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Table of Contents

SHORT-TERM LIQUIDITY: BON TON STORES AND WAL-MART 1
Janice L. Ammons, Quinnipiac University
Martin L. Gosman, Quinnipiac University

ABAXIS AND MINUTE CLINICS.. 5
Brenda J. Anderson, Minot State University
Bethany Stai, Minot State University

TESLA MOTORS NORTH DAKOTA 11
Justin Driscoll, Minot State University
Bethany Stai, Minot State University

M&D SUPPLY CASE D "DAVID AND GOLIATH".. 17
Jeff Dyson, Lamar University
Kabir Sen, Lamar University
Vivek Natarajan, Lamar University

INTERNAL CONTROL FAILURES AT THE PINE GROVE YMCA 19
Raymond J Elson, Valdosta State University
Susanne O'Callaghan, Pace University
Phyllis Holland, Valdosta State University
John P. Walker, CUNY/Queens College

ABAXIS SALES... 21
Shaunda Hansen, Minot State University
Bethany Stai, Minot State University

REVENUE RECOGNITION AND THE FASB/IASB CONVERGENCE PROJECT: A CASE STUDY 27
Marianne L. James, California State University, Los Angeles

THE U.S. CRAFT BREW INDUSTRY 33
Jack Kleban, Barry University
Ingeborg Nickerson, Barry University

PETUUM 39
Ashley Lesmeister, Minot State University
Bethany Stai, Minot State University

ASSIGNMENT OF INCOME: A PARTNERSHIP TAX CASE 45
Robert W. McGee, Florida International University

ACTIONS SPEAK LOUDER THAN WORDS? – A CASE ON THE DEVELOPMENT OF AUDIT COMMITTEE 47
Songtao Mo, Purdue University Calumet
Yifan Shi, KPMG China
Yajing Wang

M&D SUPPLY CASE CASE "E" TEXAS TWO-STEP.. 49
Jeff Dyson, Lamar University
Kabir Sen, Lamar University
Vivek Natarajan, Lamar University

IS IT KOSHER? NO, IT'S HALAL: A NEW FRONTIER IN NICHE MARKETING 51
Charles Rarick, Gideon Falk, Casimir Barczyk, and Lori Feldman
Purdue University Calumet

JOLLIBEE FOODS CORPORATION AND THE GLOBAL MARKET 57
Charles A. Rarick, Purdue University Calumet
Gideon Falk, Purdue University Calumet
Casimir Barczyk, Purdue University Calumet

IS IT SEX DISCRIMINATION? SOME REAL CASES FROM THE US BUSINESS ENVIRONMENT.. 63
Neal F. Thomson, Columbus State University
Tobias Huning, Columbus State University

FARGO DATA SERVICES.. 67
Robert Williams, Minot State University
Bethany Stai, Minot State University

KYLE'S KAYAKS MANAGERIAL BUDGET CASE: SALES TO FINANCIAL STATEMENTS 73
Geri B. Wink, Colorado State University – Pueblo
Laurie Corradino, Colorado State University – Pueblo

SHORT-TERM LIQUIDITY: BON TON STORES AND WAL-MART

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CASE DESCRIPTION

The primary subject matter of this case concerns basic analysis of short-term liquidity of two discount department stores. Secondary issues examined include signals of working capital efficiencies. This case has a difficulty level of two, three, or five; the case is appropriate for financial accounting principles, introductory financial management, intermediate accounting, and introductory financial accounting for MBAs. The case is designed to be taught in one-half to one hour of class time and is expected to require approximately one hour of outside preparation by students.

CASE SYNOPSIS

Using data from Bon Ton Stores and Wal-Mart Stores, students will observe significant differences in key liquidity metrics between these two discount department stores. Students will consider the overall liquidity positions of the firms by examining their working capital levels and their current ratios. Students will identify the driver of the differences in the current and quick ratios, and will explore issues in managing working capital, particularly with regard to inventory levels. In the process, they will uncover some surprising findings. Some working-capital metrics may look good while hiding deficiencies that can be revealed by further analysis. Similarly, working-capital metrics may look bad, but further digging uncovers efficiencies. The case also highlights the interesting tension that exists between a lender's perspective about liquidity (more is better) versus a company's desire to increase profitability, which necessitates efficiently managing its working capital.

INTRODUCTION

The downturn in the global economy and the recent distress in the financial markets have resulted in volatility in the capital markets and diminished liquidity and credit availability. Retailers may find that this macroeconomic decline affects consumer confidence, and consequently impacts sales and cash flows from operations. In this light, retailers must continue to focus on maintaining a strong balance sheet with adequate liquidity.

Business viability relies on effective working capital management. Working capital is the difference between current assets and current liabilities. Current assets include cash and resources that a company expects to convert to cash, sell, or consume during the next 12 months (or within the normal operating cycle if that is longer than a year). Similarly, current liabilities

include accounts payable and other commitments for which resources must be sacrificed within the next year. Current assets can give rise to the cash needed to pay current liabilities, so the relationship between current assets and current liabilities is important. Business success relies on the effective management of cash, receivables, inventory, and payables (the key components of working capital). Working capital management is a very important component of corporate finance and accounting since it affects the profitability and liquidity of a company. In industries where current assets are a relatively high percentage of the total assets of the organization, the management of these short-term resources is particularly critical.

Working capital has limitations as a measure of a firm's ability to pay its bills. First, the absolute difference between current assets and current liabilities is not a meaningful metric when comparing companies of different sizes. Second, it conveys nothing about the composition of the current assets, some of which may not be quickly converted to cash. Finally, firms that generate sizable cash from operations are able to settle their current liabilities without liquidating non-cash current assets.

The current ratio is the most frequently used measure of liquidity and it allows for comparison of firms of different size (Hitchner, 2006). The current ratio is calculated as current assets divided by current liabilities. It indicates the ability of a company to pay its short-term creditors from the realization of its current assets. A 2002 study found the current ratio to be the financial covenant most often included in loan agreements (Dichev and Skinner, 2002).

Other things being equal, the higher the current ratio, the more assurance creditors have that they will be paid in full and on time. Many decades ago, the rule of thumb for a desirable current ratio was at least 2.0, indicating $2 of current assets for each $1 of current liabilities. However, firms have increasingly come to realize that excessive investments in working capital can tie up funds that could be used profitably to invest in new products, corporate acquisitions, or other expansion projects. Also, firms' successful efforts in achieving inventory efficiencies and delaying payments to suppliers have allowed many firms to operate satisfactorily with less of an excess of current assets over current liabilities. A firm with a current ratio of less than 1.0 is one that operates with negative working capital (current liabilities in excess of current assets).

The quick ratio (acid-test ratio) addresses the second limitation associated with working capital. It offers a more stringent assessment of a company's financial health and liquidity. As compared to the current ratio, the quick ratio excludes inventory and potentially other less liquid assets such as prepaid expenses from the numerator of the ratio. This reduces the risk of drawing inferences about liquidity that may be misleading due to slow moving or excessive inventory. Thus, essentially the quick ratio divides the sum of cash, marketable securities (short-term investments that are intended to be quickly converted to cash), and receivables by current liabilities. So it examines the availability of assets that can convert to cash typically within 90 days relative to current liabilities.

Working capital management seeks to maintain a beneficial balance between each of the working capital components, so as to balance risk and efficiency (Eljelly, 2004). A high level of current assets may reduce liquidity risk (the inability to meet short term obligations as they become due). But an excessive level of current assets reduces a firm's return on investment or

profitability. Yet sufficient inventory is necessary to meet customers' demands to support revenue.

QUESTIONS FOR DISCUSSION

1. Despite having the highest current ratio among the Exhibit 1 firms, Bon Ton was included in a *Forbes* list of "10 retailers flirting with trouble (Hawkins, 2010). Which data in Exhibit 1 suggest that this retailer's liquidity position was not as favorable as it initially seemed?

2. Which ratios could help an analyst appraise the relative liquidity of Bon Ton's inventory as compared to that for Wal-Mart?

3. What contributed to Wal-Mart's extremely large *negative* working capital and how can a firm survive, let alone thrive, with such an excess of current liabilities over current assets?

Exhibit 1
SELECTED FINANCIAL DATA
Bon Ton and Wal-Mart

Company	BON TON	WAL-MART
Line of business	Discount Department Store	Discount Department Store
Fiscal Year	2008	2008
Quick assets	$19,719,000	$11,180,000,000
Avg. inventory	$710,441,500	$34,835,000,000
Current assets	$799,241,000	$48,949,000,000
Current liabilities	$374,804,000	$55,390,000,000
Working Capital	$424,437,000	($6,441,000,000)
Current ratio	2.13	0.88
Quick (acid-test) ratio	0.05	0.20
Net Sales	$3,129,967,000	$401,244,000,000
Cost of sales	$2,034,960,000	$306,158,000,000
Cash from operations	$94,206,000	$23,147,000,000

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ABAXIS AND MINUTE CLINICS

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ABSTRACT

This is a case about Abaxis and their relationship with Minute Clinics. It is estimated that this relationship should result in an increase in the sale of both testing equipment and rotors with estimates of 500 testing units initially with another 1000 being delivered in the first year. It is estimated that once the relationship is finalized that it should increase the stock price by 60%.

