in interest rates. This case study examines how Idaho State University Federal Credit Union (ISUFCU) uses a gap analysis to measure their interest-rate risk.*

Students are given a balance sheet for ISUFCU along with information on how the ISUFCU's ALM committee views the rate sensitivity of their assets and liabilities. They are then asked to complete a gap analysis and calculate what happens to profitability when interest rates change. Students are also asked how they think the liabilities should be classified for rate sensitivity, and to look up an up-to-date credit union balance sheet of their choice on the National Credit Union Administration web site and perform a gap analysis for that credit union.

THE ETHICS OF P & G'S SPY TACTICS AGAINST UNILEVER

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CASE DESCRIPTION

The primary subject matter of this case concerns the ethics of competitive intelligence gathering. The case has a difficulty level of three, appropriate for junior level. The case is designed to be taught in one class hour and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

It is ironic that Procter & Gamble Chairman, John Pepper gave the keynote address at a meeting of competitive intelligence professionals (corporate spies) in 1999, endorsing the importance and relevance of competitive intelligence in conducting business. Just one year later a team of P & G managers set out to spy on Unilever. Corporate spying is a typical corporate practice, however, the concern is with whether a company follows fairness in gathering information on its competition. In this case P & G declares their practices were legal, however they did not conform to their stated business information-gathering policies.

The spy operation consisted of P & G managers hiring subcontractors who systematically searched through dumpsters at Unilever's hair-care headquarters. When confronted by Unilever personnel, the subcontractors misrepresented themselves as market analysts or journalists.

The purpose of the operation was to obtain information on Unilever's hair-care products: Salon Selectives, Finesse, Thermasilk and Helene Curtis in order to give a leg up to their own brands: Pantene, Head & Shoulders and Pert. The spy operation resulted in rich information about Unilever's brands.

What is unusual in this case is that P & G senior officials, including John Pepper called the whistle on themselves when they learned of the spy-game. They wrote a letter to Unilever outlining the company's tactics. Pepper called Unilever Co-Chairman Niall FitzGerald in an attempt to settle the matter. As the investigation unfolded, Unilever was unhappy about the level of P & G's cooperation and thus the negotiations between the two companies dragged on. The settlement in 2001 included $6.9 million in compensation to Unilever. P & G agreed to hire an independent arbiter to ensure it does not benefit from the information gathered.

This case illustrates how leadership from the top can guide a company through unethical situations. When a company has stated policies which differ from its practices and leadership ignores this, then it is easy to see how unethical corporate practices may ensue. Should John Pepper and his senior executives be praised for advocating the adherence to corporate values and *cleaning up the company's collective actions? Another concern would be defining how far is "too far" regarding competitive intelligence practices. When does intelligence gathering end and questionable spying begin?*

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MISSION LIFE: PROMOTING AN INDEPENDENT FILM TO A NICHE MARKET SEGMENT

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CASE DESCRIPTION

The primary subject matter of this case concerns developing an advertising program and selecting appropriate media. Secondary issues include the role of publicity in a promotional campaign and selecting an advertising agency. The case has a difficulty level of three, and is positioned for use in junior level principles of marketing courses. The case is designed to be taught in one and a half class hours and is expected to require one to two hours of outside preparation by students.

CASE SYNOPSIS

Dutch Richards has produced the first commercial, independent film made by a Mormon, about Mormon culture, and targeted to Mormons in Utah and the Intermountain West. He has secured distribution rights, but must now make decisions about where to place advertisements so they will reach his target market and persuade them to see his movie. This case focuses in on the media habits of Mormons in Utah, and how this will drive media selection for advertisements.

MISSION LIFE: THE MOVIE

Dutch Richards was a graduate of Brigham Young University's School of Film, and had spent several years in Southern California learning and practicing the art of making movies. His most recent project, *Hen Party*, had cost him $60,000 to make, and he ultimately sold it to HBO for about that much money. While he did not make any money off the effort, he learned the basics of solid filmmaking, and considered the experience to be much like going to graduate school.

One day, while barbequing hamburgers in his back yard, Dutch picked up the *L.A. Times* and opened it to the calendar section. He noticed something striking: there were several niche films that were made for small audiences. The paper listed showings for independent Indian films; Asian films; Gay, Lesbian, Bisexual, and Transgendered (GLBT) films; and African-American films. He realized that most of these markets were no larger than his own Mormon community. A thought like a bolt of lightning struck him: if other filmmakers could make films for the Indian, Asian, GLBT, and African-American markets, why couldn't he create and produce independent films for the Mormon market?

