Volume 12, Number 2 *2005*

Allied Academies International Conference

Las Vegas, Nevada
October 12-15, 2005

International Academy for Case Studies

PROCEEDINGS

Volume 12, Number 2 *2005*

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A PROPOSED CURRENCY ARRANGEMENT FOR PALESTINE

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CASE DESCRIPTION

This case deals with a country's currency regime, that is, its arrangements regarding the currency to be used in the country. The objective is to introduce students to the different currency arrangements that are possible and to the advantages and disadvantages of each, to provide them with additional experience researching international topics on the internet, and especially to the use of information available through the International Monetary Fund and the World Bank.

The case is appropriate for use in an international economics or international finance class. Some aspects, e.g., those that deal with managing currency value, may be of interest to an advanced macroeconomics class. The case has a difficulty level of four, and should take one or two class hours for discussion. Students will require four to six hours of preparation time.

CASE SYNOPSIS

One decision a country must make regarding its economy is what type of currency regime it will adopt. That decision and the world's response to the stability or weakness of the country's currency can dramatically affect the lives of its citizens.

Countries have been relatively active in the last several years in changing and adjusting their currency regimes. Students are likely to be aware of some of those changes; e.g., the euro was introduced as a cash currency replacing the national currencies of twelve European countries, Ecuador and East Timor "dollarized", and Argentina abandoned its currency board, adopting a floating currency regime, all in 2002. Students may also know that China recently adjusted its dollar "peg", that Turkey revalued its lira (1 new Turkish lira = 1,000,000 old Turkish lira), or that the Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) plan to unify their currencies in the next few years. Although students may have heard of the "gold standard" and of floating exchange rates, they will not generally be familiar with the variety of exchange rate regimes that a country can choose from, nor with the factors that affect the decision.

This case presents those issues in the context of a future independent state of Palestine. As the formation of an independent Palestinian state appears to be only a matter of time, the question of an appropriate currency regime is one that will, in fact, be answered in the not too distant future. This case allows students to evaluate the same question that policy makers governing Palestine will consider.

THIS PIZZA PARLOR'S FOR SALE

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CASE DESCRIPTION

The primary subject matter of this case concerns the human complexities of deciding whether or not to purchase a small business. Secondary issues are: determining the value of a business, evaluating the pros and cons of small business ownership, romance in the workplace, interpersonal relations, ethics, and small business management. The case has a difficulty level of four. The case is designed to be taught in one class hour and is expected to require one hour of outside preparation by students.

CASE SYNOPSIS

Ann graduated from college with Bachelors of Business Administration Degree in General Management. She was also recently divorced and had a settlement check from the separation of the marriage assets. She returned home to care for her ailing father and started to work part time for Antonio's Pizza. She is at a crossroads in her life and must decide what to do with her newfound freedom and education. Working at Antonio's is like going back in time since she worked there as a teenager. As a teenager, Ann had a crush on the owner of the pizza parlor. The pizza parlor owner asks her if she would like to buy the business. She is excited about the possibilities and plots strategy for the new establishment. The decision focus of the case is whether Ann should or should not purchase Antonio's Pizza.

WHAT NEXT FOR KROGER?

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CASE DESCRIPTION

This case focuses on the goals and strategy needs of the nation's largest grocery store chain. The subject matter is appropriate for courses in retailing, marketing management, marketing strategy, and management problems. The case is suitable for junior and senior undergraduate students and has a difficulty level of 4/5. It can be used for a 75-minute class discussion session, a take-home exam, or as the basis for team oral and written presentations.

CASE SYNOPSIS

The Kroger Company has retail stores in 35 states. Its retail activities focus primarily on supermarket customers, wide assortment of grocery products, moderate assortment of services, low prices, many locations, and savings-oriented promotions. Management wants the company to continue to be the largest supermarket chain in the nation. However, Wal-Mart has become the largest seller of groceries in the nation, based on dollar sales. The company is also under pressure from discount membership warehouse chains and traditional supermarket chains. Consequently, adjustments are needed in Kroger's strategy. Students are asked which changes should be made in Kroger's publics, products, places, prices, promotions, processes, and performances.

ENTERPRISE NATIONAL BANK: A STUDY IN COST CONTROL

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CASE DESCRIPTION

The primary subject matter of this case concerns cost control. Secondary issues involve considerations of bank profitability; In addition, decisions must be concerning goals for the bank and how they relate to peer organizations. The case has a difficulty level of three, appropriate for junior level students. It is designed to be taught in two and one-half to three hours and is expected to take from four to six hours of student preparation.

RYANAIR (2005): SUCCESSFUL LOW COST LEADERSHIP

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CASE DESCRIPTION

The primary subject matter of this case concerns strategic management in the airline industry in Europe. Secondary issues examined include international marketing, operations management and business ethics. The case has a difficulty level of four or five and the case is designed to be taught in one ninety minute class session. It is expected that students will need to devote three to four hours of outside preparation for the class discussion.

CASE SYNOPSIS

Ryanair is a twenty-year old international air carrier based in Dublin, Ireland. It is now the largest low cost airline in Great Britain and Europe and has modeled its operations (since 1991) on the very successful Southwest Airlines Low Cost Leadership model. Ryanair's CEO – Michael O'Leary – is an accountant by training, but a combative entrepreneur by inclination. He has angered trade unions, government officials and competitors with his "bare knuckle" tactics but has achieved dramatic growth and profitability in the very competitive airline industry.

As of the end of the year 2004, Ryanair was flying 25 million passengers annually with a staff of less than 2500 personnel. Ryanair flies only Boeing 737s and is rapidly transitioning to the newest 737 models – the 737-800. Challenges to the airline at the end of 2004 included escalating fuel costs, intensity of competition and the sometimes less than favorable attitude of the regulatory bodies in Great Britain, Ireland and the EU.

INTRODUCTION

On Thursday, May 26, 2005 Ryanair Holdings, PLC (Ryanair) celebrated its 20th birthday in a central Dublin hotel with a birthday cake and a party. At the celebration, Ryanir's CEO – Michael O'Leary – confidently predicted that Ryanair would overtake British Airways by carrying 3.5 million passengers a month in 2005. He went on to say, "The very fact that a Mickey Mouse Irish airline can start in a field in Waterford 20 years ago, and in 20 years, overtake the world's self-styled, self-proclaimed favourite airline is testament to the demand for low-airfare travel around Europe." (Business Ticker, 2005)

EARLY HISTORY OF RYANAIR

Ryanair was founded in July, 1985 by Cathal and Declan Ryan with the financial backing of their father, Tony Ryan. The elder Ryan had, for many years, been Aer Lingus' leasing manager and had gone on to found Guiness Peat Aviation which eventually became the largest aircraft leasing company in the world. Ryanair began operations with a staff of 25 and a single 15-seat Bandeirante turbo-prop flying between Waterford and London. In 1986 Ryanair received permission from the regulatory authorities to begin flying four flights a day on the Dublin-London route with two 46-seat

BAE748 turbo-props. In doing so, they challenged the high cost monopoly of British Airways and Aer Lingus with fares that were set at half the prevailing fare of £209. Ryanair's strategy (initially) was to offer simple, low-cost fairs and exemplary customer service. In 1986 (the first full year of operations) they flew 82,000 passengers and began negotiations to acquire their first jet aircraft and additional routes.

During the later part of the 80s Ryanair continued to compete vigorously with British Airways and Aer Lingus while adding additional routes and jet aircraft. By the end of 1989 Ryanair had 6 BAC-111 jets and 3 ATR 42 turbos. In 1990 Ryanair suffered a £20 million loss and was forced to completely restructure. A new, brash CEO – Michael O'Leary – was brought in to manage the turnaround and the Ryan family invested an additional £10 million. O'Leary, at the suggestion of Tony Ryan, visited Southwest Airlines in Dallas, TX to learn the fundamentals of Low Cost Leadership in the airline industry. Southwest, of course, was by far the most profitable of the American carriers and their business model was quite different than the traditional flagship carriers.

Gulf War I (Desert Storm) broke out in January of 1991 and airline traffic around the world collapsed. Despite the decline in overall airline traffic, Ryanair made a profit of £293,000 for the year and carried 651,000 passengers with a total workforce of 477 people. In May 1991, Ryanair switched its London base from Luton Airport to Stansted Airport in Essex. By 1999, Ryanair had added a number of European destination, had switched the aircraft fleet to Boeing 737s and carried over 5 million passengers – profitably.

INTO THE 21ST CENTURY

In January 2000, Ryanair introduced Europe's largest travel website – www.ryanair.com. Within three months the site was recording 50,000 bookings per week The web site also facilitated car and hotel rentals, rail services and travel insurance at low prices. In September, the first new base since 1991 was established at Glasgow Prestwick (Scotland) and three new Boeing 737-800s were stationed there. The base provided Scots customers direct flights to Paris, Frankfurt, Dublin and London. In 2000, Ryanair carried over 7 million passengers with a workforce at year end of 1,262 people. Ryanair had, by the end of 2000, formalized its business model to include:

- All Boeing aircraft (primarily 737-800s)
- No "free" amenities such as snacks and drinks.
- Non reclining seatbacks.
- Quick flight turnarounds – averaging 45 minutes.
- An in-flight magazine that was really a catalog for food, beverage and a multitude on duty free products – sold at a considerable profit by the cabin attendants.
- Minimum baggage allowances.

In 2001, Ryanair opened its first European base at Brussels' Charleroi Airport with five more new Boeing 737-800s. Service was provided from Charleroi to Dublin, London, Glasgow, Shannon, Venice, Paris and Carcassonne (France). The agreement at Charleroi was negotiated with airport authorities at a considerable savings in landing fees and gate charges in addition to subsidies for Ryanair. Despite the cost advantages, many predicted failure for Ryanair because the airport is located about 65 km the capital (Brussels). This, however, was not the case. In August, the airline carried more than 1 million passengers – more than the total passengers carried in the year 1993. The terrorist attack of September 11th marked a downturn in airline traffic around the world and an enormous upward spike in the cost of oil – leading to substantial increases in operating cost for all airlines. Ryanair carried over 9 Million passengers in 2001 with a staff of 1,477 at year end.

Frankfurt (Hahn) was selected as the second European base in 2002. It was necessary to prevail in the German courts to overturn Lufthansa's high price monopoly of German aviation and customers responded enthusiastically. During this year, Ryanair increased an order at Boeing from

45 to 125 737-800s with an option for an additional 125 aircraft. In 2003, Ryanair acquired Stansted-based Buzz Airlines from KLM and as a result of the acquisition, got access to an additional 11 French regional airports. By 2004, Ryanair was the largest low cost airline in Europe flying almost 25 Million passengers with a staff (at year end) of only 2,288.

RYANAIR'S VISION AND MISSION

Ryanair does not publish a formal vision or mission statement, but in accordance with Jack Welch's advice, "Strategy is simply finding the big aha and setting a broad direction…" Michael O'Leary's broad direction – communicated in public statements -- is to simply continue to be the largest Low Cost Leader in the European airline industry and to carry 50 million passengers by 2009. Implementing this vision is a function of many individual tactics including an absolute dedication to low cost performance in every element of the value chain, quick gate turnarounds, non-union operations, performance-based incentive compensation plans, standardization on one type of aircraft and flying (in most cases) to secondary airports which provides significant savings for Ryanair.

BUSINESS ETHICS

Despite its remarkable success, Ryanair and particularly Michael O'Leary have been criticized on a number of issues. One of the areas of concern is human resource management. Ryanair is a non-union operation based in Dublin, Ireland. Ireland, of course, is a strongly pro-union environment. Taoiseach (head of the Irish government) Bertie Ahern described O'Leary's orientation toward labor as "tooth and claw capitalism" during the baggage handler's strike at Dublin Airport in 1999. In addition, compensation for pilots and flight attendants is comprised partly of salary and partly based on efficiency issues such as number of flight segments flown and, for flight attendants, amount of revenue generated from sales of items in the in flight magazine.

O'Leary has been a harsh critic of government officials in Ireland and Europe. He is particularly disdainful of officials at Aer Lingus (www.aerlingus.com) – Ireland's publicly owned airline and officials at the airline authority (Aer Rianta). As a result of the fees imposed by the Irish government, Ryanair has actually reduced the number of flights in its home country over the last four years.

A recent criticism of Ryanair was its refusal to supply wheel chairs for disabled passengers at Stansted airport. The airline argued that this provision was the responsibility of the airport authority and that 87 of the 93 airports that they fly to provide wheelchairs for those requiring them. In 2004, a judge ruled that the responsibility should be shared by the airline and the airport owners.