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TESLA MOTORS NORTH DAKOTA

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ABSTRACT

This is a case about Tesla Motors North Dakota which sells Tesla automobiles in North Dakota and is also researching new energy systems for "green" cars. The focus of this case is on the alternative energy portion of the organization and changes in fuel systems and motors which they are designing in order to increase energy efficiency by up to 88%.

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M&D SUPPLY CASE D "DAVID AND GOLIATH"

Jeff Dyson, Lamar University
Kabir Sen, Lamar University
Vivek Natarajan, Lamar University

CASE DESCRIPTION

Quit? Hang on for dear life? Pray for Divine Intervention? Or formulate an aggressive competitive response? This is the fourth in a series of cases that focuses on entrepreneurial behavior in response to challenge and adversity. Each case examines a family's path to business success despite overwhelming personal and professional odds. Secondary issues include strategies and tactics that were employed to sustain the business in response to severely declining market conditions and changes in the competitive landscape.

CASE SYNOPSIS

In Case "D,"second-generation owner Jeff Dyson finds his livelihood threatened as Big Box retailers invade the Southeast Texas region. Jeff decides he will not sit back and let the competition snatch his market; he will not only survive, but thrive! So as the Goliaths sharpen their spears across the street and around town, David loads his slingshot and makes plans of his own – expansion plans. Over the decade, Jeff expands the store, updates the product mix, and adds new business lines. M&D grows, despite the tenacity of the Big Box Behemoths and the shrinking Southeast Texas market.
Students are provided a series of dilemmas requiring them to develop, analyze, and prioritize the entrepreneur's alternatives. The case requires students to consider numerous business dynamics that come into play and to recommend courses of action.

INTERNAL CONTROL FAILURES AT THE PINE GROVE YMCA

Raymond J Elson, Valdosta State University
Susanne O'Callaghan, Pace University
Phyllis Holland, Valdosta State University
John P. Walker, CUNY/Queens College

CASE SYNOPSIS

The case relates to failures in accounting controls which allowed two unethical employees to commit two unrelated frauds at the Pine Grove YMCA in Warren County, Michigan.

The first fraud involved the accounting manager, Ms. Jackson, who stopped paying both state and federal payroll taxes in 2006 on behalf of approximately 150 YMCA employees. She continued to file false quarterly payroll tax returns for a number of years, retaining the money in the organization's operating account. These actions resulted in the organization incurring a tax liability of approximately $1.4 million over the course of five years.

In addition, Ms. Jackson wrote more than 168 checks for approximately $40,000 to herself from the organization's bank account for the five year period 2003-2007, disguising most as paychecks. She also used her purchasing card to acquire approximately $23,000 worth of personal merchandise from a local store during the same time period. These personal items included school supplies for her two elementary age daughters, a new flat screen television for the family room, and food.

The second fraud involved the executive director, Mr. Richards, who hired a local contractor, Tim Jones, to perform landscaping and renovations at the two YMCA locations. The contractor was also hired to perform renovations such as building an addition and a screened in porch on the executive director's personal residence. As part of the 'contractual relationship', approximately 26 of the contractor's employees were placed on the YMCA's payroll with the executive director's approval. In addition, materials and equipment brought with the organization's funds were used for landscaping projects at the executive director's residence with the contractor's employees performing the work. These employees were paid by the YMCA for landscaping projects performed for other clients of the contractor. The contractor was also paid with the organization's funds for ongoing landscaping work at the executive director's residence. Approximately $377,000 of the organization's funds was diverted to the landscaper's employees with an additional $487,000 paid to Mr. Jones for construction and repairs services.

The executive director converted approximately $850,000 in federal YMCA funds for his use, disguising them as payments from the YMCA to the contactor. He then concealed his actions by destroying the records. The executive director also converted approximately $58,000 of the organization's funds for personal purposes using his company issued purchasing card. Items purchased included suits, shoes and toiletries.

ABAXIS SALES

Shaunda Hansen, Minot State University
Bethany Stai, Minot State University

ABSTRACT

This is a case about Abaxis and their sales force. Changes are recommended in terms of ordering systems, new products, and selling strategies.

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REVENUE RECOGNITION AND THE FASB/IASB CONVERGENCE PROJECT: A CASE STUDY

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CASE DESCRIPTION

The primary subject matter of this case concerns the significant changes to revenue recognition that are proposed under the joint exposure draft issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) as part of their convergence efforts. The case focuses on fundamental changes to the revenue recognition model and potential changes to the timing and measurement of revenue and related transactions such as product and service warranties, merchandise returns, uncollectible accounts, and multiple deliverables.

Secondary, strategic business and ethical considerations that companies and accounting professionals should consider are explored. This case has a difficulty level of three to four and can be taught in about 40 minutes. Approximately two hours of outside preparation are needed for students to address all questions. The case can be used in an Intermediate Accounting course to help students understand the expected changes to revenue recognition, but can also be utilized in a more advanced course by focusing on the strategic business issues. This case has technical, analytical, and research aspects. Utilizing this case may enhance students' communications skills.

CASE SYNOPSIS

Accounting for revenue and sales/service related transactions will change significantly. On June 24, 2010, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly issued an exposure draft that will change accounting for revenue and related transactions under both U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The exposure draft, which introduces a five-step performance obligation model, proposes significant changes to the measurement, classification, and potentially, the timing of recognition of revenue and related transactions, such as warranty costs, returns and allowances, provisions for uncollectible accounts, and multiple deliverables. This case focuses on these key issues that are common and important to most business entities.

Because of the importance of revenue and the expected significant changes to revenue recognition, accounting students must begin learning about these changes, understand the potential effect on financial reporting, and become aware of the business and ethical issues that may arise. Educators play a key role in helping students accomplish these goals. This case focuses on the new revenue recognition model, provides an overview of key changes to current

requirements that are proposed under the new exposure draft, and explores strategic business as well as ethical considerations. It can be utilized in an Intermediate Accounting course focusing primarily on the technical accounting, financial reporting and ethical issues, or in an advanced course focusing primarily on the strategic issues. The case includes case-specific and research questions. Using this case can enhance students' critical thinking, research, analytical, and communications skills.

INTRODUCTION AND BACKGROUND

Recognition of revenues and related issues will soon be changing. On June 24, 2010, the U.S. Financial Accounting Standards Board (FASB) jointly with the International Accounting Standards Board (IASB) issued an exposure draft (ED) entitled, "Revenue from Contracts with Customers" (FASB & IASB, 2010). The changes proposed in the ED will significantly affect revenue recognition and the recognition of sales and service related issues for many entities in the U.S. as well as in the nearly 120 nations that currently utilize International Financial Reporting Standards (IFRS).

The revenue recognition ED was issued as part of the FASB/IASB convergence project. The primary objective of the convergence project is to eliminate differences between U.S. GAAP and IFRS and to facilitate the development of high quality global financial accounting standards. (FASB & IASB, 2002). The Boards identified revenue recognition as one their priority projects and intend to issue a final standard by June 30, 2011 (FASB & IASB, 2010). Once a final standard becomes effective, it will supersede all revenue related standards under both U.S. GAAP and IFRS.

A target effective date, on which companies must start applying the new requirements, has not yet been announced. However, because of the critical importance of revenue, the significant changes proposed in the ED, and the potential effect on companies' financial statements, accounting educators should start preparing their students for the expected changes. Educators should focus on the conceptual differences between the current and the expected revenue recognition rules and explore the proposed requirements for transaction and events that are common to many business entities and industries.

This case deals with a hypothetical telecommunication company and has several important aspects. First, the case introduces students to the fundamental changes to revenue recognition, compares current and proposed accounting treatments, and explores strategic as well as ethical considerations that companies and accounting professionals must consider.

Case-specific as well as research-based questions are included in the case. Each question is independent and can be assigned without loss of related context or continuity. The case has technical accounting, critical thinking, analytical, research, ethical, and communications aspects.

THE CASE*

Margot Johann is the controller of Vielfalt Corporation, a global telecommunication company that is headquartered in the U.S. The consolidated entity holds majority ownership in

fourteen subsidiaries, of which eleven are located in Europe and Asia. As the head of the accounting department, Margot is responsible for the reliability of the financial accounting and reporting system and the preparation of the consolidated financial statements. All of the company's European and Asian subsidiaries prepare their financial statements consistent with IFRS. Preparation of the consolidated financial statements is a complex process, involving foreign currency translation of the subsidiaries' financial statements, conversion of the IFRS-based financial statements to U.S. GAAP, and completion of the complex consolidation process.

Margot is very aware of the FASB/IASB convergence project, keeps abreast of new developments, and consistently disseminates new information available on the Boards' project links. She also regularly participates in related web seminars sponsored by the large public accounting firms and in FASB and IASB podcasts. Margot is committed to helping her junior accounting staff develop their professional knowledge. Every few months, Margot holds seminars for her accounting staff on new accounting issues. She has nurtured an environment of high ethical conduct, which allows her to delegate effectively. Her objective in holding these seminars is to inform and instruct her staff on new issues, but also to reinforce the importance of ethical financial reporting. All members of the accounting staff are encouraged to participate in her seminars.

Margot knows that the proposed requirements detailed in several recent exposure drafts issued jointly by the FASB and IASB may significantly affect Vielfalt Company's financial accounting and reporting, and potentially its financial results. After careful consideration, she believes that the FASB/IASB exposure draft entitled, "Revenue Recognition - Revenue from Contracts with Customers" will have the most pervasive impact the company's financial accounting and reporting system. She decides to hold a seminar on revenue recognition on April 6, 2011.