This insight ultimately led to 18 months of furious activity. He wrote what he considered to be a good screenplay about Mormon life, raised money from investors, produced every aspect of

Mission Life, and starred in his own film, *Mission Life*. The movie followed the activities of four young missionaries in San Francisco in a humorous but reverent and thought provoking manner. Much of the inspiration for the movie came from Dutch's own missionary service in New York City sixteen years ago. Production costs for the completed movie came to just over $300,000, though Dutch himself did not take a salary for his acting role. After the film was finished, he worked hard to secure distribution rights in theatres across Utah, where his film would debut. Because of his efforts, *Mission Life* would open in 49 theatres across the State of Utah. If it was going to succeed anywhere, it would have to succeed in Utah. If the Utah debut was successful, he would then roll it out to neighboring states, such as Nevada and Idaho, with high concentrations of Mormons. Creating prints and paying for distribution had set Dutch back another $150,000. That meant he now had $198,000 to promote his film. As he stared at his computer screen in silence, he hoped it was enough.

Use the information contained in Exhibits 1, 2, and 3. Create an advertising budget for Dutch Richards, and answer the following three questions:

QUESTIONS

1. Why does Richards want to advertise? What should his promotional objectives be?
2. Which advertising media should he use? How much money should he allocate to each media option?
3. Is advertising the most effective way to promote this move? What is perhaps the single most effective thing Dutch Richards could do to promote this movie?

EXHIBIT 1

Total Estimated U.S. Ad Expenditures in 2000 (in millions of dollars)

	Total Dollar Amount	Percentage
Newspapers	$58,860	20.1
Magazines	14,844	5.1
Television	71,077	24.3
Radio	23,154	7.9
Yellow Pages	15,873	5.4
Outdoor	2,110	0.7
Direct Mail	53,509	18.3
Business press	5,898	2.0
Internet	5,200	1.8
Miscellaneous	41,903	14.4
Total	$292,416	100%

EXHIBIT 2

The Mormon audience in Utah:

1. watches less TV than the national average
2. has higher than average Internet access and usage
3. reads more newspapers and magazines than the national average
4. watches more G- and PG-rated movies than the national average but fewer PG-13 and R-rated movies
5. listens to radio more often than the national average, especially talk radio
6. uses public transportation much less than the U.S. average
7. drives more than the national average
8. is more susceptible to word of mouth advertising, due to its tight knit community
9. places greater weight on publicity than the U.S. average

EXHIBIT 3
Advertising Budget Worksheet

MEDIA	% of Budget	Dollar Amount	Justification
Newspaper			
Magazines			
Television			
Radio			
Yellow Pages			
Outdoor			
Direct Mail			
Business Press			
Public Transportation			
Internet			

PITCHING AN IDEA TO INVESTORS: THE MOVIES FOR MORMONS CASE

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CASE DESCRIPTION

The primary subject matter of this case concerns identifying marketing opportunities, market segmentation, and target marketing. Secondary issues examined include breakeven analysis, rate of return, and entrepreneurship. The case has a difficulty level of three, and is positioned for use in a junior level principles of marketing course. The case is designed to be taught in three class hours and is expected to require three hours of outside preparation by students.

CASE SYNOPSIS

Are there enough Mormons in the United States who will pay money to see commercial movies about Mormon Culture? David "Dutch" Richards, a graduate of Brigham Young University's School of Film, wants to find out. He believes there are enough Mormons who would be willing to pay money to see a movie by a Mormon, about Mormon culture, and targeted to Mormons in Utah and the Intermountain West. If independent filmmakers can produce and market films to minority groups including Hispanics, Asians, African-Americans, and gays and lesbians, why couldn't Richards produce independent films for the Mormon market? The only problem is that it has never been done before. This case follows Richards as he pitches his movie idea to a potential investor.

LEARNING OBJECTIVES

After successful completion of this case, students will:

1. understand how to evaluate a business proposal and make a sound investment decision
2. understand how to evaluate the attractiveness of the targeted market segment and determine the viability of the proposed new product

3. understand how breakeven analysis can be used to determine product viability
4. have made a decision on whether or not to invest in the product

THEORETICAL FRAMEWORKS

To successfully analyze this case, students must be familiar with:

1. Market Opportunity Analysis. Students should understand how specific customer needs/wants translate into market opportunities, and how entrepreneurs spot these opportunities and produce products to meet the needs/wants of their target
2. Market segmentation, including the bases for segmentation strategy, and target marketing. This case examines a potential product marketed to a niche audience, so students should be aware of the various segmentation bases and determine if the proposed segment is homogeneous, substantial, actionable, and accessible.
3. Breakeven analysis. Students must identify fixed and variable costs from information contained in the case and use this information to determine if the movie is an attractive market opportunity.
4. Rate of return. Students must describe the breakeven analysis in light of an expected rate of return to investors