Perhaps the most significant (potentially costly) criticism of Ryanair was the deal they negotiated for landing rights at Charleroi. In February, 2004, the European Commission ruled that 4 million of the 15 million in incentives paid to Ryanair constituted illegal state aid. In October, Ryanair agreed to put 4 million in an escrow account pending its appeal of the ruling.

OPERATIONS

In 2004, Ryanair achieved a number of important milestones. They launched two new European bases (Rome and Barcelona) and added 73 new routes bringing their total to 150 routes. They took delivery of 18 new Boeing 737-800s and acquired a competitor – Buzz Airlines from KLM. In July 2003, they carried a record number of passengers – 2 million --and for the year out carried British Airways in the UK/European market. At the end of the year they had 2300 employees and an industry leading 10,049 passengers per employee.

FINANCIAL DATA

Table 1: Income Statement (all amounts 000)		
	Year 2004	Year 2003
Total operating revenues	1,074,224	842,508
Total operating expenses	(803,373)	(579,034)
Operating profit	270,851	263,474
Profit for the year after adjustments	206,611	239,398
Source of data: Ryanair (2004) Annual Report		

Table 2: Balance sheet information (all amounts 000)		
	Year 2004	Year 2003
Fixed assets	71,994	71,994
Current assets	533,859	526,910
Total assets	605,853	598,904
Other liabilities	35,172	35,172
Equity	570,681	563,732
Total liabilities and equity	605,853	598,904
Source of data: Ryanair (2004) Annual Report		

INDUSTRY COMPETITORS

Aer Lingus Group Plc (AL) is owned (85%) by the Irish government. They fly about 7 million passengers per year to 50 destinations in Ireland, the UK, the US and Europe. In 2004 they generated $1,236, 900,000 in revenues with 3,906 employees. AL began flight operations in 1936 with De Haviland biplane, flying between Dublin and Bristol, England. In 1958, AL bought Aerlinte Eireann and began Atlantic service to New York City. The airline grew rapidly until 1993 when revenues and profits eroded substantially. A restructuring plan was introduced and the Irish government invested an additional 222.2 million in equity. Following the financial crisis related to the September 11, 2001 terrorist attacks, AL implemented a survival plan which included a staff reduction of over 2,000 employees, a pay freeze and sales of non-essential assets. The airline also adopted a new lower fare strategy which has resulted in significant increases in revenue and profits.

British Airways Plc (BA) is a very large, full service airline based in Hammondsworth, England. It traces its history back to 1919 when its predecessor, Aircraft Transport and Travel, launched air service from London to Paris. Today, BA flies to 154 destinations in 75 countries with a fleet of 300 aircraft. In 1998, BA invested $25 million in a new, low cost airline subsidiary named Go. Go was headed by an American woman, Barbara Cassinni, and had an eventful five year history till it was sold (in 2003) to Stelios Haji-Ioannou, owner of easyJet, for $375 million. Interestingly, the market cap of BA is slightly less than the market cap of Ryanair – a much smaller airline.

easyJet Plc (EJ) is primarily owned by Stelios Haji-Ioannou and began operations in 1995 when Stelios – as he likes to be called – was 28 years old. EJ began as a low cost airline, although it does offer some amenities not offered by Ryanair. In 1998, Stelios founded easyGroup to extend the low cost concepts used at easyJet. easyGroup is invested in hotels, car rentals, internet cafes, credit cards and is constantly exploring additional opportunities. EJ flies 100 Airbus aircraft to 70 destinations and expects to fly 30 million passengers in 2005 in Europe and the UK.

Other competitors include Sir Richard Branson's Virgin Express, Lufthansa (Germany's flagship airline), Air France and the 60, or so, small airlines in Europe that have been created since the EU deregulated the airline industry in 1998.

CONCLUSION

It was March 17, 2005 – the start of the four day national holiday honoring St. Patrick, Ireland's patron saint--and Michael O'Leary was stretched out on a couch watching an old rugby match being replayed on the telly. On a yellow legal pad, O'Leary had jotted down issues that needed consideration at Ryanair: fuel prices, expansion to Eastern Europe, his future at Ryanair and the regulatory battles with Irish politicians and the EU.

REFERENCES AVAILABLE UPON REQUEST

START-UP CULTURE AT TOPS

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CASE DESCRIPTION

The primary subject matter of this case concerns personnel issues in a start –up company. Secondary subject matter includes HRM policies and procedures, organization culture, sexual discrimination, leadership, and discipline. The case has difficulty level of three (junior level). The case is designed to be taught in one class hour and is expected to require three hours of preparation.

CASE SYNOPSIS

Recently, a fired supervisor is claiming sexual discrimination in her dismissal involving alcohol. During her off hours, the supervisor had entered the building where she worked after a drinking bout with her friends. The owners had recently asked the manager to develop a personnel manual to provide guidelines for all their personnel's behavior. The store employed most young people, and the owners were concerned about the work environment. The manager had tried to create a culture that promoted fun, a high level of job satisfaction and company performance. The owners without proper leadership, polices and procedures this kind of atmosphere could lead to inappropriate behavior and mistreatment of employees. The dismissal also raises questions of progressive discipline, management's right to discipline employees of the job, social responsibility, hiring practices, and an open work environment.

THE TERMINATION

Dave Davig, a co-owner of TOPS, had just hung up the phone and was wondering what he should do. He just received a disturbing phone call from his partner, Terry Coffman. It seems one of their company's best supervisors, Sarah, who had been dismissed a couple of weeks earlier has filed a complaint with the local employment security office claiming termination without just cause and is asking to be reinstated with back pay. Even more disturbing was a letter they had received from a professor at a local university at which both partners taught. The content of the letter explained that the terminated supervisor was a student at the university and had complained to her professor that she had treated unfairly. The professor taught industrial psychology and was sure that Sarah had been a subject of sexual discrimination. In addition, the professor was known to the partners as an activist in the feminist movement and was encouraging Sarah to go to the newspapers with her complaint and encouraging her to bring suit against TOPS.

THE START-UP

TOPS was a drive-through fast food restaurant that had opened just six months before the termination incident occurred. Dave, a Small Business Development Director, had been approached by the owner of a well-known franchise to evaluate his plan to start opening smaller versions of the fast food chain. The proposed restaurant chain, Checkers, would have a limited menu, be strictly drive through, and sell ninety-nine cent hamburgers. Shortly after helping evaluate the proposal, Dave was approached by Terry Coffman with a similar idea. Terry's son, Bob, worked for a local food distributor who processed hamburger patties and sold them to local chain restaurants. The food distributor had his pulse on trends in the market and was gearing up for a growth in the type of fast food concept Dave had recently evaluated.

Dave and Terry had been business partners before, and Terry thought they should look in to developing a chain of their own. Terry's son had the inside information on who was planning to open up this type of restaurant, where they would be located, and what it would cost to build and operate one because the company he was working for would be a primary supplier. Terry felt they could catch the trend in its infancy and use his son's position and knowledge to gain an edge over the other start-up firms. After five months of planning, they opened up their first restaurant in late summer right before school started.

Although not a new concept, restaurants of this type were becoming popular. Within a year, six different companies had opened up fifteen new stores in the greater metropolitan area of Nashville, Tennessee, and similar operations were beginning to spring up through the southeastern and mid-western regions. Three other entrepreneurs had opened similar restaurants before TOPS opened theirs. Dave and Terry felt confident the insight his son had gained from the other start-ups would give them a big edge in the design and operation of their own restaurant. After a slow first week, business pick up to point where they had to have help from the local police directing traffic in and out of the establishment at lunch time.

HIRING PRACTICES

In their first venture, Dave and Terry hired only college graduates and individuals having advanced degrees. These employees were expensive and did not live up to expectations. They then agreed to hire only applicants that had a high school education or less and to hire mangers who had experience in the restaurant industry. Terry's son Bob was hired as TOPS general manager. He had a high school degree and experience as former manager of a local Golden Corral. He brought his former assistant at the Golden Corral on board to help him with the supervision and the firm's start-up phase. This proved to be a big help as they organized, developed job descriptions, pay scales, recruited, filled positions and trained new employees.

Many of the people they hired had former restaurant experience, but not all. Some of the other people hired were friends of Bob's. Unlike the hiring shortages experienced by other companies in the fast food industry, TOPS did not have a problem in hiring qualified people. The first store was located in a college town, and there were always plenty of students looking for jobs. In the beginning, most of the supervisory positions went to Bob's friends. Over time attrition took its toll on both supervisors and other employees. However, the turnover at TOPS was considerably less than that at other local restaurants.

CREATING A FUN ENVIRONMENT

When setting up the business, Bob took pains to see that the average pay was slightly higher than TOPS' competitors. However, he did not attribute the relatively low turnover to the pay scale. The differential was just not enough to make a major difference in job satisfaction. Bob felt the

difference was due to the "fun" work environment that he and the other supervisors had created. In keeping with the fun environment, Bob asked the partners if it would be all right for the managers to sponsor a Christmas party for all of the employees and hand out bonuses to deserving employees for their contributions to the restaurant's overwhelming successful start-up. The partners reluctantly agreed to allow the party to be held in the company's commissary as long as there was no drinking. They did not want to be held liable for any alcohol-related incidents that might result. However, the partners suspected that some of the employees were sneaking drinks at the party. They discussed their suspicions with Bob and vowed never to sponsor another company Christmas party.

Almost all employees, including the managers and supervisors, were in their early twenties or younger. Teams of workers were created for each shift. It was a hot, crowded, fast paced work environment, but the teamwork resulted in a fun place to work. So much fun, in fact, that the work relationships spun into personal off-the-job relationships. As might be expected from a young group of men and women working in close quarters, there was a lot of bantering and pranks being played on one another. For instance, one of the employees stuck a quarter pound hot dog in a drinking cup and covered it with a condom, to the delight of most of the employees working on that shift. After a brief investigation, it was discover to be the act of the company's youngest female employee. This caused enough concern to Dave and Terry that they cautioned Bob about the fact that someone might be offended by the behavior taking place at TOPS and encouraged Bob to develop a personnel manual outlining policies and guidelines for recruiting, hiring, training, compensating, evaluating, and disciplining employees.

Bob created a policy/personnel manual patterned after those of other restaurants using materials furnished by the partners and had the manual reviewed by an attorney specializing in employee relations. Over time, the manual proved helpful in handling all types of personnel issues. Like all businesses, TOPS had personnel problems from time to time. Employees were late for work, and the high school kids were notorious for not showing up for work when it conflicted with a big school event. The manual/handbook was always referred to when disciplining this type of behavior. It also provided guidelines for dealing with on-the-job behaviors such as employee theft and not following health department rules and policies, which are crucial in the restaurant business. Bob distributed a compact version of the employee handbook for each employee outlining company policies, what was expected from them, and guidelines for behavior at work.

BOB'S LEADERSHIP

Bob's personality, personal demeanor, and leadership style also contributed to the positive work environment enjoyed by TOPS' employees. Over time, he rewarded good performance and replaced vacancies in supervisory position with individuals who showed initiative, enthusiasm, and loyalty. He was easy going, patient, empathetic, and impartial. He had to fire one of his best friends, a restaurant supervisor and the son of the county's attorney general, because he came to work intoxicated. Bob also had a soft spot for people who needed a hand up. He hired a mentally challenged individual to prepare condiments, but had to let the employee go because he had trouble using sharp objects and severely cut himself. Bob testified as a character witness for one of the minority employees who was being tried for an accessory to a robbery at a local convenience store. Later, this employee broke into a TOPS restaurant and did over four hundred dollars worth of mischievous damage. Bob also took pity on an ex-convict who was having trouble finding work and hired him to clean the store at night only to have to fire him because of the lewd remarks he was making to some of the female employees.

Bob felt bad about terminating Sarah for her behavior. She was the company's most competent supervisor and was well liked by everyone in the company. It was spring and she had been taking advantage of the warm weather and happy hour at one of the campus hangouts. Unfortunately, Sarah decided to come by and see her friends at TOPS on her way back home from

a drinking bout. She used her master key to let herself in the rear door of the store and created quite a disturbance as she joked with the work crew and fell against the soft drink machine. The shift supervisor helped Sarah up and steadied her as she helped her out the back door. All employees were aware that drinking on the job or coming to work intoxicated was grounds for dismissal. This was especially true for supervisors who were expected to set examples for other employees. Bob felt his decision was clear-cut; after all he already fired one of his best friends for showing up for work intoxicated.