Business Environment and Strategies – Revenue Recognition

Vielfalt Corporation derives approximately 70% of its revenue from providing telecommunication services and 30% from the sale of telecommunication equipment. The majority of its revenue involves bundling of service and equipment. Sales and service contracts originate though two channels. Approximately 60% of the company's contracts involve direct contact with customers through internet or telephone order, or the company's many stores. The remaining 40% of the contracts are originated through third party authorized dealers.

Customers can return or exchange equipment for a full refund within 30 days of purchase. Service contracts ranging from one to two years that are cancelled by customers incur an average cancellation fee of $200. In the past, returns and allowances were approximately six percent of sales revenue. Returned equipment typically can be used as replacement for effective equipment.

Equipment typically is sold with a one-year limited warranty. Under this warranty, the company will replace or repair equipment that fails to perform as promised because of either latent or subsequent defects; the warranty specifically precludes accidental damage. In the past,

repair and replacement of defective equipment covered by the warranty were between four and five percent of sales revenue.

The company's strong accounts receivable department allows the company to minimize its risk of losses from unpaid customer accounts. In the past, uncollectible accounts were approximately three percent of net sales and service revenue.

MARGOT'S SEMINAR - REVENUE FROM CONTRACTS WITH CUSTOMERS – MAJOR PROVISIONS

During the seminar, Margot summarizes key points of the exposure draft. An outline of the information presented in the seminar, which is based on the exposure draft (FASB & IASB, 2010, 2011) is provided below.

Background
Exposure draft (proposed Accounting Standards Update) issued June 24, 2010
Boards plan to issue final standard – second quarter of 2011
Expected to replace IAS 18, IAS 11, and several interpretations
Expected to supersede many different U.S. GAAP standards as codified in Accounting Standards Codification Topic 605
Five step performance obligation model
1. Identify contract (written, verbal, implied)
2. Identify any separate performance obligations (may be explicit or implied)
3. Determine the transaction price
Amount of consideration expected to be received
Includes several considerations (probability of collectability, time value of money, any non-cash considerations, consideration payable to the customer or client, contingent and variable considerations
4. Allocate the transaction price to each separate performance obligation
Respective stand-alone selling prices of each performance obligation (can be estimated)
5. Recognize revenue when the performance obligation is satisfied
Requires the transfer of control
Right of Return
Is not considered a separate performance obligation
Revenue recognized only for goods or services not expected to be returned
Return estimate recognized as liability
Related inventory cost is recognized as right of return asset
Warranties
Latent (existing) defects
Is not considered a separate performance obligation
Revenue and cost of goods sold exclude amounts related to estimated defective products
Subsequent defects
Separate performance obligation

Allocate contract price
Uncollectible Accounts
Estimate is made at time of sale
Exclude estimated amount from revenue

To reinforce and assess their understanding, the seminar participants are asked to answer some questions. Some of the participants decide to further investigate the issues by conducting their own research. Company-specific and research questions are listed in the assignments section.

ASSIGNMENTS

1. Review the case background information and the section detailing the company's revenue related business and strategic environment. Compare and contrast accounting for (1) warranties, (2) equipment returns, and (3) uncollectible accounts. Organize your answers by preparing a five-column table indicating (a) the accounting issue, (b) the current accounting treatment under U.S. GAAP, (c) the proposed accounting treatment under the joint revenue recognition ED, (d) the financial statement(s) that would be affected by the proposed changes, and (d) what specific financial statement items would be affected and whether the related amount would tend to increase or decrease.

2. Review the case information and the section detailing the company's sales channels. Indicate how the proposed changes could affect the amount of revenue recognized from (a) direct sales to customers and (b) sales through third parties.

3. What ethical considerations and challenges could arise from the proposed changes? Review the recently issued FASB/IASB Concept Statement No. 8, Chapter 2 and summarize the guidelines that are available from the conceptual framework. (Requires some research).

4. Access the FASB or IASB website, and research the objective of the Boards' revenue recognition project Provide a brief synopsis of the Boards' objectives for revising the revenue recognition requirements. (Research question).

5. Research the perceptions of financial statement preparers in (a) the telecommunication industry and (b) in an unrelated industry regarding the revenue recognition project. Choose two sources and summarize which provisions of the proposal they agree with and which they do not. (Research question).

6. Research the perceptions of accounting professionals regarding the revenue recognition project. Choose two sources and summarize which provisions of the proposal they agree with and which they do not. (Research question).

CONCLUSION

Because of the critical importance of revenue to business entities, significant changes to the requirements relating to the recognition and measurement of revenue and related transactions are of extremely important to accounting professionals and company executives. Accounting students must become familiar with the expected changes and understand the implications of these changes. This case can be used by accounting educators to accomplish these goals.

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*Author's Note: This is a fictitious case. Any similarities with real companies, individuals, and situations are solely coincidental.

THE U.S. CRAFT BREW INDUSTRY

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ABSTRACT

This paper examines competitive factors in the craft brewing industry in the U.S. It encompasses a description of what defines craft brewers, the different categories of craft breweries depending on size in the U.S. and the major competitors in the industry according to annual volume output of beer. Recent growth in the craft beer industry compared to the general U.S. beer industry is detailed.

In addition to craft beer brewer characteristics, the paper outlines market structure, competition, and business strategies of craft breweries. Also considered are branding and social media marketing and social responsibility considerations, followed by distribution, and regulation and taxation of the craft brewing segment of the beer and beverage industry .

INTRODUCTION

Craft breweries' operations are small, and they are considered to be traditional and independent. Traditional in the sense that they produce a malt flagship or brew full bodied beers many of which are made from recipes taken from German or English brewing origins. The malt is high grade, the brewing process is relatively slow, and the production is small scale. The main differentiating factors of craft brewers are their unique styles of brewing which can lead to enhanced flavor and taste (www.craftbrewersassociation.org).

The craft brew industry in the U.S. is experiencing rapid growth. In 2008, craft breweries sold a combined 8.5 million barrels of beer, and in 2009 they sold over 9 million barrels. Although the general beer sales in the U.S. experienced a decline in sales by volume of 2.7% in the first half of 2010, and sales of imported beer were down by 9.8% in 2009, craft breweries were able to increase their sales by volume in the U.S. by 9%. In 2006, the reported number of craft breweries in the U.S. was 1370, and in 2010 1625 craft breweries were reported. This represents a growth of over 18% in less than five years, the highest growth rate in U.S. history since before the prohibition era (www.craftbreweresassociation.org).

As evidenced, craft beer production and its consumption in the U.S. is on the rise. This case provides an in-depth look at the industry and its potential for growth in the near future. We also provide information about the industry's market structure, including competition within the sector.

MARKET DEFINITION

Since 2006, the craft beer industry has been able to outperform the normal beer industry segment on both percentage margins and percentage growth because of their unique product characteristics, organizational structure and different marketing approach.

Craft breweries tend be small in size, typically producing less than 6 million barrels of beer (BBL) per year. They are independent, as less than 25% of the brewery is owned or controlled by an alcoholic beverage industry member that is not themselves a craft brewer, and finally, traditional, as at least 50% of its volume is in either all malt beers or utilizes enhancers in order to create full-flavored beers (www.breweresassotiation.org).

Craft brewers focus on differentiation. Their value derives from utilizing both traditional styles, such as using malted barley, combined with their own unique formulas by adding non-traditional ingredients, hence developing new styles that have no precedent.

Craft brewers tend to be local not only on the supply side, but as well very involved with the communities they serve. They are involved in a number of corporate social responsibility programs such as product donations, volunteerism, sustainable development, sponsorships, and other philanthropic endeavors (www.breweresassotiation.org).

Craft breweries are horizontally differentiated and have a limited number of substitutes. The main differentiating factor between the craft beers and other normal beers is the brewing styles and distinctive flavors. Craft beers have their unique taste and likeness, which come from the traditional slow brewing styles and recipes that have been perfected over the years. This is why craft beers differentiate themselves horizontally based on the taste and quality.

Craft type of beers appeal to consumers who are seeking a “taste revolution.” For this particular consumer group, the increase in product features increases their economic benefit, thus giving them more satisfaction. Due to this unique feature, the price elasticity of demand for craft beers is much lower than the normal beers. Because of the economic benefit provided by craft beers, they can demand higher prices, thereby capturing higher margins. The craft brewers are also geographically differentiated. A particular geographical area boasts a unique type of craft brew (i.e. Boston Beer Company, located in Boston, Massachusetts). The success of the craft brew industry and its appeal to the general population is based on two main reasons: the higher perceived economic value consumers get and the very experience of drinking craft beer (http://www.stumptown.com/articles/mgmtbeer.html).

SCOPE OF CRAFT BREWERIES

Craft breweries can be separated into different categories according to production output in barrels of beer (BBL) per year. (Where 1 BBL = 339 12 oz bottles of beer or 235 half-liter bottles of beer.) Craft beer production for all categories can range anywhere between less than 30 BBL and up to 6 million BBL per year. It is within this range of volume output that craft breweries get their name categorization.

Nanobreweries: Nanobreweries operate at a slower rate than traditional microbreweries, with a volume output of less than 30 barrels of beer per year. They are not a good choice for long-term setup as the effort/profit ratio is very narrow.