ANCILLARY READINGS

1. Market Segmentation
    - "Market Segmentation for the Small Business," by Laura Schneider. Available online from About.com at http://marketing.about.com/cs/sbmarketing/a/smbizmrktseg.htm
    - "Part 2: Using Market Segmentation to Define Your Target Market," by Marilyn Guille, 2003. Available online from About.com at http://sbinfocanada.about.com/cs/marketing/a/targetmarket_2.htm.
1. Target Marketing
    - Visit the web site TargetMarketNews.com for information about marketing to black consumers.
    - "Integrated Target Marketing for the Now Economy," by Tony Buxton, *Directions* magazine, February 23, 2004. Located online at http://www.directionsmag.com/article.php?article_id=506.
1. The movie industry
    - "The Movie Industry," by James Jaeger, located online at http://www.mecfilms.com/moviepubs/memos/moviein.htm. Accessed on March 3, 2004.
1. Break Even Analysis

- o "Break Even Analysis," *BusinessTown.com.* Located online at http://www.businesstown.com/accounting/projections-breakeven.asp. Accessed on March 3, 2004.
- o "Break Even Method of Business Investment Analysis," by P.H. Gutierrez and N.L. Dalsted. *Colorado State University Cooperative Extension*, publication no. 3.759, May 2, 2001. Located online at http://www.ext.colostate.edu/pubs/farmmgt/03759.html.

SUGGESTIONS FOR EFFECTIVELY TEACHING THIS CASE

This case has been "test marketed" in six sections of a principles of marketing course, across two different semesters. Each section averaged 100 students. Students in the section were divided into groups of five and assigned the case as a written assignment, which we discussed in class the day the write-up was due. Prior to assigning the case, we thoroughly discussed market segmentation, target marketing, and break even analysis. Since students had the assignment in advance, we were able to discuss the major case issues and received good student participation in class. This led to a thorough analysis of most of the major issues. This exercise serves as a preparation for the business plans students must eventually write for the course. It shows them how to identify fixed and variable costs, perform a breakeven analysis, and make an educated guess about the viability of a product before it has been produced. The case serves as a tool to teach students how to measure the size and potential viability of a distinct market segment. It also focuses on why an investor would want to invest in a new product without a proven track record. Students learn how to answer this question using basic marketing concepts.

Usually, a student or two will object to studying the Mormon segment (typically an active member of some other Christian faith who does not want to study anything associated with Mormons). This has happened in each of the six sections we have taught and has led to great discussions about the ethics of segmentation strategies in general. The instructor can point out that segmentation and target marketing are standard marketing tools. The class can try to identify situations where segmentation and target marketing may be inappropriate. Most students tend to agree that targeting Mormons is simply smart marketing. It is a clear case of an entrepreneur identifying an unmet need in a niche market and developing a product that meets that need.

ASSIGNED QUESTIONS

1. Preliminary calculations: How many films does the average person in the United States see in a year? What is the average cost of a movie ticket in the United States?

This question provides information that is necessary to answer question three below. "A" students will typically have no difficulty with the calculations, whereas "C" students may not even know how to approach this question. Typically, we get bimodal responses. The answers are either very accurate, or completely wrong.

In 2003, there were 1.523 billion paid attendances to movies in the United States. And there are approximately 265 million Americans. 1.523 billion paid attendances divided by a population of 265 million equals 5.74 movies per person per year. Note that not everyone sees this many movies; many people (32% of Americans) do not view any movies at all during the year. This also means that some segments see many more than 5.74 movies per year.

In 2003, the total box office gross of all movies in the United States was $9.2 billion. Thus, the $9.2 billion U.S. box office gross divided by 1.523 billion paid U.S. movie attendances equals $6.04 per movie ticket, on average. Note that this includes matinee prices, as well as discount prices in so-called "dollar theatres." Not all showings are $10!

2. What segmentation base has Richards apparently used? Is the proposed niche market homogeneous, substantial, actionable, and accessible enough for the idea to succeed?

Richards is using both a geographical segmentation base and a demographic segmentation base (or a geo-demographic base). "B" and "C" students might suggest it is also a psychographic segmentation base, because there are Mormon "lifestyle" issues involved, but a quick look at the major psychographic tools (e.g., VALS II) shows no Mormon segment.