JEFF GILLUM'S NEW VENTURE

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CASE DESCRIPTION

The primary subject matter in this case describes the start- up process. It outlines the components of a business plan, the use of sweat equity and boot strapping, and how to manage cash flow. The case has a difficulty level of three and four. The case is designed to be taught in one hour of class time and should take three hours to prepare.

CASE SYNOPSIS

Jeff Gillum always had a dream to open a blues bar. When attending college he was a star athlete and scholar. While taking classes at school he developed two business plans for other entrepreneurs. At the end of his first year in grad school, he approached one of his professors with a plan to follow his dream. Only the plan did not project any profits. He was discouraged from pursuing the idea and urged to return to school. Within three months, Jeff, with a lot of sweat equity and his entire savings of three thousand dollars, was on the verge of opening Players Club near the campus. The case takes the student through the process of developing a business plan only to discover that it might not work. It shows how shear determination and ingenuity can bring a dream to reality only to discover that cash flow can be an over riding problem for a new business. When the students leave campus for summer break, revenues dry up, and Jeff is faced with the possibility of a shattered dream.

JEFF'S DILEMMA

Jeff Gillum was facing his greatest challenge since opening Players Club ten months ago. Most of the students had left school for the summer, and his revenues were drying up. Cash flow had become critical. Payments for this month's supplies and rent were coming due, and he did not have enough cash to cover them nor did he know where the money was going to come from. Jeff had no leverage for borrowing money and had maxed out his credit cards. He was considering throwing in the towel and closing his business.

JEFF'S BACKGROUND

Jeff grew up in Hazard, Kentucky where he was an outstanding athlete. His mother was a teacher in the Hazard school system, and his father owned a construction business. Jeff entered Eastern Kentucky University on an athletic scholarship and majored in business administration. He did not need the scholarship because his parents were independently wealthy and his grandfather owned a coalmine. However, he was independent and determined to make it on his own. Jeff was well known throughout the campus community, succeeding both as an athlete and scholar. Jeff became the starting quarterback on the OVC championship football team and a pitcher on Eastern's baseball team. In addition, he carried B plus average in his management major.

During his junior year he took a small business management class under Dr. Eric Davig where he wrote a business plan and participated in a SBI consulting project. Jeff also took the capstone class under Dr. Davig where he completed another field study by developing a strategic plan for a mobile home park in Louisville where his father was directing a construction project. Jeff became excited about the possibility of becoming the park manager and a partner of the park's current owner as well as implementing the expansion plan that he had designed. He found out later the park's owner had no real intention of bringing him in as the manager or partner.

Jeff was not sure what he was going to do when he graduated. He decided that he might like coaching and started graduate school at Eastern majoring in business education. While he was attending grad school, Jeff became Dr. Davig's assistant and participated in a regional small business research project. To further supplement his income, he became a bartender at one of the local bars. At the end of his first year in graduate school, Jeff approached Dr. Davig with a business plan he had developed to open a bar of his own in Richmond, Kentucky. If he did, he would likely have to quit school.

THE BLUES BAR

His concept for the bar was structured around a music theme. Although he was from Hazard, Kentucky in the heart of bluegrass music country, Jeff detested it. What he really liked was jazz and blues, and explained to Dr. Davig that he had dreamed for the past several years to open a blues bar. Jeff did not have much money saved up and wanted to know if Dr. Davig would be interested in partnering with him. It was obvious that Jeff had done his research because the plan was well thought out. He had sought out advice from a local beer distributor, other bar owners, his attorney, and real estate dealers.

However, the financial projections did not show the bar making money. When Jeff projected his revenues for his plan, he stood in front of the site he planned to locate the bar and counted cars. He figured he could get one percent of them to stop and come into Players. He combined this with an estimate of the spillover from other bars he had observer when bartending to predict the number of patrons he might expect. He combined the average number of patrons with the average expenditure of patrons in downtown Richmond bars to estimate his weekly revenue. Dr. Davig declined the offer and encouraged Jeff to go back to the drawing board and rethink his plan before quitting school.

Bar competition in Richmond was fierce. The city had a reputation as the place where students throughout eastern Kentucky came to party. Eastern Kentucky University almost always appeared on Playboy's list of top party schools. Business boomed on Thursday, Friday and Saturday nights. In the downtown area alone there were already eight bars that catered to the college crowd. All of these bars were within walking distance of Eastern's campus. Some of these bars had been there for years while others were start-ups. The ownership and names of the established bars changed frequently.

Dr. Davig returned from summer break expecting to find Jeff back at school ready to finish his master's degree. Within a week of his return, he received a call from Jeff asking him to meet at Players Club. This was a surprise to Dr. Davig. He thought Jeff had probably given up on the idea of opening up a bar because he did not have enough money to get the business started and did not anticipate positive cash flows for several years.

When he arrived at Players, Dr. Davig found Jeff and his father finishing up a homemade bar made out of glass blocks and plywood. The interior of the entire building was under construction. It had been a former office building owned by a local attorney. The building was not situated among the other downtown bars but close enough to get spillover from the other establishments and far enough away to avoid some of the crowding and rowdy behavior experience

in the three block area where most of them were located. It met the zoning requirements for bars and was situated between the college and the other bars.

Jeff explained that he had this location in mind when he developed his business plan, but it was obvious that monthly rent was prohibitive and a major cost driver in his financial projections. He felt the location and smaller size would set his bar apart and establish Players as a more up-scale bar. Players did not have any off street parking, but neither did any of the other bars. However, it was located across from a city parking lot for a local bank, attorney offices, and retail shops. Since this lot was not being used at night, it would be available for his customers. Jeff envisioned a mix of patrons. He felt a blues bar would attract both students and Richmond residents. Still, the location was not as up-scale as Jeff would have liked. There was an old rundown rental house next to Players and a small old abandoned house immediately behind it.

BOOTSTRAPPING

It occurred to Jeff that the owner was asking too much rent for the building so Jeff conducted a rental survey of the surrounding business. He found rent was substantially less than what was being asked for the office building. When Jeff presented this to the owner, he was impressed with Jeff's initiative and agreed to a much lower rate and offered Jeff an option to buy the building. It had set empty for almost a year, and the building's owner was eager to have it rented. In fact, he agreed to help pay for part the renovation if Jeff would do the work.

To further save money Jeff convinced his father to take a few weeks off and help him with the renovation and convinced a couple a college students to help with the promise of free beer when he opened. Most of the renovation materials were salvaged from his Dad's construction sites, and the rest were bought with his father's construction discount. Tables and chairs were an odd lot, pieced together from what he could borrow from family and friends. Plus, he used the furniture he had accumulated as a student at Eastern. This included pictures, lamps, a hi-fi system, televisions, and his living room suite. Jeff also entered into an alliance with a pool table and electronic game distributor because he did not have enough to buy them. Rather than lease them, he agreed to share profits with the distributor.

To cut cost even further, he did his own plumbing and wiring. Unfortunately, this backfired because the city inspectors would not pass his work, and it had to be torn out and redone by licensed plumbers and electricians basically depleting his start-up capital.

In all, Jeff was able to start his new venture on just three thousand dollars of his own money. Jeff opened up, the third week of fall semester. He was disappointed in the number of customers he was able to attract. As he expected, he got some spillover from the other bars and a few of the Richmond residents, including local business and professional people, who knew Jeff personally. Jeff offered discount coupons in the student newspaper, posted messages on Players' marquee, and offered dollar beer specials. However, most of his business came from word-of-mouth and the spillover. Business picked up very slowly providing just enough cash to get by. Other bars had both beer and liquor specials, live bands, and food. He had a grand opening during homecoming and had a party for a lot of his buddies that he played football with. After the grand opening, business began to improve.

Unfortunately, Jeff, he no longer had enough money to rent an apartment. It was OK because he had moved most of his household furnishing into Players anyway. Since opening he had been sleeping on his couch in the bar after it closed. Jeff did not mind because he was running the bar by himself. When he got up in the morning, he cleaned the place up, restocked, and completed his bookwork. He was bartender, bouncer, janitor, and d-jay. Jeff worked hard to differentiate his bar from the others in the downtown area by doing his best to keep an up-scale atmosphere by playing a good selection of music using his own CDS, keeping the place spotless, upgrading the décor whenever possible, and prohibiting swearing and horsing around. He dressed the part. Jeff

always showed up in casual business attire. His business continued to pickup as the year progressed attracting a small but loyal customer base, which he knew by name. Eventually, even some of his customers started dressing in casual business attire when they came into the club.

THE SUMMER SEASON

By the end of spring semester, things were looking up for Jeff. Business was good. Through his contacts, Jeff discovered that a piece of property near the new interstate exchange in Richmond was available and could be developed into a three hundred lot mobile home park. He put together a business plan similar to the one he put together for the Louisville park and sold the idea to a financial backer, only to get aced out on the deal by some local business men who had better connections. This happened just before Eastern adjourned for the summer. Jeff was very disappointed because the deal would have made him wealthy overnight.

Once summer school started, business fell off rapidly. Other bars in the downtown area were selling beer below cost; however, they all had liquor licenses. Jeff did not. Players only had a beer license. Richmond allowed only so many liquor licenses, and the full quota had already been allocated. Jeff was sure he could double or triple his revenue in a month's time if he could serve liquor by the drink. Unfortunately, the last time a liquor license came available more than one hundred people applied for it. Still there was hope. In order to make ends meet, Jeff contracted to install lockers at a local school. This was not what Jeff had envisioned. It was hard running Players by himself while holding down a fulltime job.

JAVA & HOLES: AN INSTRUCTIONAL CASE TO REVIEW FINANCIAL ACCOUNTING AND COST OF CAPITAL CONCEPTS

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CASE DESCRIPTION

The primary subject matter of this case concerns a review of earnings per share, ratio analysis, and cost of capital concepts. A secondary issue includes evaluation of alternative strategies within the constraints of debt covenants. The case was designed to use as a review of financial accounting concepts in a MBA managerial accounting course. However, the case has a difficulty level appropriate for seniors or first or second year graduate students. The case is designed as a review and should be completed entirely outside of class. Depending on financial background, students will require approximately ten to fifteen hours to complete the case.

CASE SYNOPSIS

The case describes a setting in which a company is examining several strategies in an effort to increase earnings per share. Java and Holes is a fictionalized version of an actual company. Students assume the role of an employee assigned to evaluate the effectiveness of these strategies in meeting management's objective, while continuing to meet the provisions of the company's debt agreements. In this role, students are required to perform analytical procedures by calculating financial ratios and weighted average cost of capital as well as consider other financial implications of the strategies from a managerial accounting viewpoint.

Java & Holes (the Company) is a publicly-owned corporation specializing in retail sales of premium quality donuts and gourmet coffee. They operate 400 stores across the United States and are located primarily in Metropolitan areas. The established stores consists of company owned and franchised store locations. In addition to selling their product on-premises, the company markets their product off- premises to convenience, grocery and discount stores under branded and private labels. Over the past 3 years, the Company has focused their expansion efforts into major markets. Management believes they have currently exhausted this strategy.

Because of the recent focus of Americans on low carbohydrate diets, donut sales have been below anticipated levels over the last 3 quarters, resulting in lower than projected earnings. Benjamin Hayward, Chief Executive Officer, called a management meeting to discuss potential strategies to increase earnings per share (EPS) to the projected level of 2004 of .95 per share. After extensive discussion of plausible strategies, management narrowed their focus to three options for further consideration: opening mini-cafes, closing or selling stores, and a treasury share buyback program.

THE CASE OF THE DIMINISHING BUDGET

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CASE DESCRIPTION

This case is primarily a writing assignment. The subject matter deals with a company's budgeted costs, specifically, discretionary vs. committed costs. The case has a difficulty level appropriate for sophomores or juniors in a business writing class or cost accounting class. The case is designed more as a homework assignment than for in-class discussion; if used in class it would take one 1-hour class period and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

In this case a bookkeeper for a not-for-profit agency is required to analyze her organization's costs and write a letter to the governmental funding agency that is threatening a budget cut. The goal of the letter is to convince this governmental agency not to decrease its support for their programs. A suggested approach is to explain the four expense areas, what costs are/are not discretionary, what would have to be eliminated in order to cope with a decrease in revenue, etc. Students are told "Your goal is to sound like a willing team player while making every effort not to have your budget cut".