Microbreweries: Microbreweries produce less than 15 thousand barrels of beer per year. More than 75% of its beer production is sold outside the brewery. Microbreweries sell to the public in three different methods:

Brewery → Wholesaler → Retailer → Consumer
Brewery as Wholesaler → Retailer → Consumer
Brewery (As a Bar/On-site Tap sale) → Consumer

Brewpub: Brewpubs are restaurant-based breweries where more than 25% of beer is sold on the same floor. Restaurants maintain these breweries and beer is dispensed from the storage tanks. Many laws and regulations have to be taken into consideration for these brewpubs; and, if allowed by law, it is possible sell beer to offsite places or offer "beer to go." The majority of restaurants that operate a Brewpub are located in the northeast sector of the U.S. This is due to the fact that the local population in the northeast demands locally brewed beers.

Contract Brewing Company: They comprise brewing companies that outsource their production to other already established breweries. The main brewery provides the exact specifications for brewing the beer. The contract brewing company is responsible for the marketing, distribution and selling aspects of the business, while the brewery provides the space, apparatus and infrastructure for brewing. Some examples of these breweries include Pete's Brewing Co, Boston Beer Co., and others. Boston Beer Co. is the largest brewery with its flagship products: Samuel Adams (SA) Boston Lager, Boston Ale, SA Octoberfest, SA Wheat, and SA Winter Lager, etc.

Regional Craft Brewery: Regional craft breweries produce anywhere between 15 thousand and 2 million barrels of beer per year, and over 50% or more of their volume production focuses on all-malt beers, and/or their malt flagship. Regional craft breweries are typically known for adding flavor-enhancers in order to produce strong-tasting beers. Examples include Sierra Nevada Brewing Co., Red Hook Ale Brewery and Anchor Brewing Co.

Large Brewery: These breweries have an annual production capacity of over 2 million barrels of beer. The only craft brewery that comes close to this definition is the Boston Beer Company with annual production of 1,841,348 barrels per year.

THE U.S. BEER MARKET AND ITS PERFORMANCE COMPARED TO CRAFT BEER

The U.S. beer sales market has experienced a downturn in recent years. Beer sales by volume were down an estimated 2.2% in 2009 and 2.7% in the first half of 2010. Imported beers have also experienced a downturn in sales of 9.8% in 2009 (equivalent to 2.8M barrels).

Conversely, the craft beer brewing industry has experienced sales growth in recent years. Craft beer sales by volume in 2009 were 7.2%, and 10.3% by dollars compared to growth in 2008 of 5.9% by volume and 10.1% by dollars. This transfers into a 4.3% by volume and 6.9% by dollars of craft brewing sales share as of 2009. (www.brewersassociation.org).

Craft brewers sold an estimated 9,115,635 barrels of beer in 2009, up from 8,501,713 in 2008. Craft brewer retail dollar value in 2009 was an estimated $6.98 billion, up from $6.32 billion in 2008.

MARKET STRUCTURE AND COMPETITION

Because craft breweries differentiate themselves from the regular beer producers by focusing on quality, their organizational structure is consequently different. Furthermore, craft breweries cannot compete with large breweries with price due to their advantages with higher economies of scale.

Competition within the domestic craft beer segment and other high quality beer categories is based on product quality, consistency, freshness and taste. Craft breweries must also be keen in their ability to differentiate products by utilizing a variety of methods, mainly: promotional tactics, customer satisfaction programs, distribution costs and price. In order for craft breweries to maintain their identity, they must follow their differentiation strategy (by using a combination of the methods mentioned). Otherwise, they would be considered as part of a regular beer product category, and hence would compete with beer, wines, spirits and other flavored alcohol beverages.

The craft beer segment has become highly competitive in recent years due to easy availability of funds to finance the startup operations, which has led to the explosive growth in the number of craft breweries operating in US market. Competition varies with the regional markets, depending upon the local market preferences and distribution techniques.

Within the craft brewing industry, microbreweries experience the most competition. This is due to the fact that there are many of them and their market shares are noticeably small. Due to their wider distribution zones, national craft brewers have the financial backing necessary to support their products with expensive promotions. On the other hand, microbreweries possess the competitive advantages of being even more unique than national craft breweries and highly appealing to local consumers.

Craft brewers also compete with imported craft brews such as Dark Ales, Pale Ales, Lagers and other alcoholic segment products from Belgium, France, Germany, and other countries. The imported beer segment has relatively high percentage of market share in US and is economically stronger than most of the local craft brewers. However, due to the growth in the craft brew market in the U.S., this segment has lost some market share. Craft brewers are taking advantage of several factors, such as lower transportation costs, quality and flavor of beers, proximity and familiarity with local consumers, federal and state tax incentives, higher degree of product freshness and crispness, etc.

Competition for craft beers is also present from the wine and spirits segment. The regular beer segment has lost about 1% of their market share to wine and spirits segment every year

since 2003. However, this trend is declining due to the recent economic downturn. As the numbers indicate, the craft beers segment has shown growth despite the economic crisis, indicating a bright future and potential for further growth in this industry. The Pacific Northwest and California are said to be the most competitive craft beer markets in the U.S. in both number of breweries and consumer awareness. The market is currently healthy and competitive, but specialists believe that soon this competition will be based on price, leading to a drastic decline in the quality and integrity of the products. This in turn can potentially damage the industry as the industry is primarily based on differentiation via quality of product(s). Craft brewers attempting to capture more market share are focusing on consumer awareness, redesigning their brands, aligning their product lines, and practicing sustainable development (http://www.konabrewingco.com/uploads/CBA_Kona_Partner.**pdf**).

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PETUUM

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ABSTRACT

This is a case about Petuum which is a Bismarck, North Dakota based organization which sells pet cleaning supplies. Pets are considered family members in households across the world. Many households have more than one pet, or mixture of several different kinds of pets. Along with the responsibility of caring for a pet comes the responsibility of cleaning up after a pet. Petuum's first product was a pet vacuum but since has expanded into other products as well.

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ASSIGNMENT OF INCOME: A PARTNERSHIP TAX CASE

Robert W. McGee, Florida International University

CASE DESCRIPTION

The primary subject matter of this case concerns the assignment of income in a partnership. The main issue is who is the owner of the income when a partner generates income from a source that is outside the normal scope of the partnership – the partnership or the partner who generated the income? A secondary issue involves determining when income is outside the normal scope of the partnership. The case involves a partner in a law firm (it could just as easily be an accounting firm or other kind of partnership) who changes firms and who assigns income generated at the old firm to the new firm. The case has a difficulty level appropriate for students taking a master's degree course in taxation. The case can be taught in 1 class hour. It should take approximately three hours of outside preparation by students.

CASE SYNOPSIS

George von Fahrquat, III comes from a long line of distinguished attorneys. Until recently he was a partner in Law Firm A, where he performed consulting services and brought in business for the firm. His compensation included a base salary plus a percentage of the business he brought into the firm. In the event he left the firm he would continue to receive a percentage of the income generated from the clients he introduced to the firm. He would not have to render any additional services to receive this income.

He recently left to become a partner at Law Firm B, where he would have a 20 percent capital and profits interest. His contract with Law Firm B required him to turn over any income he received from Law Firm A.

He was recently audited. For the year in question he received $50,000 from Law Firm A, which he promptly turned over to Law Firm B. The IRS considered the income he received from Law Firm A to be taxable to him. He asserts the income belongs to Law Firm B and that the income should be taxed to the partners of Law Firm B.

ACTIONS SPEAK LOUDER THAN WORDS? – A CASE ON THE DEVELOPMENT OF AUDIT COMMITTEE

Songtao Mo, Purdue University Calumet
Yifan Shi, KPMG China
Yajing Wang

ABSTRACT

An understanding of the changing auditing regulatory environment is vital in preparing accounting students to the challenges in the profession. The revised requirement of audit committee is one of the significant changes after the Sarbanes Oxley Act of 2002. This study provides a comprehensive description of the history of the audit committee and requires students to critically analyze the information and formulate logic arguments. This case is intended for use in an undergraduate or graduate auditing class. The case is designed to encourage students to conduct research on auditing related topics. Meanwhile, integrating the discussion of corporate governance into the auditing class can enrich student learning experience by stimulating critical thinking.

M&D SUPPLY CASE CASE "E" TEXAS TWO-STEP

Jeff Dyson, Lamar University
Kabir Sen, Lamar University
Vivek Natarajan, Lamar University

CASE DESCRIPTION

This is the fifth in a series of cases that focuses on entrepreneurial behavior in response to challenge and adversity. Each case examines a family's path to business success despite overwhelming personal and professional odds. Secondary issues include strategies and tactics employed to sustain the business in response to severely declining market conditions and changes in the competitive landscape.

What is it about the independent hardware, lumber, and home center industry that has allowed so many of its wholesalers and retailers to survive, while other independent merchants have failed? Is it due to a failure of leadership in the other industries, or is it because hardware retailers and wholesalers have done a better job of partnering and adapting to changing market conditions?

The ranks of independent hardware, lumber, and home center wholesalers and retailers have dwindled, yet a strong number remain – many of them expanding and boasting stronger-than-ever balance sheets. Such businesses are determined to be the preferred provider of the products they sell and of the services they provide. M&D Supply is such a company.