"B" and "C" students will look at the numbers of Mormons in Utah and quickly conclude the segment is large enough based on the large numbers. "A" students will point out that Mormon culture is fairly homogeneous, substantial enough to support the movie and the associated marketing costs, actionable, in that they can be easily targeted with an appropriate marketing mix, and are accessible in that there are several media options to reach the residents of Utah, most of whom are Mormon. In other words, they answer the question that is asked.

AT&T WIRELESS & CINGULAR: WILL TWO GOOD COMPANIES BECOME ONE GREAT COMPANY?

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CASE DESCRIPTION

The primary subject matter of this case centers on the recent acquisition by Cingular Wireless of AT&T Wireless. This case highlights issues such as operating synergies, strategic management, and stock price movement around the merger event. Secondary issues highlight the human resource management concerns such as potential downsizing, leadership challenges, management incentives, and retaining employees during the transition. The case also sets up an analysis of the current competitive forces in the wireless industry. This case has a difficulty level appropriate for first year graduate level. The case is designed to be taught in two class hours and is expected to require four hours of outside preparation by students.

CASE SYNOPSIS

Cingular Wireless announced the acquisition of AT&T Wireless in February 2004. This is the biggest U.S. wireless merger in history and the deal has drawn public attention. The wireless industry is competitive, rapidly changing, and has an influence on people's lives. The AT&T Wireless shareholders experienced dramatic gain in their investments shortly after the acquisition announcement. Customers of both Cingular and AT&T Wireless are promised better coverage and services. Top management from both companies are confident that synergies will be created when two of the nation's leading wireless service providers join together. Lawyers and bankers specialized in mergers and acquisitions are benefiting by rendering their services. But the synergies will not come without costs. Many people, including top management, may lose their jobs; customers may receive lower quality services due to the confusion when two companies integrate; wireless users are concerned with reduced competition in the market and the possibility of higher prices; and many wireless suppliers are concerned about losing profits when the newly created firm tries to lower its costs. We use this recent acquisition deal to illustrate the basic concepts of mergers and acquisitions. Consistent with the traditional textbook structure, this case allows instructors to cover topics such as: different types of mergers and acquisitions, motivations behind mergers and acquisition, and the pros and cons of such activities. We also explore the implications of mergers and acquisitions on human resource management. It provides a multi-discipline exercise for *students that will help them to integrate the knowledge they have cumulated from previous course work.*

INTRODUCTION

On February 17, 2004, Cingular Wireless defeated the Britain based Vodafone and successfully acquired AT&T Wireless with a $41 billion cash offer. It is the biggest U.S. wireless acquisition in history. The market was caught by surprise by the large takeover premium: $15 per share compares to $6-$9 per share during the past year. The combined company would become the biggest wireless company with 46 million customers and the most advanced digital network in the U.S. Consolidation can help to achieve significant operating synergies. The company expects to generate over $1 billion in operating expense and capital expenditures in 2006, and the saving might be doubled starting 2007.

Company History – Cingular Wireless

Cingular Wireless is a Delaware limited liability company jointly owned by SBC Communications Inc. and BellSouth Corp. It was formed in April 2000 and began doing business under the "Cingular" brand name in January 2001. Cingular has access to cellular/PCS licenses in 45 of the 50 largest U.S. metropolitan areas, covering an aggregate of approximately 81% of the of U.S. population, and operate in 43 of the top 50 markets across the country. In addition, it established numerous roaming agreements to ensure that their customers can receive wireless service in virtually all areas in the United States where cellular/PCS wireless service is available. Some of the Major milestones achieved by Cingular over the years are:

1. In 2000, Cingular and Crowley Digital Wireless, LLC (Crowley Digital) formed a joint venture, Salmon PCS LLC, (Salmon) to acquire PCS licenses being auctioned by the FCC.
2. In May 2001, Cingular and T-Mobile exchanged FCC licenses covering approximately 36 million POPs (Point of Presence) each.
3. In January 2002,Cingular entered into an agreement with AT&T Wireless to form a jointly-controlled and equally-owned venture to construct a GSM voice network with GPRS/EDGE data technologies. As of December 31, 2003, they had an investment in the venture of $21 million.
4. In December 2003, Cingular acquired three PCS licenses in Florida from Sunshine PCS, for approximately $14 million.
5. In February 2004, Cingular completed an exchange transaction with Dobson Cellular Systems, Inc. Cingular transferred $22 million cash and wireless property in Michigan to Dobson in exchange for wireless property in Maryland.
6. In February 2004, Cingular acquired an operational cellular system in Louisiana and other FCC licenses in Louisiana, Arkansas and Texas from Unwired Telecom Corporation. They expect the aggregate consideration for this transaction to be approximately $28 million cash.