CASE BACKGROUND

"Connie, I need you to respond to this letter", Joyce Johnson said with obvious concern in her voice. "Our agency is doing quite well, but we can't take a hit like this. A 5 or 10 percent budget decrease would be terrible!" She hoped her accountant Connie Davis could help her avert disaster.

Connie reached for the letter and noted it was from Whitfall County Area Services Authority (400 Billable Road, Grace ND, zip 67890) and dated two weeks earlier, 1/08/05. She was not pleased with what she read, although she wasn't too surprised given the weak state of the economy. The letter read:

Dear Ms. Johnson;

I am sure that you are aware of the difficult financial situation facing our nation, our state, and Whitfall County. The budget shortfalls are affecting the Area Authority and, in turn, may affect you as a contracted provider with the Whitfall County Area Services Authority. The purpose of this letter is to ask for your assistance and understanding in facing our financial challenges.

It is a distinct possibility that Whitfall County Area Services Authority will have a constricted budget for fiscal year 2005, starting this July. As a partner with the Authority, it is likely that you will be impacted as well. To prepare for this possibility, I am asking you to prepare an impact statement for two possible scenarios:

(1) A 5% across the board rate reduction in your 2005 contract.
(2) A 10% across the board rate reduction in your 2005 contract.

Please consider the ways that your agency can continue to provide maximum service under these scenarios. I am asking for you to please consider any alternative resources that may be available to you and your agency as we face this difficult challenge ahead. You know and understand your operation and will be able to determine how to lessen the impact of these potential changes.

I would appreciate receiving your impact statement by the end of the month. This will allow me to review potential resources and service availability against the developing budget. My goal is to meet a maximum of service needs within our allotted budget, and I am prepared to ask your assistance in doing so. Please contact me if you have any suggestions or questions. I also plan to be at the March 6th Quarterly Provider Information Sharing Conference and present on the State Plan and current budget situation. I hope to see you there. Thank you.

With sincere regards,

John P. Marshall
Area Director

As company accountant for Community Support Services (P.O. Box 828, Cold Mountain ND, 67888), it is Connie's job to prepare payroll, pay bills, monitor receipts, record transactions and prepare financial statements. Another important aspect of her job is to prepare the budget. She was going to have to look closely at the 2005 budget to make a case against having their contract rates cut.

A "contract rate" is the amount paid to Community Support Services (CSS) by the Whitfall County Area Services Authority for services provided by CSS. The service CSS provides is to run community residences for mentally and physically disabled persons. These residences have varying levels of supervision and care. (In Level I living conditions clients have the most independence, in Level III a much higher level of care is required). The income to run the houses and other properties comes from Whitfall County Services Authority, Social Security, and Medicaid. CSS receives no private funding, grants or other types of income.

CSS pays four types of expenses: Client Living Expenses, Personnel Expenses, Operating Expenses, and Administrative Expenses. Because CSS is a non-profit organization, any excess in revenues over expenses is spent on improvements. One goal of CSS is to own rather than rent its properties, so when possible excess funds are put toward the purchase of properties or paying off debt on properties already owned.

Client Living Expenses include rent, utilities, telephone, water and sewer, maintenance, and equipment for the properties where clients live. This category also includes client mental health care, pharmaceutical drugs, an allowance, and activities. Activities would include client outings such as the annual vacation, 4th of July cookout, Valentines party, Thanksgiving and Christmas parties, movies, bowling, dining out, etc.

The Personnel Expenses category includes salaries and workers' compensation insurance for the direct care staff, one direct care staff manager, one program director, two residential coordinators, one driver and one full-time qualified mental health professional (QMHP). The direct care staff works with the clients under the oversight of the direct care staff manager. The staff manager's job is a big one, as there is 100% turnover of the direct care staff annually. The residential coordinators oversee all sites. This includes regular visits as well as spot visits to the facilities during all shifts, scheduling and supervising staff, planning client activities, as well as covering direct care shift as needed. Additionally, they compile payroll information, maintain client funds and account

records, etc. The QMHP must be on staff to approve all documentation of services submitted to Medicaid for payment. This paperwork covers each property, each staff member, for each client on a daily basis. Also included in the personnel expenses category are wages paid while each worker attends state-required mandatory training and any mileage allowance paid to them for using their personal vehicles for client transportation. The last budget item is the amount paid for alternative family living. This situation occurs when a client is placed in a host family's home, like a foster home. The family is paid a daily rate by CSS as an independent contractor (as opposed to being paid as an employee, with benefits and taxes withheld).

The third category of costs is the Operating Expenses. Operating expenses are the liability insurance, state-required mandatory training costs (paid to vendors), and the costs of the four company vehicles used for transporting clients. CSS owns a Dodge Neon, Chevy Malibu, Chevy Cavalier, and Chevy Van and budgets their lease, insurance, gas, and maintenance costs.

The last category of expenses is Administrative Expenses. This category includes salaries and benefits of Connie, Joyce, one office assistant, the required annual audit, and the costs of the office lease, insurance, utilities, phone, etc. for the administrative office. In non-profit organizations a normal administrative fee runs about 17% of revenues and CSS is no exception.

As Connie looked over her budget, wondering how the cost cuts could affect it, she knew several of the costs on her budget were committed, i.e., not easily changed. First, one guideline she was going to use was not to cut salaries. The organization would operate with fewer people before it would cut salaries and benefits across the board. With that in mind, she examined the Administrative Expense area. There were no possible positions to cut, and moving into another location was not feasible at this time. Actually, their rent was very reasonable because they had occupied the same location for several years and their rent increases had not kept pace with the market, plus it included utilities. Other operating costs such telephone and the annual audit were reasonable and necessary.

Were there any discretionary costs in the Operating Expenses area? Certainly the liability insurance was necessary, as was the mandatory training. "Could we operate with fewer vehicles?" she wondered. No, the program needed those vehicles. Not only were all four vehicles being used to meet current program needs (19 clients at 11 sites plus periodic services), but a new site with one additional client would be added by March 1, 2005. More program expansion was planned in the near future. She felt they would be doing well to continue getting by with only four vehicles.

That left two areas: Personnel and Client Living Expenses. Could they operate with fewer personnel? The direct care staff was only hired as needed, and with the 100% turnover rate annually, all hiring was done on an as-needed basis. Connie did not see how they could survive with fewer workers unless they fired one of the two residential coordinators. This would allow for a 5% budget decrease. If both residential coordinators were dismissed, the 10% budget decrease would be achieved. Connie shuddered to think of their program director's workload if CSS lost even one of their supporting residential coordinators, let alone both! If anything, with the planned growth, she would like to be adding another residential coordinator. Clearly, that wasn't a possibility now. In the Client Living Expenses area, Connie felt there were few discretionary expenses other than activities and allowances. Cutting down on activities such as picnics, outings, holiday festivities, etc. would be possible but not desirable.

Community Support Services Consolidated Programs Budget is presented below:

Revenue Breakdown:		
Direct Bill - Medicaid	627,378.72	
Whitfall County	629,290.80	
Social Security	152,580.00	
TOTAL REVENUE		$1,409,249.52

Item				
Living Expenses:				
Activities		7,680.00		
Allowance		5,760.00		
Allowance - Clothing		5,865.00		
Cable/TV		840.00		
Electricity		11,220.00		
Food/Consumables		42,020.00		
Fuel Oil		6,660.00		
Furniture/Equipment		6,400.00		
Maintenance		20,751.00		
Pharmacy		1,740.00		
Psychiatric		3,996.00		
Rent or Mortgage		116,820.00		
Room & Board		5,760.00		
Telephone		3,156.00		
Water & Sewer		4,236.00		
Total Living Expenses			$242,904.00	
Personnel Expenses:				
Direct Care Staff		545,776.52		
Direct Care Staff Manager		22,387.38		
Program Director		51,465.02		
Residential Coordinators		69,984.02		
Driver		23,429.82		
QMHP		41,826.31		
Workers Comp. Insurance		11,374.33		
Mileage		13,500.00		
Bonuses		21,346.25		
Training		15,666.25		
AFL - Day Rate Paid		30,378.00		
Total Personnel Expenses			847,133.90	
Operating Expenses:				
Insurance		10,044.00		
Training Expense		10,605.00		
Transportation:				
Lease	$8,400.00			
Insurance	4,890.00			
Gas	6,600.00			
Maint.	3,600.00			
Total Transportation		23,490.00		
Total Operating Expenses			44,139.00	
TOTAL PROGRAM EXPENSES				1,134,176.90
TOTAL REVENUE LESS PROGRAM EXPENSES				275,072.62
Less: Administrative Expenses				239,572.42
Net Income				$35,500.20

ASSIGNMENT

Your task is to write a two to three-page single space letter, in good form, to Mr. John P. Marshall at Whitfall County Area Services Authority from Community Support Services (under Chief Executive Officer Ms. Joyce Johnson's signature). Your letter should discuss how the potential 5% and 10% decreases in revenue will impact CSS' budget. You are not required to prepare pro forma budgets; you may respond verbally. A suggested approach is to explain the four expense areas, what costs are/are not discretionary, what you would have to eliminate in order to cope with a decrease in revenue, etc. Your goal is to sound like a willing team player while making every effort not to have your budget cut.

THE PROPOSED MERGER OF AMERICA WEST AND US AIRWAYS: WILL IT FLY?

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CASE DESCRIPTION

This case discusses a proposed merger between two major airlines - America West and US Airways. The primary objective of this case is to address the critical issues required either to support or reject a merger strategy. The case would be appropriate for the senior or first year graduate level Strategic Management course, and the case should work well as a team project. The case is designed to be taught in 1 class hour and is expected to require 3 hours of outside preparation by students.

CASE SYNOPSIS

In April 2005, America West and US Airways made a public announcement concerning a proposed merger between the two carriers. The information needed to support or reject this proposal is available from company, industry, and governmental sources and generally indicates that although the proposed merger partners operate in the same industry, they have very different operating characteristics. This case challenges students to analyze the critical strategic issues which the proposed merger partners must address to consummate successfully a merger.

INTRODUCTION

Wide swings in financial performance have been the pattern for the airline industry since the late 1970s. Operating profit averaged only 1.9% during the 1980s and 3.2% during the 1990s while operating losses have averaged over $5 billion per year since 9/11 (The Airline Handbook). Many industry analysts conclude that the restructuring of airline networks and fleets based on cost must be the central theme for the industry's long-term strategy for survival (Kangis and O'Reilly, 2003). Given this changing environment, what critical merger issues need to be addressed for these two airlines to best achieve lower operating costs through merger?

OVERVIEW OF THE AIRLINE INDUSTRY

The low profitability of the airline industry during the modern era was not evident during the growth years following WWII. However, with route structures and ticket prices controlled by the Civil Aeronautics Board (CAB), the airline industry began to record poor financial results during the 1970s. This factor in combination with growing public dissatisfaction with airline service quality led to the passage of the Airline Deregulation Act in October of 1978. This act placed the industry under the control of the Department of Transportation (DOT), an entity focused primarily on issues of operating procedures and safety. In this newly deregulated environment, the number

of certified air carriers grew from 37 to 100 between the years 1978 and 1984 (The Airline Handbook). Many of these new carriers entered the market using low-cost models.

During the 1980s, most established carriers chose not to adopt low-cost models. Instead, they chose to employ innovative marketing and operational strategies to differentiate their service, attract business travelers, and entered the 1990s with the top ten major carriers controlling 90% of the market (Das and Reisel, 1997).

As the measured growth of the industry began to stabilize during the 1990s, airline analysts began to consider life-cycle effects. The 13% growth rate in passenger traffic recorded during the 1970s slowed to a 6% annual growth rate during the 1980s and then down to a 4.0% rate during the 1990s. As the industry matured, yield began to decrease, and the rate of passenger growth became equal to the rate of economic growth. The effects of a mature market led the major airlines to employ more aggressive *yield management* techniques aimed at business travelers.

INDUSTRY FINANCIAL CRISIS

A major industry recessionary cycle began in 2000 as business travelers began to seek alternatives to the increasingly higher and higher fares charged by the major carriers. Also, the terrorist attacks of 9/11 lead to a reduction in all travel and accelerated the industries decline. By 2004, the effects of the industry's worst financial downturn in history left low-cost carriers controlling 20% of the U.S. market (Velocci, 2004). In this environment of dramatic industry change, both merger partners seek the reorganization needed to support a low-cost operating network. In an interview with the Associated Press, David Bonner, CEO of the Retirement System of Alabama, a major investor in US Airways, concluded that because they would complement each other geographically, a combined US Airways – America West would compete better against discount carriers (Flynn, 2005). The CEO of America West, Douglas Parker, said that "the merger will create the first nationwide full-service, low-cost airline" (Reed, 2005).