CASE SYNOPSIS

In Case "E," M&D's owner, Jeff Dyson, has just weathered a Big Box invasion. Jeff fears more Behemoths will threaten the company's single-store trade area. He decides M&D should diversify geographically. Jeff looks to his co-op, Ace Hardware, for partnership. The two entities form a Joint Venture for the purpose of opening stores in Southeast Texas. It is the perfect union of a Fortune 500 Company and an independent retailer. Ace provides resources M&D needs such as capital, site selection, merchandising, and marketing expertise. M&D leverages its experience and knowledge of the local market and develops the operational infrastructure. Jeff appoints his son Scott as General Manager of the Joint Venture.

Things are off to a good start when the first store opens in April, 2001. Performance is on track until the terrorist attacks of 9/11, which negatively impact sales. The Joint Venture's next store opens in November of 2004 and fails to meet projections. Then the Fickle Finger of Fate strikes when a blustery villainess enters the picture. Her name is Hurricane Rita.

Students are provided a series of dilemmas requiring them to develop, analyze, and prioritize the entrepreneur's alternatives. The case requires students to consider numerous personal, professional, and family business dynamics that come into play and to recommend courses of action.

IS IT KOSHER? NO, IT'S HALAL: A NEW FRONTIER IN NICHE MARKETING

Charles Rarick, Gideon Falk, Casimir Barczyk, and Lori Feldman
Purdue University Calumet

CASE DESCRIPTION

The primary subject matter of this case concerns niche marketing in the food industry. Secondary issues examined include political and religious influences on marketing activity and strategic marketing orientation. The case has a difficulty level of three, appropriate for junior level students. 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

With a global population estimated at approximately 1.56 billion, a relatively high birth rate, and growing affluence, the world's Muslim population represents an increasingly attractive consumer market. Muslims are expected to avoid certain activities and substances and these prohibitions have significance for marketing activities. This case explores the Islamic practices and restrictions that apply to food products, the difficulties of meeting differing international halal standards, and the opportunities for domestic and international firms to expand into the growing Muslim market.

INTRODUCTION

While many may think that Muslims live mainly in the Middle East, in reality, they do not. According to a 2011 report by the Pew Forum on Religious and Public Life, there are approximately 1.56 billion followers of Islam, which is both a religion and a culture. This represents approximately 23% of the world's population. An estimated 60 percent of Muslims live in Asia, 20% in North Africa and the Middle East, and the remaining 20% in various other places throughout the world (See Figure 1). While the Muslim population in the Middle East is sizable, large populations can also be found in Indonesia, Malaysia, India, Pakistan, Turkey, Nigeria, and other countries. In terms of followers, Islam is the second largest and fastest growing religion in the world.

Appealing to the Islamic consumer goes beyond the typical Middle Eastern countries. The European Muslim population has grown approximately 140% in a decade and outpaces that of non-Muslims. Approximately 30 million Muslims live in the Russian Federation. Muslim communities throughout North and South America are also large and growing. In the U.S. there are about 2.6 million Muslim adults and children, which represent 0.8% of the overall

population, according to the Pew Forum report. By 2030 that figure is expected to rise to 6.2 million or 1.7% of the U.S. population. These population increases point to a rise in purchasing power and issues concerning Muslim preferences for products and services.

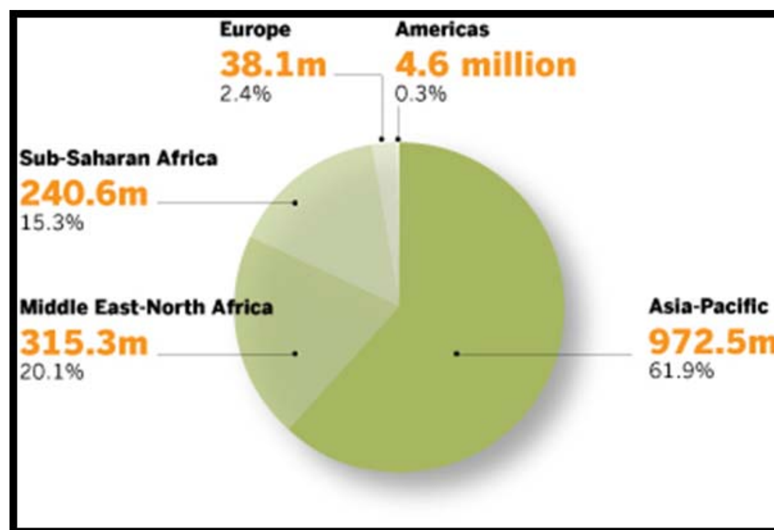
Regardless of location, Muslims follow a belief system built on five pillars:

1. Shahada – a testimony of faith which is the basic creed of Islam
2. Salat – prayer which is performed five times daily
3. Zakat – which means supporting the needy
4. Sawm – fasting which occurs from dawn until sundown during the month of Ramadan, and
5. Hajj – a pilgrimage to Mecca once during a lifetime for those who are able.

Strictly observant Muslims also follow the sharia, which literally means “path” or “way.” It is a framework that extends religious beliefs to private, social, and political life. Though aspects of sharia are common in the Muslim world, in practice followers do not always strictly adhere to them.

The differences in the manner sharia principles are practiced have implications for companies interested in serving the Muslim market, which cannot be considered homogeneous, except from a regional perspective. That market represents significant sums, estimated by Reuters at $560 billion for Islamic-approved food products. Many Muslim consumers actively seek out products with an Islamic brand. As such, three factors should pique the interest of marketers in serving this segment of the global marketplace. First the number of Muslims is increasing at a rapid rate; second, there appears to be an increased level of devotion among the followers of Islam to the religion’s teaching and prescriptions; and lastly, many parts of the world with sizable Muslim populations have developed significant purchasing power.

Figure 1: Global Muslim Population



Source: The Pew Forum on Religion and Public Life

HARAM AND HALAL

Islam, like other religions, prohibits certain actions by its followers. Muslims are prohibited from engaging in haram (haraam), the Arabic word for forbidden. Examples of haram activities would be using profane language, displaying certain images, drinking alcohol, and consuming proscribed food products such as pork. In addition, Muslims are expected to refrain from eating already dead animals, birds of prey, land animals without ears, blood, and animals improperly slaughtered. To avoid being considered haram, animal slaughter must be done in a manner that results in a quick and humane death. An animal's jugular veins and carotid arteries must be cut using a sharp knife so as to produce maximum blood flow, all done in the name of Allah (God). The process of food preparation called dhabiha dictates that slaughtering be conducted in a manner that reduces the animal's suffering. Sharia law also applies to food products, which may not contain additives that are not "clean" or untainted during processing, packaging, storage, transportation, or transaction. Full sharia compliance means that food production and logistics must be carried out to avoid contact with foods that are haram, that financing for the business selling the food is transacted with permissible funds, and that safety and hygiene meet religious standards. The opposite of haram is halal, or permitted.

The process of declaring a food product halal is not always clear and unambiguous. Issue of cross-contamination of halal and haram products, as well as products that may contain haram ingredients or additives are of great concern. For example, gelatins may contain pork, and extracts such as vanilla may contain alcohol, both of which are considered haram. There is also an issue concerning the stunning or anaesthetizing of the animal before its death as to whether it is halal or haram. Additionally, differing opinions exist concerning the use of automation in the slaughtering process, and calling out the name of Allah using a tape recording versus a slaughtering by hand with a person speaking the required words. Countries and certifying bodies differ in their opinions related to these practices. Having differing standards can result in problems for firms marketing internationally. For example, Islamic scholars in Australia declared that the stunning of animals was permitted and processing companies that used this practice could be certified. In Malaysia, however, this practice is considered haram. As such, the Malaysian government bans the import of Australian beef into the country. Food prepared according to Islamic law can be certified as halal. A number of certifying bodies that can attest to a product's halal status may exist in a country. Each has a mark that is applied to products to authenticate halal certification. However, certification is not global. An example of a Canadian certification mark can be seen in Figure 2. Halal marks can be seen on packaging and posted prominently in halal-observant restaurants.

Since there is no single unified authority in Islam, differences are found in the interpretations of its tenets. This leads to different certification standards being applied within and across countries. In addition, there is the problem of fraudulent use of halal certificates, a situation that has been reported in Malaysia and other countries. The certificates are only as good as the certifying body and its reputation. Reputation and fees for certification vary considerably. According to Koen dePraetere, general manager of the Belgian food processor Volys Star, "In

Europe there are many certification bodies and some have their heart in the right place. But others have their wallet in the right place." In the United States the leading certifying body is the Islamic Food and Nutrition Council of America (IFANCA). To be seen as legitimate, marketers will need to gain halal certification from the official agencies authorized to provide their mark in the countries in which they operate.

Figure 2
Halal Certification Mark

PROBLEMS AND OPPORTUNITIES

In the United Kingdom, KFC encountered difficulties when Muslim clerics began telling followers not to eat at the restaurants because their products were haram. KFC food processors stunned the chickens and used mechanical processing in their slaughtering process. While the Islamic Council of the Muslim League, a major voice in Islamic affairs, condones the use of stunning and anesthesia in the process of slaughtering animals, local clerics have their own opinions and direct followers accordingly. When there is conflict between the opinions of local clerics, marketing can become difficult. Uncertainty and conflict may cause consumers to avoid the products in question.