Company History – AT&T Wireless

Created in 1994 as the result of AT&T Corporation's purchase of McCaw Cellular Communications, AT&T Wireless began trading as a tracking stock on the New York Stock Exchange in April 2000. On July 9, 2001, AT&T Wireless (NYSE: AWE) split off from AT&T, to become the largest independently owned and operated wireless company in North America and one of the most widely held stocks in the United States.

In July 2001, AT&T Wireless became the first company to introduce the next generation of wireless services in the U.S. with the launch of GSM™/GPRS in Seattle, Washington. Through roaming agreements and affiliates, GSM/GPRS service is now available to more than 250 million people in the United States and available in more than 130 countries for voice calling and some 45 countries for data services. Additionally, in November 2003, AT&T Wireless took the lead in wireless data by introducing its national EDGE service, the fastest national wireless data service in the United States. Major milestones achieved by the company over the years are,

1. 1947 - AT&T Bell Laboratories invents wireless (cellular) phone service.
2. 1990 - AT&T Wireless, then McCaw Cellular Communications, introduces wireless SS7 signaling, allowing the creation of the North American Cellular Network and making national automatic roaming possible for wireless customers.
3. 1994 - AT&T Corporation acquires McCaw Cellular Communications for $11.5 billion.
4. 2000 - AT&T Wireless begins trading as a tracking stock under the ticker symbol "AWE," raising $10.6 billion in its Initial Public Offering.
5. 2000 - AT&T Corp. announces it will split the company into four independent businesses. AT&T Wireless will be split off as an asset-backed corporation in 2001.
6. July 9, 2001 - AT&T Wireless becomes an independent company publicly traded on the New York Stock Exchange (NYSE: AWE) and listed on the Standard & Poor's 500 Index.
7. 2002 - AT&T Wireless acquires TeleCorp PCS in an all-stock transaction.

Cingular's Next Challenge

The merger affects the entire wireless industry and many others. Days after the merger announcement, competitors started to grab market shares during this unstable time period. Sprint PCS offered two months unlimited free calling for qualified new customers. Bankers and lawyers will land over $80 million from this acquisition. Suppliers to major U.S. wireless companies, such as Ericsson and Nokia, are concerned about decreasing revenues fearing that the combined wireless giant will cut capital expenditures to realize operating synergies.

The CEO of Cingular Wireless, Stan Sigman, joined the company in November 2002 and is known as the person who brings in "a sense of urgency" to the organization. The 56-year old CEO is facing the biggest challenge in his career to bring the two companies together and to achieve the synergies expected by all parties. This task may be complicated by an anticipated slowdown in sales growth and uncertain future profitability prospects facing the entire wireless industry. In addition, Sigman needs to come up with a retention plan for the management team at AT&T Wireless.

Stan Sigman, a telecom veteran, has successfully made dozens of acquisitions. Facing the biggest U.S. wireless acquisition in history, he needs an executive committee to help him to analyze the current issues and solve problems that encountered Cingular. This executive committee includes top-level management from different areas and some of them do not have sufficient finance background. Suppose you are a newly graduated MBA and is working as the assistant to one of the committee members. Your assignment is to prepare a presentation for your boss to be submitted to the committee. Your boss has come up with a list of questions that he wants to address in this presentation and he wants you to prepare answers prior to the meeting. You also need to think about relevant issues that might be raised in the meeting and prepare for those to make sure your boss doesn't look bad.

CASE QUESTIONS

To address the following questions, you will need to conduct searches on the internet for articles published around the time of the acquisition and some basic reference books in finance and human resource management.

1. There are three types of mergers and acquisitions: strategic acquisitions, financial acquisitions, and conglomerate acquisitions. Compare and contrast these three types of acquisitions. What type of acquisition is conducted when Cingular Wireless acquires AT&T Wireless?
2. What are the motives behind mergers and acquisitions? How can Cingular benefits from the acquisition? For what consideration did Vodafone participated in the bidding war?
3. What are the disadvantages of mergers and acquisitions? Please list major tasks need to be resolved by Stan Sigman after the acquisition is complete.
4. AT&T was trading at $6 - $9 in 2003. What happened to its stock price after the acquisition announcement? Why? Cingular Wireless is not publicly traded. If it does, what will happen to the stock of Cingular?
5. How Cingular Wireless is going to finance the acquisition? What effect does it have on the firm's financial postion?
6. Who are the stake holders in a merger or acquisition?
7. What are the human resource management implications of this acquisition ?

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