Company Profile – America West Airlines

America West entered airline service in August of 1983. Based in Phoenix, the carrier expanded rapidly and achieved major-airline status by 1990 when, with over 12,000 employees, it generated annual revenues exceeding $1 billion. To grow during the early 1990s, the company added service and entered into cooperative agreements with several other carriers. By 1999, the company grew revenues to over $2 billion (Table 1).

Under the terms of the merger proposal, America West would retain managerial control, and the merged companies would retain the name of US Airways. Still, many issues remained to be addressed by the management team, including the mixture of aircraft types, creditor requirements, government oversight requirements, stockholder acceptance, and employee representation (see Table 3 & 4) (www.americawest.com).

Table 1: America West Airlines – Financial and Operating Data

Data Type
A – Total Operating Revenue – ($000,000)
B – Operating Profit or (Loss) – ($000,000)
C – Asset Productivity – (total aircraft operating expense / revenue passenger miles) – ($/Pax)
D – Operating Margin - (operating profit or (loss) / operating revenue) – (%)
E – Market Share- (revenue passenger miles / industry total) – (%)
F – Labor Burden – (total salaries and benefits / total operating expense) – (%)
G – Average Aircraft Utilization/Day – (Hours/Day)
H – Revenue Passenger Miles (Pax) - (000,000 miles)
I – Available Seat Miles (ASM) - (000,000 miles)

Year	A	B	C	D	E	F	G	H	I
2004	2,482	(24.4)	.061	-.010	.031	.281	10.88	23,333	30,153
2003	2,224	23.8	.061	.008	.032	.312	10.04	21,285	27,871
2002	2,021	(164.1)	.061	-.085	.030	.288	9.48	19,878	27,008
2001	2,035	(423.3)	.069	-.240	.027	.262	9.75	19,080	26,545
2000	2,310	(12.7)	.069	-.000	.027	.258	10.99	19,113	27,109
1999	2,163	197.9	.058	.091	.026	.272	11.80	17,710	25,911
1998	1,983	197.8	.054	.099	.026	.269	12.10	16,375	24,309
1997	1,887	162.5	.054	.086	.026	.258	12.38	16,204	23,568
1996	1,752	68.6	.052	.037	.025	.245	11.88	15,322	21,625
1995	1,562	54.7	.047	.099	.024	.285	11.42	13,312	19,421
1994	1,415	46.3	.046	.103	.023	.271	11.19	12,233	18,061
1993	1,331	121.0	.049	.090	.022	.261	10.67	11,221	17,190
1992	1,302	(74.8)	.054	-.057	.024	.247	10.31	11,780	19,271
1991	1,419	(104.5)	.056	.075	.028	.263	10.30	13,032	20,629
1990	1,321	(31.6)	.058	-.022	.024	.271	10.29	11,115	18,287

Source: Bureau of Transportation Statistics (Air Carrier Form 41 and 298C)

Company Profile: US Airways

In 1939, US Airways began airmail service as All American Aviation. The airmail carrier grew and in 1949 added passenger service using modern DC3 aircraft to serve Pennsylvania and the Ohio valley areas. All American became Allegheny Airlines in 1953 and continued a period of growth through mergers and acquisitions that would allow it to reach sixth largest in terms of passengers. In 1979, following passage of the 1978 Airline Deregulation Act, Allegheny changed its name to USAir. During the 1990s, revenues grew (see Table 2) as additional transatlantic routes and new Airbus aircraft were added. USAir officially changed its name to US Airways in 1997.

The terrorist attacks of 9/11 were especially hard on US Airways and its east coast market concentration, which included Washington and New York. The company filed for Chapter 11 bankruptcy protection on August 11, 2002 (www.usairways.com).

CONCLUSIONS

Combined, these carriers would be the fifth largest when measured in terms of revenue passenger miles. However, with record high debt and overcapacity, size alone does not guarantee success in an industry that is restructuring to compete more on the basis of lower operating costs and higher quality.

Table 2: US Airways – Financial and Operating Data

Data Type
- A – Total Operating Revenue - ($000,000)
- B – Operating Profit or (Loss) - ($000,000)
- C – Asset Productivity – (total aircraft operating expense / revenue passenger miles) – ($/Pax)
- D – Operating Margin - (operating profit or (loss) / operating revenue) – (%)
- E – Market Share - (revenue passenger miles / industry total) – (%)
- F – Labor burden – (total salaries and benefits / total operating expense) – (%)
- G – Average Aircraft Utilization/Day – (Hours/Day)
- H – Revenue Passenger Miles (Pax) - (000,000 miles)
- I – Available Seat Miles (ASM) - (000,000 miles)

Year	A	B	C	D	E	F	G	H	I
2004	7,073	(347.9)	.072	-.052	.054	.314	9.45	40,504	53,991
2003	6,762	(421.3)	.076	-.065	.056	.341	9.47	37,782	51,565
2002	6,916	(919.3)	.080	-.134	.061	.366	9.71	40,034	56,352
2001	8,253	(1,181.4)	.094	-.177	.063	.400	9.49	45,964	66,720
2000	9,181	(44.4)	.085	-.007	.066	.385	10.07	46,880	66,555
1999	8,460	307.5	.067	.022	.059	.398	9.46	41,552	59,230
1998	8,556	990.0	.071	.115	.065	.399	9.42	41,369	56,860
1997	8,500	586.1	.078	.068	.067	.396	9.31	41,748	58,495
1996	7,705	368.7	.077	.046	.066	.429	9.03	39,241	57,231
1995	6,984	234.6	.075	.032	.068	.424	9.05	38,080	58,672
1994	6,578	(505.1)	.083	-.080	.071	.408	9.10	39,394	61,538
1993	6,622	(128.7)	.082	-.020	.070	.417	8.81	35,528	59,863
1992	6,236	(375.5)	.084	-.061	.072	.397	9.18	35,436	60,051
1991	6,049	(202.1)	.083	-.035	.075	.403	9.13	34,398	58,573
1990	6,084	(543.2)	.086	-.091	.076	.408	9.14	35,750	59,713

Source: Bureau of Transportation Statistics (Air Carrier Form 41 and 298C)

Table 3: Airline Operating Information (2005)		
Category	America West	US Airways
Employees	14074	30100
No. of Aircraft	143	276
Revenue	$2.34 billion	$7.10 billion
Headquarters	Phoenix, AZ	Arlington, VA
Aircraft Type	Quantity (seats)	by Carrier
A319	34(124)	64(120)
A320	59(150)	24(142)
A321		28(169)
A330		9(266)
B737-300	37(132)	67(126)
B737-400		44(144)
B757	13(190)	31(193)
B767		10(203)
Source: www.americawest.com		

ASSIGNMENT

Use data or information available from company, industry, and government sources to answer the following questions.

Question 1. Evaluate the internal and external environment and analyze major obstacles to making this merger successful.

Question 2. An increase of $1/barrel increases the merged airline's costs by $36M. The merger model was based on $50/barrel. At $66/barrel, how much does this increase the merged company's fuel costs? What options does it have to offset this increase?

Question 3. Does the data presented in the case indicate any areas wherein the merged management team may be able to improve overall operating results? The team would accomplish these improvements by applying differing managerial practices to the larger portion of the merged company which was *US Airways?*

Table 4: Airline Labor Union Representation (2005)						
	America West			US Airways		
Category	Union	Employees Covered	Term	Union	Employees Covered	Term
Attendants	AFA	2682	negotiations	IAM	5332	renew 2011
Fleet Service	TWU	2459	renew 2010	IAM	4450	renew 2009
Pax Service	IBT	2327	negotiations	CWA	3753	renew 2011
Pilots	ALPA	1888	renew 2009	ALPA	2957	renew 2009
Mechanics	IBT	845	negotiations	IAM	3848	renew 2009
Reservations	IBT	1269	negotiations	CWA	1578	renew 2011
Dispatchers	TWU	38	renew 2008	TWU	130	renew 2009
Flight Instructors				TWU	53	renew 2011
Source: www.americawest.com						

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ACCOUNTING FOR CAPITAL FORMATION: FINANCIAL ACCOUNTING AND INCOME TAX ISSUES OF RELATED PARTY LOANS AT UNREALISTIC INTEREST RATES

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CASE DESCRIPTION

This case illustrates the need for accountants to look beyond the mere form of how transactions are structured and to search for their economic substance if they are to achieve the objective of presenting financial statements which have representational faithfulness. The student is confronted with ethical issues and financial reporting and tax issues and must make judgments based on research and sound professional reasoning. The case has a difficulty level of five and is appropriate for graduate level or strong intermediate students.

CASE SYNOPSIS

Blackadar Extreme is in the planning stages as a start-up company with two key assets: (1) a patent for a revolutionary break-through molding process which will make it possible to manufacture whitewater kayaks out of a very light and strong composite material of carbon fiber and other light weight fibers; and (2) the financial backing of Steve Bullock, an adventure capitalist with substantial resources and a track record of successful entrepreneurial endeavors. Steve Bullock is an experienced and successful investor, and has some creative, and, at least from Steve's perspective, innovative ideas about the capital formation of Blackadar Extreme. The student is placed in the role of Donald Faircloth, a Certified Public Accountant who is asked to give an opinion as a consultant, about the proper financial reporting of Steve's proposed unorthodox transactions and how the proposed transactions will impact income taxes. Students must research generally accepted accounting standards in the financial accounting literature and research the federal tax code. They must make professional judgments based on their findings and make ethical judgments in arriving at a proposed solution.

ONE STEP FORWARD, TWO STEPS BACK?

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CASE DESCRIPTION

The primary subject matter of this case concerns career development and career choices of female professionals in contemporary China, with details from the post-Cultural Revolution (1970's) to the present. The case centers on the experience of a woman educated for diplomatic service and teaching, who at the end of the case is offered a choice of moving to a joint venture business. Major content relates to gender roles interacting with career choices. Secondary topics include changes in the structure of the Chinese economy, and relevant government policies related to marriage and family. Comparisons can be drawn between gender expectations and work-family issues in China compared to other cultures with which students are familiar. The case is appropriate for advanced first year students or sophomores and beyond. It is most useful for students of human resources, gender issues in the workplace, and comparative gender roles. It can be taught in approximately 2 ½ hours of class time, with three hours of reading and writing by students outside of class.

CASE SYNOPSIS

A Chinese proverb states that for every step women take forward, they take two steps backward, in terms of advancement. In this case of the same title Jin, the central figure, advances through her education and the early career stages as a college professor--though her dream was to be a diplomat--while adjusting to marriage and parenthood against the backdrop of all the economic and social changes in the China of recent decades. The marriage and "one child" policies of the People's Republic of China are important influences on her choices. Her husband blithely pursues the original dream of both, diplomatic service. The case ends with an offer for Jin to move to a business joint venture which is anxious to procure her excellent English skills and her experience in the U.S.

BODY OF CASE

Jin Xiaoqin reached for a sip of her herbal tea and tried to calm herself. Her life had built in a crescendo to a point of decision, and like many Chinese women, the reality of having the power to make serious life choices was both new and anxiety producing. So far, she reflected, her story had been a largely fortunate one.

Born to rural parents in the early years of the People's Republic, her initial expectations had been modest. She dutifully attended school, even into the second and third levels not usually completed by girls, especially in the rural, mountainous areas such as hers. Now, of course, things were different in China, with higher numbers of girls enrolled in school. In pre-primary education, 88 girls were enrolled for every 100 boys, in 1995; the ratio was 90 to 100 in early primary grades, but dropped to 66girls for each 100 boys in second level, with data unavailable for the third level, pre-college, training (United Nations, 1999). But in the l960's the idea of girls pursuing education had still been unusual; Jin had encountered resistance and even censure in her small farm community, but because her parents had supported her aspirations she had continued. She knew their encouragement was in part due to the lack of a son, which would have made them far happier, and she did her best to compensate by achieving to the best of her abilities.