Given the sensitivity of political and religious feelings, marketers may find themselves caught in an unexpected and undesirable situation. In France, the fast-food chain Quick ran afoul of some politicians when it decided to remove all pork products from its menu and serve only halal meals in select markets. France has a sizable Muslim population, estimated at 5 million, and has experienced some political tensions relative to their cultural practices. The mayor in one French town decided to sue the restaurant chain for discrimination against non-Muslims.

Germany, which also has a large Muslim population, has been slow to embrace the Muslim consumer market. Some German retailers worry that putting Muslim-approved food in their stores will discourage non-Muslim customers. These fears and perceptions have led to fragmentation in the retail market along ethnic and religious lines.

At least one enterprising Muslim hoped to capture the niche market he felt was not being well served. In 2005, Hakim Badaoui began Beurger King Muslim in France and served an

entirely halal menu. The restaurant appealed to young Muslims who found eating at other fast-food chains difficult because of their faith. One young Muslim woman interviewed about her experiences stated, "I used to go to McDonald's once a week, but all I could eat was the Filet-O-Fish sandwich. Now, I come here." Unlike some brands such as Mecca Cola, which have developed in the Muslim community to protest American foreign policy and global influence, Beurger King Muslim was established to capture an underserved market. The trend towards an apolitical niche market appears to be growing.

Countries like the Philippines hope to capture the growing Muslim consumer market by introducing national standards to accredit companies that certify products as halal. By assuring standardization in certification, the Philippines hopes to attract customers in Muslim nations who may not be sure their products are really halal.

A number of international companies have also begun to take the Muslim market need seriously. Nestle, Colgate, Carrefour, Unilever, and other well-known firms have invested significant resources to serving this market. Nestle, for example, has devoted 75 of its 482 global processing plants to halal products. Nestle's halal sales are estimated to be in excess of $3 billion annually. Tom's of Maine, an American natural care products company, recently sought halal certification from IFANCA for most of its products. In addition to appealing to a growing market niche, the certification appealed to animal rights groups. While many American companies have made modifications to their foreign offerings, not as many have adjusted to accommodate halal requirements in the U.S. Jalel Aossey, director of Midamar, an American food brand and supply chain management company states, "You have to meet the requirements of the countries you're trying to target. It's like being a guest in someone's home." His viewpoint may be gaining increased popularity. At the World Halal Forum one can now find businesspeople in Western business attire mingling with robed and bearded Islamic scholars as they discuss the future of this growing and potentially lucrative market.

DISCUSSION QUESTIONS

How attractive are the American and European markets for halal products? Explain your answer.

Should firms use a global or a multi-domestic strategy to market halal products?

What opportunities and threats do U.S. and European companies face in marketing halal products?

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Available upon request

JOLLIBEE FOODS CORPORATION AND THE GLOBAL MARKET

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CASE DESCRIPTION

The primary subject matter of this case concerns the growth of a Filipino fast food chain. It started from a single ice cream store, which later moved into hamburgers, Filipino style. Over the years Jollibee, a multi-national corporation in the restaurant industry, expanded its operation both in the Philippines and in neighboring countries. At the end of 2010 it operated 2,316 stores in eight countries including the Philippines, China, Brunei, Vietnam, Spain, Indonesia, Dubai and the United States. It is now facing increased competition and a dilemma as to what direction it should go. A secondary issue examined in this case is Jollibee's unique business strategies. The case is written at 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 2- 3 hours of outside preparation by students.

CASE SYNOPSIS

The Filipino Company, Jollibee, is imitating McDonald's in some ways but has its own twist on offering unique products that emphasize local spices and local taste preferences. This fast growing restaurant chain has benefited from the increased demand for fast food in Southeast Asia and has developed a unique business strategy. This case examines Jollibee's success and how the company is successfully competing with McDonald's. With its rapid growth, the company is now ready to expand with new concept restaurants to the rest of the world.

INTRODUCTION

Jollibee Foods Corporation (JFC), known distinctively by its red and yellow bumble bee mascot, operates a number of concept restaurants in the Philippines and beyond. From its core business, a McDonald's-like restaurant, Jollibee has expanded into a pizza chain, fast food Chinese restaurants, bakeries, and breakfast bars. The company competes well with multinationals in the Philippines, and has begun a large expansion into the international market, including China and the United States. Jollibee, the original flagship brand, together with its additional product concepts, dreams of becoming a global powerhouse in the restaurant industry.

Jolibee's dreams will be challenging given the economic uncertainties that surfaced in 2009 and the 0.6% contraction in the world economy. With sound planning and leadership, however, the company is taking active steps to effectively manage its business. JFC's system-wide sales grew by 9.6% amidst weakened consumer spending in the Philippines and throughout most of the world. In 2009 Jollibee opened 168 new stores worldwide and even more impressively, opened 434 in 2010.

THE PHILIPPINES

The Republic of the Philippines is a country in Southeast Asia consisting of over 7,000 islands. The Philippines was "discovered" by Ferdinand Magellan in 1521, who claimed the islands for Spain. While Magellan met his death soon after arriving, Spain controlled the country for almost 400 hundred years. The Philippines came under the rule of the United States in 1898 when Admiral Dewey defeated the Spanish and Spain ceded the islands under the Treaty of Paris. While Tagalog, or Filipino, is the official language of the Philippines, English is widely spoken, especially among educated Filipinos. In 1935 the US government decided that the Philippines should become a self-governing commonwealth and the country gained complete independence in 1946. After a number of different political administrations, strongman Ferdinand Marcos ruled the country from 1965 to 1986, maintaining close ties with the United States. With increasing discontent among Filipinos over its government, citizens in the opposition movement organized a "people's revolution" in 1986, and Marcos was forced to leave the country. Political instability ensued for a short time, but democracy quickly took a firm hold in the Philippines. The newly-formed democracy could be described as somewhat fragile, having been forced to endure the stresses of political corruption and attempted coups.

The population of the Philippines is approximately 98 million, with an estimated population growth rate of slightly less than 2% per year. The Filipino people have a rich ancestral heritage that can be traced to populations from Malaysia, Indonesia, Spain, and China. The ethnic Chinese have been very influential in the Filipino economy. Filipino culture is rooted in Asian, Spanish, and American values.

Total GDP for the Philippines in 2009 was $161.2 billion, with a growth rate of 1.1%, as compared with the U.S. GDP growth rate of -2.4% for the same period. In 2010 the estimated GDP for the Philippines was $189.1 billion with a growth rate of 7.0%, as compared with an estimated U.S. GDP growth rate of 2.7%. Per capita GDP was $1886 in 2009 and $2077 in 2010. The currency of the Philippines is the peso (PHP), trading at 43.9 PHP in December 2010 and ranging between 40 and 53 PHP per U.S. dollar over the past five years.

HISTORY AND MISSION OF JOLLIBEE

What would eventually become Jollibee Foods Corporation was once an ice cream parlor named Magnolia, started by Tony Tan Caktiong in 1975 as a family-based business in the Philippines. Over time the company began offering hot meals and sandwiches. From this humble operation the concept of a fast food hamburger business was developed and Jollibee has

expanded in terms of revenue by means of a related (concentric) diversification strategy. In 1978 the company began a bakery and by 1986 it was operating its first international eatery in Taiwan. With the acquisition and development of additional restaurant concepts, Jollibee catapulted itself into an array of food service businesses including pizzerias, breakfast cafes, and Chinese fast food chains. Much of this diversification has come in recent years. While mostly known for its Jollibee hamburger franchise, the company has ventured into many additional fast food areas, significantly expanding its number of outlets and geographical coverage.

The mission of Jollibee Foods is simple: *To serve great tasting food, bringing the joy of eating to everyone.* Jollibee has a vision statement that expresses not only its values, but also its aspirations.

VISION

We are the best QSR...
The most endearing brand ...
that has ever been ...
We will lead in product taste at all times ...
We will provide FSC excellence
in every encounter
Happiness in every moment ...
By year 2020, with over 4,000 stores worldwide,
Jollibee is truly a GLOBAL BRAND

Jollibee has strategically established its brand by focusing on quality and customer service. It is committed to sustainability as a quality requirement, making Forest Stewardship Council (FSC) excellence a corporate priority. Its vision statement positions the company to be the best quick service restaurant (QSR) that has ever existed. JFC is concerned with consumer perceptions and actively manages them through extensive advertising, hiring of celebrity endorsers with wholesome images, and engagement in charitable works.

STRATEGIC BUSINESS UNITS AND EXPANSION

Jollibee Foods Corporation consists of a number of SBUs that cut across different food groups. Its system-wide retail sales for 2010 were 70.3 billion PHP ($1.6 billion USD), representing a 10.2% increase over 2009. Net income in 2010 was 3.1 billion PHP ($70.6 million USD), which grew by 16.3% over 2009 income.

At the core of JFC is Jollibee, the McDonald's-like hamburger restaurant. The unit sells a standard fare of lunch and breakfast items, but adds a local touch with products such as the Amazing Aloha Burger (slice of pineapple on top of a burger), the Jolly Hotdog Taco Style, Chickjoy with Rice, and Palabok (noodles with a spicy sauce, boiled egg, shrimp, and ground pork). Jollibee competes with McDonald's on the basis of price, local product offerings, and national identity. JFC also owns Chowking, a Chinese fast food restaurant chain with operations

in a number of countries. The firm has a pizza restaurant chain called Greenwich and a bakery chain called Red Ribbon.

JFC is looking internationally to increase sales and recently acquired Yonghe King, a "contemporary Chinese fast food" restaurant chain in China. It operates restaurants in the Philippines, China, Brunei, Vietnam, Saipan, Indonesia, Dubai, and the United States. The units in the U.S. are located in areas with large Filipino-American populations. JFC feels that international expansion is important not only to grow the company, but because it believes that "Being open to different cultures widens one's spectrum of tastes, style, and ways of seeing food." JFC's management feels that international expansion provides for organizational learning, and the leveraging of this learning into new markets. JFC is always searching for new product concepts, including its new pilot store called Tio Pepe Karinderia. This new restaurant concept serves very low-priced typical Filipino dishes, and seeks to compete with street vendors by offering a more hygienic and cost-efficient alternative.

Table 1. Select Data for Jollibee Foods Corporation, 2007 – 2010

Financial Summary

	2007	2008	2009	2010
Gross revenue	38,693,662	43,891,559	47,957,693	53,352,870
Net income	2,388,358	2,321,817	2,666,900	3,100,629
Return on equity	18.9%	16.4%	16.4%	18.1%

(Above amounts are in PHP 000, except for return on equity)

Number of Stores by Chain

	2007	2008	2009	2010
Jollibee	652	700	743	784
Chowking	402	418	431	438
Greenwich	245	231	226	223
Red Ribbon	212	239	242	259
Yonghe King	99	141	160	200
Delifrance	26	26	24	-
Chun Shui Tang	1	2	-	-
Monong Pepe's	2	9	15	12
Hong Zhuan Yuan	-	38	41	52
Caffé Ti-Amo	-	-	-	3
Mang Inasal	-	-	-	345
Total	1,639	1,804	1,882	2,316

Source: Jollibee Annual Report, 2009, page 34, and Jollibee 4th quarter 2010 report.

LOOKING AHEAD

As Jollibee looks to the future it seeks greater expansion opportunities. The company plans on opening more stores, and in more markets, including the Indian market. Jollibee has experienced great success in its relatively short history, but it now faces a number of challenges. Rising food and fuel costs are putting pressure on the company to raise prices. Consumer spending in the Philippines is starting to weaken, especially among lower income consumers as their disposable income has declined. In addition, the flagship brand is coming under attack from McDonald's as it continues to open more new stores in the Philippines. According to a 2007 report by Tony Lopez in the *Manila Times*, McDonald's beats Jollibee in revenue per store, and has been gaining ground through better customer service, better kid's meals, and better cost and supply chain management. Undeterred by these developments, Jollibee continues to look ahead by expanding its restaurant chains into new markets. It appears that the same pioneering spirit that enabled Mr. Caktiong to establish the first ice cream shop in 1975 lives on.

DISCUSSION QUESTIONS

1. What advantages does a domestic firm have over a MNC in its local market?
2. Can Jollibee Foods Corporation continue to successfully leverage its brands and products in other geographic markets, including the United States? Explain.
3. In what way should Jollibee expand? Which countries are likely to be profitable markets?
4. What strategic direction would you suggest for Jollibee Foods Corporation?

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IS IT SEX DISCRIMINATION? SOME REAL CASES FROM THE US BUSINESS ENVIRONMENT

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CASE DESCRIPTION

The primary subject matter of this case is gender discrimination, which is protected under title seven of the Civil Rights act of 1964. This case has a difficulty level of three intended for an upper division undergraduate course. 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

This case begins with an explanation of The equal pay act of 1963, Title Seven of the Civil Rights Act of 1964, with specific emphasis on sex discrimination as well as the Pregnancy Discrimination Act of 1978. This is followed by the description of three actual workplace situations that resulted in claims of gender discrimination. Students are asked to determine which of the cases is sex discrimination and which is not.

INTRODUCTION

Several federal laws protect against discrimination on the basis of sex. The fist of these laws is the Equal pay act. Passed in 1963, this act prohibits companies from paying differential wages for men and women in the same job (The Equal Pay Act, 2011). Shortly after this was passed, congress passed the Civil Rights Act of 1964. Title Seven of this act addressed workplace discrimination, and broadly prohibited employment discrimination based on basis of race, color, religion, national origin, or sex. The act was not limited to wages, but was instead focused on a variety of employment conditions, ranging for selection, placement, training, promotion, wages and benefits, work assignment and other terms and conditions of employment. (Title VII, 2011). In 1978, the Civil Rights Act was amended by the Pregnancy Discrimination Act. This law had the effect of extending sex discrimination law to include pregnancy and childbirth related conditions (The Pregnancy Discrimination Act, 2011). These laws, together, have the net effect of greatly restricting the ability of employers or their agents to discriminate based on sex. However, in spite of these laws, sex discrimination does still take place, requiring the intervention of the EEOC or the courts. In the following section, several actual cases are presented. Form the information in the case; you are to determine whether there is a legitimate case of discrimination.

CASES TO EXAMINE

You have recently been hired into an HR department at a major corporation. In order to teach you about sex discrimination, your company has given you five cases, each describing a situation that potentially could involve sex discrimination. Examine the following cases, and answer the questions that follow for each case.

Case 1 – Old Dominion freight line is a nationwide company involved in the hauling and delivery of packages. They employed a woman named Deborah Merritt as a long-haul, over the road truck driver. For several years, she worked as a long-haul (city to city) driver. She eventually expressed interest in a pickup and delivery position (within one city) so she could spend nights and weekends at home. When a position became available in her home city of Lynchburg, VA, she applied for it. The terminal manager claimed he did not have the authority to fill the position, but then hired a less experienced male driver. This happened again the next year. She was told that "it was decided and they could not let a woman have that position", "the company did not really have women drivers in the city", "the Regional VP was worried about hiring a female pickup and delivery driver because women were more injury prone and he was afraid a female would get hurt" and lastly that "the VP didn't think a girl should have that position". Finally, on her third attempt, a year later, Merritt was given a pick-up and delivery job. However, unlike male hires, she was put on a 90 day probationary period ant informed that she could lose her job if performance problems arose. Her male counterparts were not held to this standard (Simon, 2010). More than two years after she had taken the pick-up and delivery position and performed it without problem, Ms. Merritt injured her ankle. Her doctor recommended light-duty work for a couple months then gave her a full approval to return to work. However, instead of allowing her to return to her job, the company required her to take a Physical Ability Test (PAT). Male employees were not required to take this test after injuries. She failed the test, however, reasons given included her inability to place a box on a shelf that was too high for her to reach. Ms. Merritt, is 5"1'. On another test, she was hindered by people bumping into her while she attempted the test. During the case, it also was pointed out that Old Dominion had 3100 Pickup and delivery drivers. Six of them were female. (Searcy, 2010)

QUESTIONS

1) Is there a prima facie case of discrimination?
2) Do you think the employee has a winnable case of sex discrimination?

3) What could the company have done to eliminate sex discrimination problems if there are any?

Case 2 – On October 4, 2008 maximum security prisoner Joshua Duane Barnes escaped from the Potter County Detention Center in Amarillo, TX. (Gamm, 2010). Prison guard Ruth Martinez was fired as a result of the breakout. She alleges that the firing was due to the fact she is female. The prisoner, Mr. Barnes, has a history of escaping from prison, with this being his

third successful attempt (Pittman, 2010). However, the prison indicates that Ms. Martinez had improperly left her post without authorization; leaving Mr. Barnes unsupervised while he escaped. (Detention center, 2008).

QUESTIONS

1) Is there a prima facie case of discrimination?
2) Do you think the employee has a winnable case of sex discrimination?
3) What could the company have done to eliminate sex discrimination problems if there are any?

Case 3 – In April of 1997 Randall Oakstone terminated a romantic relationship with Postal Service co-employee Ramona Philbrook. Their tempestuous love affair ended badly and influenced the work environment negatively as well. Following the break-up there was little direct contact between the two employees. In early 1999 Philbrook objected to Oakstone's request to their supervisor to work during her shift hours as an expeditor. During this deposition, her EAP counselor told her to stay away from Oakstone. Further, she had vocalized this to the manager of distribution operations, became visibly upset and told the manager that Oakstone had been abusive and she was afraid of him. The manager determined that this claim was unsubstantiated after her investigation.

Oakstone had repeatedly requested training for a new expeditor position with the post office, but was denied due to the problematic working relationship with Philbrook. However, Oakstone was promised some training in the inside expeditor position at the earliest opportunity, which Philbrook complained about to Wallace Smith in management. She threatened to leave the company and take the case to her lawyer and before the EEO. Shortly thereafter, Smith held a meeting with Oakstone and Philbrook and pointed them toward the Employee Labor Manual, which stated that employees must work together in a professional manner.

During this time the Postal Service adopted a Linear Integrated Package Sorter (LIPS) technology, practically eliminating Oakstone's job due to the automation. Oakstone could have been reassigned but was not. Instead, he was given insider expediter training after being informed of this elimination. At the same time two women were trained as expediters. One of them was trained while Oakstone's request for training was pending.

QUESTIONS

Could either party (Oakstone or Philbrook) establish a prima facie case of discrimination?
Did sexual harassment occur?
What, if anything, could the company have done prior to prevent this situation?
What, if anything, could the company have done to manage the situation better?