Completion of the third level, of course, usually meant admission to college, though the field of study and the institution of enrollment were traditionally selected by formal testing and procedures, rather than individual students and their families. In the l970's, however, the "Cultural Revolution" had gripped China. The college admissions tests had been suspended between 1970 and 1976, leaving only two avenues into college: waiting until the exams would be given again (which did occur in 1978) or being selected for college as a "peasant scholar." Jin Xiaoqin fortunately fell into the latter category.

Jin was at that time part of a farm cooperative, near the village of Caijiacun, about 200 miles from the capital of Jiangxi Province, her home community. (Later, in the 1990's, the youth of this community left it in massive numbers to pursue better opportunities in the cities in the east of China.) In the early 1970's, however, all remained at home, struggling to eek out a living in the broken farm village. Further, many urban youth were sent to rural areas such as Jiangxi Province, with the goal of increasing their understanding of the rural peasant's life. Jin's village friend, Cai Songquan, longed to move away from the area, but was not allowed to leave because he was an only son and the sole provider for aging parents. Some of her friends from the city did not really survive their rural experience with their educational motivation intact; rather they faded into relative obscurity, sometimes marrying and remaining in their transplanted or originally rural lives, or returning to the cities with less lofty aspirations, identifying more completely with the working masses of their country.

Jin counted herself lucky to return to her previous status as a student by being admitted to the foreign studies college in Beijing. There the key faculty and administrators determined that her major area should be English and another concentration in international relations. (The "worker-peasant scholars" of this period were given no choice in their areas of study.) Secretly, Jin hoped for a career in China's diplomatic core, but she realized that such ambitions must be subdued, and contained within the goals and positions established for her by the state. She entered into her college experience enthusiastically and gratefully, competing fiercely for grades and accomplishments that would enhance her future.

While in college Jin met and fell in love with Gong Liu, another student of international affairs with aspirations to government service. Gong was an outgoing and ambitious young man, though his academic achievements were not as compelling as Jin's. Upon graduation the two married and were both assigned to the Chinese Foreign Service. Jin was encouraged to accept a teaching position at the Foreign Affairs College, where excellent teachers, also members of the Foreign Service, taught future Foreign Service recruits. Educated workers had somewhat more choices in China by this time. Before economic reform in 1978, labor mobility, employment and wage levels in China were fully controlled by the government, and no one had a choice over the type of work undertaken. After 1978, however, the educated groups could choose the privately controlled enterprises, and even, as in Jin's case, have some choices if they were still in a government cadre of workers (Meng, 69). Jin was happy about her teaching opportunity because the teachers received far better housing assignments than did the rank-and-file diplomats while in Beijing. Jin had a small, heavily subsidized, basic apartment with private bath, while single diplomats were assigned to shared quarters.

Gong, who entered the diplomatic core at the same time, was aware that his housing was superior to that of his colleagues only because he was married to Jin. While enjoying the better accommodations and lifestyle, he felt diminished to have received this benefit through his wife. Even after the Revolution in the l940's, many Chinese retained their traditional views of gender roles, and Gong shared many of these opinions. Traditionally, Chinese men expected to be the major providers and to have their spouses and families dependent and grateful to them; women had no authority or say in the management of important family matters, nor should they participate as individuals in social, political and economic activities. Although increased access to education and employment outside the home had resulted in significant improvements in the status of Chinese

women, particularly in the eastern urban centers, the traditional values and norms which had relegated women to an inferior position within the family and in society continued to prevail among many social groups in China (United Nations, l998, p. 13). Clearly Jin's role as faculty at a respected institution was somewhat threatening to Gong, and some tension in the marriage resulted from her privileges.

Early in her faculty appointment, Jin also began study to obtain her Master's degree, really a necessity in order to fully secure her teaching position. Her status among faculty had originally been somewhat reduced by her never taking the college entrance exam. Receiving her Master's fully established her academic credibility among the faculty. Gong also enrolled in graduate studies. Jin completed her Master's degree first, another development that was not particularly pleasing to her husband.

Gong also began to receive assignments abroad. At first these were of limited duration, usually only a few months at a time. Shortly, however, he was assigned to a two-year posting in an embassy abroad. There was little question of Jin accompanying him, since families of diplomats below the rank of Counselor generally were expected to remain in China. Single men were welcomed in postings abroad, but unmarried women were not; it was believed that single women could too easily be compromised in an international setting. They could not have a normal social life, as rumors about them might jeopardize their reputations and thus harm the foreign policy undertakings of their embassy. They could also, it was felt, be subjected to blackmail. Additionally, it was common knowledge that women were also less hardy and less able to adjust to foreign cultures and the demands of living overseas. Thus, single and married men were greatly preferred for foreign postings. Service abroad was clearly "man's work," and Gong and Jin accepted that they would live apart much of the time. This was only to be expected. This common attitude also affected Jin's decision to stay in teaching, rather than pursuing her original dream of a Foreign Service career.

Jin meanwhile was doing well at her college. Women were a minority among the faculty in the early 1980's, since a small percentage of women completed the necessary education. Among members of the diplomatic core, however, teaching positions were highly desired by women who did qualify, because they appreciated the housing benefits and the greater flexibility of hours and assignments compared to those of mainstream diplomats.

Jin and Gong conceived a child, and their son, Yuan, was born in l986. Because of the one child policy, the couple had strictly practiced birth control until deciding to conceive their child. (They were totally in tune with their generation on this matter, as 72% of Chinese females of childbearing age practiced modern birth control in 1983, and 83% did so by 1990.) (United Nations, 1998, p. 23) The one child policy was strictly adhered to by anyone in government service, so the couple was grateful their child was a son. Legislation stipulated that urban couples should generally have only one child and violators face fines. As of the turn of the century, China reported that the one-child policy had been responsible for preventing 300 million births in the previous 20 years and is still essential to avoiding a population explosion and starvation (BBC). The policy began as an open letter issued by the Central Committee of the Chinese Communist Party 20 years ago and the population growth rate has declined since the policy began. As loyal government employees, there was no question that Jin and Gong would have only this child.

Jin was able to initially spend time with the infant, but shortly returned to her teaching. All four of Yuan's grandparents were happy to care for the child when his parents had work responsibilities. Often in China the lack of child care programs made working difficult for mothers, but this was more the case among the less educated groups. Jin was able to see Yuan after her teaching hours, and enjoyed somewhat more time with him than did some of her friends in office bound positions. Gong loved the boy but regarded planning and arranging for his care as his wife's responsibility. When he reached school age he was admitted to a public kindergarten, and he even had a nursery school available the year before kindergarten.

Jin left China when Yuan was one year old, to study for a year at Harvard University, in the Fletcher School of Law and Diplomacy, one of the highest ranked international relations programs in the United States. Graduate study in the United States was highly valued, for both the education itself and the greater understanding of westerners it provided. In the Chinese diplomatic core, such opportunities were very competitive and highly prized. While Jin was away, Yuan resided with his mother's parents, a common arrangement among Chinese assigned overseas.

In the United States Jin lectured some, and also collaborated with political scientists at the University. She grew in confidence, and in her competence in the English language. Upon her return, her English was rated at the highest level, a skill that usually would place her in important overseas work at Chinese embassies in western countries. However, Jin remained in her teaching post in order to keep the security and benefits it provided and avoid the stress and problems encountered by female Chinese diplomats seeking overseas postings. Jin also knew that if she sought overseas assignments, she and Gong would very likely be posted to different countries and not encouraged to take Yuan with either of them. While his grandparents would care for him whenever necessary, Jin did not want to be separated from her son on such a regular basis.

After another decade of teaching, however, Jin again had occasion to study in the United States, this time at the University of Virginia. She pursued graduate work in English and also taught in collaboration with faculty there. Again her skills and confidence increased, and she returned happy that she had taken the opportunity.

Jin found China much changed in the mid-1990s. Women accounted for 45% of the total workforce, and 40% of the total industrial labor force; about 22% of the members of the Chinese parliament were female, a higher percentage than in most countries of the region (United Nations, 1999, p. 151, 174). About 32% of all government employees were female by 1994 (United Nations, 1998, p.58). However, in the ministerial ranks of government, including the high-level foreign policy positions of most interest to Jin and Gong, less than 10% were female. Most of the women in the ministerial ranks (about 62%) were entrusted with social affairs, such as social services and welfare, health, education, and women's affairs; they were rare in the economic development field or in foreign policy and defense related positions (United Nations, 1998, p. 67).

Increased privatization had opened many opportunities for the educated class, as joint ventures between Chinese and western companies entered the economic scene and political and economic reforms allowed Chinese to make more professional choices on their own, to buy their own apartments, and for some fortunate ones to make substantial incomes they had only dreamed of previously. Women in urban areas were still better educated that in rural areas; in Beijing, 73% of working women now had a high school degree and 17% have a university education (Statistical Yearbook of China, 1998). However, despite progress, in the Chinese mainland organizations women are employed in 50% fewer professional jobs and about 11% of the managerial jobs in which men are employed (Honh, 1995). By the mid-1990's there was an abundant workforce and 73% of women l5 and older were economically active. Jin realized that in the rural areas most of these benefits were not yet realized, and that education was the reason for the new opportunities she saw. Even in the countryside, primary school dropout rates for girls had decreased to between 3 and 5%, an improvement, though because of the large population, still leaving a large number of uneducated women (United Nations, 1998, p. 39; Dowd, 1995).

Gong was increasingly spending his time abroad, and the couple grew apart. Shortly after Jin's return they formally separated, though neither seemed immediately motivated toward a divorce. Formal separation from her husband actually made little impact on Jin's life, since the couple had been often apart and both Jin and son Yuan were accustomed to this. Jin did realize, though, that China's new laws gave her certain formal rights, such as those found in the new marriage law of 2001. The new law outlawed married people living with an opposite gender person not their spouse. Further, a man found guilty of divorcing his wife to live with his mistress can be sued by his former wife for financial compensation. This prompted many lawsuits. The Chinese

Supreme Court ruled in 2002 that simply having affairs or keeping a concubine was NOT excluded by the new law, which narrowed the law's application (*China News Digest).)* It remained to be seen if any of this might become relevant, should Jin and Gong decide to divorce.

Yuan, now a bright and self-sufficient teenager and level-three student, required less and less of Jin's time and energy. Her parents, however, were becoming elderly and increasingly dependent upon her, their only child, both financially and emotionally. No public support really existed that would ensure their care as they continued to age. Jin also felt increasing pressure to further develop her personal life and opportunities on her own, particularly after her separation from Gong. She became involved in a variety of community groups, and sought responsibility on the neighborhood council of her urban community. She was also part of a wider movement toward political participation among Chinese women at this time. In 2002, *People's Daily*, a voice of the government, clearly called for more such efforts to push women's rights, stating: "More women should participate in the deliberation and administration of State affairs. More female cadres should be trained, selected and play a role at various levels. In this way women can better enjoy their political rights." (*China Daily, May 14, 2002*).

Challenging work in this capacity brought home the realization that she was stagnating a bit at the university. Her job was secure, yes, but also lacking in challenge. She had been easily promoted to the Associate Professor level and anticipated no difficulty in achieving the highest rank of Full Professor. As she had not served for more than a few weeks at embassies abroad, however, she could not aspire to policymaking or top administrative roles at her college all of which required actual Foreign Service experience abroad. Many of her college contemporaries were advancing and exploring new opportunities, some in the Foreign Service and others in the private joint ventures that were thriving in the new economic structure. But women were still disadvantaged in China's Foreign Service. As of 2002 about 4000 staff members were included in the Foreign Ministry, among which about 1200 were female cadres, with 800 based in the ministry and only 400 on foreign posts. Of those assigned abroad, 45 held the rank of counselor or above; six of these were ambassadors, five counsels-general. (Sun Jing Li, 2003)

As she sat on her rooftop this sunny May morning, Jin considered the meeting she had had last week with a cousin who was part of the executive team of a new joint venture in electronics with an American firm. The enterprise was expanding very rapidly, with more need for middle managers and technical staff competent in English. Xin Meng had called Jin and asked to meet to discuss hiring her as a Vice President for staff development. The salary would be triple her current one, and there would be frequent trips to the United States, which Jin always enjoyed. Still, she would need to give up her years of accrued seniority, her comfortable and subsidized housing, and most importantly her job security. Jin knew of many, such as her engineering friend Liu, who had ventured forth into the newly emerging private sector only to be unemployed and scrambling for an income a few years later, when economic developments or poor, inexperienced management of the new enterprises brought severe downturns or even collapse of the ventures. The western partners, of course, also suffered in these events but could absorb the losses far more easily than the new entrepreneurs within China itself. The political and legal systems, also, were just beginning to address many issues of a partially free market, and individual workers and companies were often at risk due to lack of a stable legal framework.

Thus, even in the new China, Jin realized there were hurdles professional women would encounter. (Shaffer et. al., 2000) The Chinese mainland has a long history of equal rights legislation; the first constitution (l954) provided women with equal rights with men in economic, cultural, social and family arenas. Insofar as this is more a statement of intent rather than a guarantee of rights (Pearson), several amendments, including the Law on Safeguarding the Rights and Interests of Women (1992) have been designed to further guarantee women's rights and promote equality with men. However, Jin knew that these amendments have been criticized for lack of penalties and general imprecision (Pearson). Indeed, despite legal protections, differential treatment of women

and sexual harassment in the PRC still seemed widespread (Honh). Further, conditions are worse for women in the countryside, where 75% of Chinese women still resided in 2000. (Wu Qing, *China Daily,* May 14, 2002)

The recent economic reforms have stressed efficiency, and women have been discriminated against in terms of hiring, layoffs, and wage and pension systems (Summerfield; Zheng). Sexual harassment has increased, especially among rural women moving to urban areas and suffering exploitation and harassment (Jacka; Zhong). Movement from a planned, controlled economy to a market economy has also resulted in loss of administrative controls and protections, which have been replaced by personal wishes and rule of managers, the majority (89%) of whom are male (Honh). A study by the All-China Women's Federation Research Institute had shown that "Women's mobility in their life-long career tends to be horizontal while men's mobility is upward" (Zheng, p.73). In layoffs, the proportion of laid-off female workers has been higher (59%) than that of male workers (Zhang and Zhao, cited in Cooke). This research also found that women were discriminated against in retirement, and often compelled to retire at an earlier age than men. Thus, Jin feared she might be more at risk, in terms of long-term security, in a private sector position. She could see that the new saying about women's overall progress in China, "one step forward, two steps back," might apply to her.

All her life others had made most of the choices: her work in the countryside, her matriculation at a particular college, the choice of her fields of study, even her assignments to study in the United States, had primarily been dictates of her government. She recalled how, in college, she had dreamed of a diplomatic career which had never materialized for her; she knew that, had she been male, she would have pursued assignments with the Foreign Service abroad. Now, in the middle of her life, the new economic and political conditions in China presented her with a serious professional alternative, and a somewhat frightening choice. What should she do?

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STUDENT RESPONSE

1. What were the most important gender expectations shaping Jin's early life in China? What can you see changing in China during the years of Jin's career described in the case?
2. What key family policies affected Jin's career path? What changes would have increased her choices, earlier in her career? Why do you suppose China did not institute these changes?
3. How is her marriage important to the developments in Jin's life and career? How is this similar to or different from similar issues in the United States or other western societies?
4. Do some research on the United States Foreign Service. How would the career of a female U.S. diplomat be similar to and/or different from what Jin experienced in the l980's to the present time?
5. What are the key factors in Jin's upcoming decision? Given what you know about her and about contemporary China, what do you think she would choose, and why?

APPENDICES

Appendix A: Excerpts from Marriage Law of the People's Republic of China
Appendix B: Excerpts from the Population and Family Planning Law of the People's Republic of China
Appendix C: Discussion of China's Marriage Law from *People's Daily*, December 27, 2001

RIVERSIDE COUNTRY CLUB, PRIVATE OR SEMI-PRIVATE: MUTUALLY EXCLUSIVE DECISION MAKING UNDER UNCERTAINTY

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CASE DESCRIPTION

The primary subject matter of this case concerns the financial impact of a proposed change in business operating strategy. Secondary issues examined include financial modeling and sensitivity analysis of mutually exclusive decisions. The case requires students to have an introductory knowledge of accounting, finance, spreadsheet modeling, and general business issues, thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one three-hour class session and is expected to require 3-4 hours of preparation time from students.

CASE SYNOPSIS

This case describes the challenges faced by Chris Johnson, owner of Riverside Country Club, concerning a proposed change in business strategy. Currently, Riverside Country Club operates as a co-purpose semi-private golf course that allows play by both members (who pay a fixed monthly fee) and the general public (who pay a daily fee). However, Johnson is evaluating whether a switch in operating strategy from a semi-private club to a private club might generate a higher return on investment. Moreover, there are two separate private membership proposals. One is a traditional private club membership where individuals pay a set monthly fee which covers unlimited golfing privileges, but does not include extra fees. The other private membership concept is an all-inclusive membership in which members pay a higher monthly fee but do not incur extra fees.

CASE BACKGROUND

Chris Johnson's purchase of Riverside Country Club in 2003 was the culmination of a long-time dream of one day owning a golf course. Mr. Johnson has been in the insurance business since graduating with a degree in marketing on a golf scholarship. Mr. Johnson is an accomplished golfer with statewide recognition, having won State Amateur Player of the Year awards on three different occasions. Now Johnson's time is split between the insurance agency and overseeing his investment in Riverside Country Club. Johnson's decision to purchase Riverside for $2.4 million was reached only after a thorough valuation conducted by a local investment banking firm specializing in private company acquisitions.

Two years into the purchase of Riverside, Johnson is considering a change in operating strategy. At present, Riverside is operating as a co-purpose semi-private club that generates revenues from both members (who pay a fixed monthly fee for unlimited golfing privileges) and the general public (who pay a daily per-use fee). Johnson's business plan at the time of purchase included the eventual conversion the club from a semi-private course to a private course as home-site development and interest in the club grew. Although his original forecast projected a five-year outlook for this conversion, higher than anticipated growth and profitability has now pushed up the

potential timetable for conversion. However, Johnson is uncertain as to whether an earlier change operating strategy will lead to an even greater return on investment or merely set back profitability over the next three years.

GOLF INDUSTRY BACKGROUND

Prior to 1970, the golf market had two different types of courses- lower budget courses operated mainly by municipalities, and more upscale private country clubs. In the earlier 1970's a new trend known as "A Country Club for a Day" began to emerge as the title for newer upscale daily fee courses. These courses were open to the public and provided high quality design, maintenance and service. At present, most of the industry research is based on a three segment framework, which classifies courses as municipal, daily-fee, or private. In reality, the golf course market now contains many more market segments. These market segments are based on several interrelated factors with a focus on the type of customer served. For example, a private club may serve local residents in a certain income bracket, while a similar private club may be structured to serve corporate clients.

On the demand side, the total number of golfers in the United States has remained fairly flat over the last five years, but has increased from 10 years ago. In 1994, an estimated 23 million Americans were classified as golfers having played 421 million rounds of golf at approximately 11 thousand courses. By 2004, the number of American golfers has grown to 27.4 million and the number of rounds played increased to approximately 498 million. Of the 27.4 million total golfers in the US, 12.8 million are classified as core golfers (playing more that seven rounds per year) and 14.6 million are occasional golfers (playing one to seven rounds per year). The average core golfer plays 37 rounds per year.

From an operational viewpoint, golf course revenues are generated from five main sources: green fees, cart rentals, range ball fees, food and beverage sales, and pro shop sales. Most golf courses operate as either a public daily fee, semi-private, or private course. Daily fee courses are open to the general public and charge customers on a per use daily basis. For example, a customer playing a daily fee course might pay $30 for the green fee, $10 for use of a cart, $5 for a bucket of range balls to practice before playing the round, and $10 for a sandwich and drink. At a private course, play is restricted to members and guests. Members typically pay a fixed monthly fee for unlimited golfing privileges (green fees), but they continue to pay for cart fees, range ball fees, food and beverages, pro shop purchases, and guest fees. A new trend in private course operations includes an all-inclusive membership, in which members pay a higher monthly fee that includes unlimited golfing privileges, cart usage and range balls. A semi-private course allows play by both members and the general public, but usually affords special privileges to its members.

RIVERSIDE COUNTRY CLUB

Riverside Country Club opened in 1995 as a semi-private golf course located in Maumelle, Arkansas, a growing suburb located in the greater Little Rock metropolitan area. Riverside offers an 18-hole championship golf course spread out over 151 acres along the Arkansas River, complete practice facilities, a full-service snack bar with an ability to provide catering services, and a pro shop offering top quality merchandise. Riverside Country Club was originally built by Golf Corp LLC to take advantage of the surging popularity of golf that occurred during the early 1990's.

Since inception Riverside Country Club has continued to operate under a co-purpose semi-private operating strategy. Total revenues in 2004 were $1.31 million, of which member dues attributed $297,000, daily-use green fees attributed $578,000, cart fees attributed $200,000, pro shop sales attributed $106,000, food and beverage attributed $119,000 and range ball fees accounted for the remaining $10,000.

THE SITUATION

One rainy Friday afternoon, Chris Johnson was reviewing the most recent financial records of Riverside Country Club when he began to entertain the thought of converting Riverside from a semi-private club to a private club. Although Riverside currently has 165 members and member dues accounted for almost $300,000 in revenues in 2004, non-member green fees had accounted for almost $600,000. Johnson wondered how many actual new members it would take to increase profitability beyond what was currently generated.

Johnson quickly realized that any decision to change Riverside's operating strategy would involve risk and should not be done hastily. He decided to call Brad Story, a financial consultant with ADA Management Services, and explain his idea. Story recommended that Johnson come in next week with last year's financial statements and detailed operating data as well as projected financial statements for 2005 under the current semi-private operations. Story would then create a financial model for both a traditional private membership and all-inclusive private membership to use as a comparison with the current semi-private operating structure. In addition, Story would perform a sensitivity analysis on the financial models to determine the risk involved in each proposed operating strategy.

Johnson remarked that Riverside currently has 165 members who pay $150 per month, play an average of 45 rounds per year and in his estimate account for about 30% of the total rounds played. Under current operating forecasts for 2005, the total number of rounds to be played at Riverside is estimated at 25,000 (See Table One for a summary of 2005 projections). While daily fee rounds are projected to be 17,575, Johnson noted that weather and local competition might affect the actual number of daily fee rounds. Johnson estimates a margin of error of plus or minus 2,000 rounds.

A private membership operating strategy would eliminate the revenue uncertainty of daily fee rounds, but in turn would be almost completely dependant on membership revenue. Under a private membership operating structure, Johnson assumed that each member would continue to play an average of 45 rounds per year as well as pay for about 10 daily fee guest rounds per year at $25 per round. In addition, Riverside would continue to sponsor a number of corporate/charity outings each year and over the last three years Riverside has averaged 4,500 corporate/charity daily fee rounds at $25 per round from corporate/charity outings. Both member and daily fee rounds would be subject to an $8 cart fee, and Johnson continued to believe that 85% of rounds would utilize a cart. Pro shop sales, food and beverage sales, and range fee revenue would continue to be estimated on a per round basis. The cost estimates for the private membership would remain unchanged. Johnson mentioned that his marketing research of other private clubs in the region would likely support a private membership monthly fee of $190 per month. At this rate, Johnson estimated he could attract 300 members and wondered what the effect on Riverside's cash flow would be compared with the current 2005 projections. However, Johnson realized that the actual number of members might fall somewhere between 250 and 350 and was concerned about how much risk was involved if fewer than expected members joined the club.

Johnson was also interested in a new trend in private membership that incorporated an all-inclusive membership strategy. An all-inclusive membership would work exactly like the traditional private membership except that members were charged one monthly fee for their golfing privileges, use of carts, and use of the golf range. Guest fees would increase to $35 per round, but guests would not be charged for cart usage or use of the range. Corporate/charity outing round fees would increase to $35 but there would be no charge for cart usage or use of the range. Johnson estimated that members would average 10 guests per year and corporate charity daily fee rounds would remain at 4,500 per year. Johnson estimated that he could charge $250 a month for the all-inclusive membership and attract 265 members to this format, although anywhere from 215 to 315 members was possible.

Story recommended to Johnson that a mutually exclusive decision such as this be analyzed by comparing operating cash flows under the different proposals because the proposed changes resulted in an adjustment in operational strategy and did not include any changes in financial structure or capital improvements. Johnson was both familiar and comfortable with this approach and added that depreciation for 2005 was estimated at $125,000 and the marginal tax rate used by Riverside is 30%.