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FARGO DATA SERVICES

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ABSTRACT

This is a case about Fargo Data Services which is a computer services company based in Fargo, North Dakota. The following are the services that they offer: 1. Access to sanitized data stored on their systems: They will create and maintain a vast quantity of test data accessible through externally facing interfaces. 2. Data which can be loaded into clients systems: Through ETL and various custom programs data can be copied from their data storage network to systems within the internal network of a company for use in application testing. 3. Integration of data sanitization components: Custom components which can be introduced into a company's local network acting as an interface between internal data and the accessing application to sanitize and de-identify data for testing purposes. And 4. General consulting regarding data management: Provide consulting services to assist companies in the creation and maintenance of dedicated test data.

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KYLE'S KAYAKS MANAGERIAL BUDGET CASE: SALES TO FINANCIAL STATEMENTS

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CASE DESCRIPTION

The primary subject matter of this case concerns the budget cycle used in a manufacturing facility. Secondary issues examined include the interrelationships between each component of the budget. For more advanced students, decision making involving cost cutting, price setting, and ethical considerations is also included. The case has a difficulty level of two, appropriate for sophomore level but may be slightly altered to accommodate students at levels three (junior), four (senior), or even five (first-year graduate). 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

Sarah has just been hired by Kyle's Kayaks, a manufacturing company that specializes in the production of one model of whitewater boats. An avid kayaker herself, Sarah is excited to begin her career with the company. The company's controller, Jessica, has assigned Sarah to the task of creating the company's budgets for the year. Sarah understands the importance of accurate cost figures to the survival or at least continued prosperity of a manufacturing facility. She has recently learned, though, that her success with this task will not only influence her future promotion opportunities but, even more importantly, her continued employment with Kyle's Kayaks.

BODY OF CASE

Sarah has decided to begin her accounting career at a manufacturing company in its cost accounting department. She is an avid kayaker and has been a loyal customer of Kyle's Kayaks' products for a number of years. As a result of this personal connection, she is even more eager to begin employment with the company. As one of her first tasks, she has been asked to assist the chief financial officer (CFO), Jessica, with the oversight of the annual budget preparation. Sarah is excited about this high level opportunity.

On the first day of her new project, Sarah was called into Jessica's office to discuss the details for the budget to which she had been assigned. Aside from providing an overview of the budgeting process in the company, Jessica was quick to inform Sarah of the fiasco that had occurred the previous year as a result of the former budget coordinator, Steven's, failure to consider all of the variables that could impact the overall budget as a result of the interrelatedness of the specific pieces as well as the financial statements. As part of the meeting,

Jessica stressed the importance of this task in terms of Sarah's continued employment with the organization. Shocked by the impact of the assignment on her career and her impending dismissal if she should fail, Sarah exited Jessica's office with the same determination she had demonstrated when learning to first paddle and then roll her kayak.

Before she could actually begin preparing the budgets, Sarah first needed to recall the steps and individual pieces involved in the budgeting process as well as to identify the necessary contacts within the organization itself. She remembered taking Principles of Managerial, Cost, and graduate level Managerial Accounting classes and determined that her textbooks would be an excellent starting point for deciding which budgets needed to be prepared and the relationships between them. She was also given access to last year's budget workpapers to assist in the endeavor. Sarah will utilize those reference documents to locate which employees will be best able to assist her in compiling the information needed to complete the budgeting process.

After doing some research, Sarah decided to complete fourteen budgets in the following order: a sales budget, a schedule of expected cash collections, a production budget, a direct materials budget, a schedule of expected cash disbursements for hulls, a schedule of expected cash disbursements for seats, a schedule of expected cash disbursements for drain plugs, a direct labor budget, a manufacturing overhead budget, an ending finished goods inventory budget, a selling and administrative budget, a cash budget, a pro forma income statement, and a pro forma balance sheet.

Using some of the organizational skills she learned from her accounting professors in college, Sarah designed a step-by-step system for preparing the budgets. After consulting with Jessica, she decided to prepare all the budgets on a quarterly basis.

Budget #1: Sales Budget

Travis is the manager in charge of sales. As Sarah remembers from her accounting classes, the entire budget is only as good as the sales budget. It "drives" the remaining budgets and sets the goals and objectives for the company for the upcoming year.

Sarah has asked Travis to provide the number of kayaks the company is expecting to sell each quarter for the upcoming year. In addition to the current year budget numbers, Sarah has also obtained sales figures for the two quarters prior to Quarter 1, Year 1 (Q1-Y1), the budget year, as well as two quarters after Q4-Y1 (the last quarter of the budget year) to successfully complete budgets later on in the process.

The kayaks had been selling for $800 in Y0, the year prior to the budget year, and Travis informed Sarah that the kayaks would continue to sell for that price in Y1 and in Y2. Because the economy is in such a slump, the business decided not to increase the sales price in the hopes of keeping sales volume high. The budgeted sales numbers Travis provided were as follows:

Table 1 SALES BUDGET DATA	
Quarters:	Budgeted Sales in Units
Q3-Y0	1,500
Q4-Y0	800
Q1-Y1	500
Q2-Y1	3,000
Q3-Y1	2,000
Q4-Y1	1,000
Q1-Y2	600
Q2-Y2	2,500

Budget #2: Cash Receipts Budget: Schedule of Expected Cash Collections

Sasha is the accounts receivable manager. According to her, the expected accounts receivable balance at the beginning of Q1-Y1 is $632,000. Having recently completed a statistical analysis of the collection pattern of receivables, she has provided the following estimates for cash receipts: 20 percent is expected to be collected in the quarter of sale with 70 percent in the next quarter followed by the remaining 10 percent two quarters after the sale.

Budget #3: Production Budget

Bob, the production manager, has determined from his 15 years of experience in the business that the desired ending inventory should be 15 percent of the next quarter's sales. There is no finished goods inventory on hand at the beginning of Q3-Y0.

Budget #4: Direct Materials Budget

Kyle's Kayaks' production guru, Bob, also believes that the desired ending inventory of raw materials is equal to 10 percent of the next quarter's production needs. Bret, the cost accountant, informed Sarah that the production cost of each hull is $225, of each seat is $73, and of each drain plug is $2. Each kayak requires one of each of those parts.

Budget #5: Schedule of Expected Cash Disbursements for Kayak Hulls

The accounts payable supervisor, Andrew, had further information regarding payment of the raw materials. According to him, cash disbursements for the hulls occur 25 percent in the quarter of purchase with 75 percent paid in the quarter immediately following purchase.

Budget #6: Schedule of Expected Cash Disbursements for Kayak Seats

Andrew was again put on the spot and asked to provide data related to kayak seats. He has cited payment terms as 50 percent in the quarter of purchase with 50 percent paid in the quarter immediately following purchase.

Budget #7: Schedule of Expected Cash Disbursements for Kayak Drain Plugs

Andrew has proudly conveyed that drain plugs are paid for immediately upon purchase.

Budget #8: Direct Labor Budget

Chris, the human resource management supervisor, has notified Sarah that the wage rate is $10 per direct labor hour (DLH). From information provided by Bob, Sarah understands that each kayak requires two hours of direct labor.

Budget #9: Manufacturing Overhead Budget

Jessica's assistant keeps track of all overhead costs for the company. Based on her records, she has noted that variable overhead equals $4 per DLH while fixed overhead totals $50,000 per quarter. Included within that fixed overhead is depreciation expense of $15,000 per quarter.

Budget #10: Ending Finished Goods Inventory Budget

Sarah realizes that in order to correctly value the ending inventory and cost of goods sold on the financial statements, she must determine the total product cost for each kayak.

Budget #11: Selling and Administrative Budget

Again, Jessica's helpful assistant was able to provide us with information for the selling and administrative (S&A) budget. Variable S&A expenses are $150 per unit. She also provided the following data regarding the fixed S&A expenses per quarter.

Table 2
FIXED S&A EXPESNES PER QUARTER

Advertising	$5,000
Executive Salaries	$250,000
Insurance	$8,000
Property Taxes	$7,000
Depreciation	$5,000

Budget #12: Cash Budget

Fred, the company's treasurer, informed Sarah that the beginning cash balance at Q1-Y1 is expected to be $10,000. The required minimum balance at the end of each quarter is $10,000 as well. If any borrowing is necessary, such loans are taken out at the beginning of the quarter. No loans may be repaid until the end of the quarter. The interest rate on all borrowings is 10 percent.

Budget #13: Pro Forma Income Statement

Sarah noted the following in regard to the income statement: Sales will come from Budget #1, S&A expenses may be found in Budget #11, and interest expense is carried over from Budget #12.

Budget #14: Pro Forma Balance Sheet

Jessica's assistant provided Sarah with the following beginning balance sheet for the company.

Table 3 BEGINNING BALANCE SHEET	
Kyle's Kayaks Balance Sheet As of 1/1/Y1	
Cash	$10,000
Accounts Receivable	632,000
Inventory - RM ($300 x 88)	26,400
Inventory - FG	26,902
Property, Plant, and Equipment	200,000
Less: Accumulated Depreciation	(40,000)
Total Assets	$855,302
Accounts Payable	
Hulls	$129,431
Seats	27,996
Total Liabilities	$157,427
Retained Earnings	697,875
Total Liabilities and Retained Earnings	$855,302