THE TASK

At the conclusion of the meeting, Story suggested Johnson come back at the end of next week. Story said he would put together a preliminary financial sensitivity study to help Johnson decide on the appropriate operating structure for Riverside. Story turned over a copy of his notes from his meeting with Johnson to a young associate and asked his associate to prepare a report containing the following information:

1) Calculate projected operating cash flow for Riverside remaining a semi-private club using the data provided in Table One.
2) Create a spreadsheet model for the semi-private plan that will allow for a sensitivity analysis of the operating cash flow to a change in the daily fee round inputs.
3) Calculate the operating cash flow for the semi-private plan using a:
   a) low estimate of daily fee rounds = 15,575
   b) base projection of daily fee rounds = 17,575
   c) high estimate of daily fee rounds = 19,575
4) Modify the spreadsheet model to calculate operating cash flow for Riverside operating as a traditional private membership allowing for a sensitivity analysis of the operating cash flow to a change in the number of members.
5) Calculate the operating cash flow for the traditional private membership plan using a:
   a) low estimate of 250 members
   b) base projection of 300 members
   c) high estimate of 350 members
6) Using the traditional private club model, calculate the breakeven number of members required in order the match the operating cash flow of the base projected semi-private operating strategy.
7) Modify the spreadsheet model to calculate operating cash flow for Riverside operating as an all-inclusive private membership allowing for a sensitivity analysis of the operating cash flow to a change in the number of members.
8) Calculate the operating cash flow for the all-inclusive private membership using a:
   a) low estimate of 215 members
   b) base projection of 265 members
   c) high estimate of 315 members
9) Using the all-inclusive private club model, calculate the breakeven number of members required in order the match the operating cash flow of the base projected semi-private operating strategy.
10) Discuss the risk associated with each business operating strategy and prepare a recommendation for Johnson.

TABLE ONE				
2005 Revenue and Expenses Projections				
2005 Projections				
Daily Fee Revenue			**Member Revenue**	
Average Price Per Round	$25		Number of Members	165
Daily Fee Rounds	17575		Monthly Dues	$150
			Rounds Played Per Member	45
			Member Rounds	7425
Other Revenue			**Other Costs**	
Cart Fee per round	$8.00			
Percent Utilizing Carts	85%			
Pro Shop Revenue Per Round	$5.00		Pro Shop Cost of Goods Sold	70%
Food and Beverage Revenue Per Round	$4.00		Food and Beverage Cost of Goods Sold	35%
Range Revenue Per Round	$0.40			
Revenues			**Costs**	
Membership Dues	297,000		*Cost of Goods Sold*	
Daily Fees	439,375		Pro Shop (70% of Pro Shop Sales)	87,500
Cart Fees	170,000		Food and Beverage (35% of F&B Sales)	35,000
Pro Shop Sales	125,000		Total Cost of Goods Sold	122,500
Food and Beverage	100,000			
Range Fees	10,000		*Fixed Costs*	
Total Revenues	1,141,375		Total Fixed Costs	763,500
Depreciation				
Depreciation	125,000			

BOGART'S MARINA

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CASE DESCRIPTION

The primary subject matter of this case concerns advanced managerial accounting. The case has a difficulty level of three, appropriate for the junior level, or five, appropriate for a first year graduate level. The case is designed to be taught in one or two class hours and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

This case is useful in the first class of managerial accounting at the junior or MBA level to assess and refresh student's knowledge of the various managerial accounting techniques: when they are appropriate and how the information from them might be utilized in management decisions. The student is put in the position of a manager who has just been hired to run the day-to-day operations of a small business with multiple product lines: boat moorage, convenience store, restaurant/bar, and boat repair. The new "manager" must determine what information to request from the staff and discuss how the items selected would be helpful.

BOGART'S

Bogart's is a local business catering to boaters. The business is split into four main areas – the marina, a deli/bar, a small convenience store, and boat repair services. The firm accepts cash, major credit cards, and personal checks on local banks as forms of payment.

The marina has 300 slips which are each rented for $1200 for the year. Due to a shortage of slips in the area, there is a waiting list for slips. To make the rental fee more manageable, renters can elect to pay an extra $50 handling fee and then pay $100 on a monthly basis rather than having to pay all $1200 at one time. All of the slips have electricity and water provided. Limited short-term moorage is also available for $20 per day. The short-term moorage is always full from May through September.

The marina also sells gasoline and diesel fuel to boaters.

The deli and bar are in the same building and sell each other's products. They offer limited menus of sandwiches and burgers and serve beer and soft drinks. The bar also features hard liquor. The Sam Spade Sandwich and the Bogie Hoagie are favorite menu items among local residents and the deli does a fairly heavy take-out business year round. The deli is smaller in square footage than the bar and intended to appeal more to families. The bar has several big screen televisions tuned to sports events and gets the majority of its customers off the boats. All of the food is prepared on site by Bogart's two cooks.

The convenience store is in a section of the building which holds the general administrative offices for Bogart's. It sells an assortment of toiletries, fishing supplies, alcoholic beverages and food items to customers off the boats. It also has shower facilities and a Laundromat, both of which are popular with boaters. The general and administrative offices house the management, accounting, and maintenance staffs.

The boat repair shop is the fourth business area and is housed in a large building on the water. It's peak season runs from the spring, getting boats ready for launch, through the beginning

of fall when many owners remove their boats to storage. Bogart's keeps their two chief boat mechanics on payroll all year to be assured of their services during the peak season. The co hires several additional mechanics to meet demand during the busy season.

REQUIRED

1. You have recently been hired as the new manager of Bogarts with just the general knowledge of the company listed above. What specific items of managerial accounting and general management control information would you request?

2. Explain how each item of information would be useful.

E11EVEN: A START-UP RESTAURANT CASE STUDY

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CASE DESCRIPTION

The primary subject matter of this case concerns entrepreneurship. Secondary issues examined include human resource selection and training. The case has a difficulty level of four, appropriate for senior level. 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

E11even is a healthy fast food restaurant that was started by Terry Jones in 2002 in Pocatello, Idaho. Terry, 26 years old at the time of the start-up, had worked in the restaurant industry though out high school and college. In college, he obtained a business management degree. Before starting his business, Terry talked to advisors, including an accountant, insurance agent and several food vendors. He also formulated a business plan that was used to attract outside funding.

The business-level strategy Terry pursued for E11even was to offer healthy fast food (primarily salads and sandwiches) to health conscious people who are a slave to a fast paced world. Although he wanted to target or cater to people of all ages, he predicted that much of the sales would come from the college students at Idaho State University because his business location was very close to campus.

E11even's pre-start-up went quite smooth. Of course, some activities (e.g., remodeling his business location) took longer than originally expected to complete so he had to postpone the opening. Prior to opening, Terry interviewed and hired employees in an informal way, mainly based on his network of college friends. Several months after opening, however, he began to experience a growing number of employee problems. The increasing human resource problems he faced included turnover, absenteeism and training. Training was an issue because customers complained that menu items were not uniformly prepared from one day to the next day. The chief focus of the case study is on how Terry can correct these human resource issues.

ID PRO SYSTEMS: DISCIPLINING OFF DUTY BEHAVIOR

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CASE DESCRIPTION

The subject matter of this case is the role of management in employee discipline. The case can be used to explore the issues associated with the role of the supervisor in employee discipline for both on the job and off duty behavior. Since the case integrates material from Management (supervisor's response to disruptive employee behavior), Business Law (legality of termination), Human Resource Management (company personnel policies) and Organizational Behavior (employee discipline and conflict resolution) it could be used in any of these classes. The case has a difficulty level of two. The case can be presented in one to four class periods depending on the number of issues considered. Students can be expected to spend two to four hours of outside preparation to be fully prepared to discuss the case.

CASE SYNOPSIS

Despite the dot.com bust, parts of the computer industry are still hot. ID PRO SYSTEMS was a moderately successful, but little known computer software division until Identity theft became front page news. Its security department has brought some notoriety to ID PRO, as they won recognition for their early development of a spyware detection program. The security department is headed up by Eric Chambers. Eric is perceived as a talented programmer, at least by the regional vice president, who has given Eric rewards which are not shared by others. This has created a mild sense of both resentment and jealousy among other employees. This resentment is further fueled by a high turnover rate in the department and rumblings about Eric taking credit for the work of others. Within the division, some question the exact nature of Eric's contributions. The questions raise doubts about Eric's value to the department. These doubts are exacerbated by personal issues that some of the employees have with Eric due to his outspoken advocacy of his views and his combative argumentative style. These feeling were brought to a head Friday evening when Eric verbally attacked two women regarding their political views during a "happy hour" gathering of employees. Eric's attack was furious, loud and abusive and had to be stopped by the bouncer at the bar. Partly as a result of this behavior a group of employees is in your office demanding that you fire Eric immediately. As the group sits in your office, a number of issues run through your mind, including: Whether Eric's behavior warrants termination? And it if so, whether you have the authority to fire Eric for off the job behavior? And if you fire Eric will you be overruled by the vice president of the division? As Regional Products Group Director, you know that you must do something about this situation, but what?

OFF DUTY BEHAVIOR: A CASE OF DISCIPLINARY ACTION AT ID PRO SYSTEMS?

Despite the dot.com bust, parts of the computer industry are still hot. ID PRO SYSTEMS was a moderately successful, but little known computer software division of a conglomerate until

Identity theft became front page news. The division has five functional departments-- games, security, decision support applications, technical applications, and robotics (the most recent and cutting-edge product group). While all of the departments have contributed to the division, some in profits and others in terms of visibility, the most successful and profitable portion of the division has been the games department. While none of ID PRO's games have been blockbusters, they have done well enough to contribute to the division's profitability. However it is the security department which has brought some notoriety to ID PRO, as they won recognition within the industry for their early development of a spyware detection program. Since the division foresees an impending boom in security software it changed the division's name from Computer Software Systems to ID PRO SYSTEMS to reflect the future strategic importance of this product group.

The security department is headed up by Eric Chambers. Eric is not your typical computer programmer. He holds a reputation as being a somewhat eccentric iconoclast, as evidenced by the fact that he has unkempt long hair and beard yet wears designer clothing. Eric is also somewhat of an enigma. He is a "health nut" and works out religiously. This fits in with his strong views on the environment, as he doesn't own a car, refuses mass transit and walks or rides a bicycle everywhere. While a proponent of recycling, he doesn't think twice about littering as he tosses banana peels and apple cores when moving around the city. While not religious, Eric is a strong believer in and activitist for the pro-life movement. Eric believes so strongly in the sanctity of life for all beings that he is a vegan. He takes his belief to the point that not only does he refuse to swat a fly or step on a bug, but also he refuses to wear mosquito spray.

Eric frequently shares his intently held views with anyone who will listen. One of those who listened is the Regional Director of Human Resources, Marian Wilcox. Eric had presented research demonstrating that healthy employees were cost effective employees as he pushed for a company supported health program. Partly as a result of Eric's efforts, employees were given time off to exercise. Many of the company's employees and especially those in the security department admired Eric for the results of his tenacious persistence in seeking the health program.

Eric is an extremely talented programmer. He led the team that produced the spyware program which received recognition. Eric is perceived by ID PRO's vice president as being instrumental in writing the spyware program. His team is working on the next generation of spyware detection and destruction software. If they can be first to the market then ID PRO SYSTEMS has the potential to dominate the market and be recognized as an industry leader. Since ID PRO is staking a large part its future on computer and identity security, the vice president of the division thinks that Eric is an extremely valuable employee. Therefore, the vice president has given Eric certain perks/privileges which have not been shared with others in the division. This has created a mild sense of both resentment and jealousy among other employees.

Employees in the other departments of ID PRO respect and value what Eric and his group have accomplished. Eric's department consists of a group of the top young programmers and computer science interns. The department is viewed as being very capable and innovative, as evidenced by their award.

While the department has been successful, it has not been without controversy. The department has been plagued by turnover, as a number of very talented computer programmers in Eric's group have resigned and left the company to work for rival companies. Although high turnover rates are not uncommon for high tech companies, the rate of turnover in Eric's department is significantly above the average as compared to other departments in the division. Some employees of other departments view this as a result of Eric's combative management style combined with his outspoken advocacy of his views. Yet, those who have remained have an intense loyalty and allegiance to Eric. For them, Eric's management style and views are very compatible. In fact, several of the interns have adopted many of Eric's positions on issues. Some of the employees in other departments wonder whether Eric has actually developed a cult-like following especially with his interns.

There is also considerable speculation as to the actual extent of Eric's personal contribution to developing the spyware detection program. In fact, several employees have openly questioned Eric's role in the success of the programming team. Specifically, they wonder as to how substantial was the role the interns had in conceptualizing and developing the program? Could a different team leader have produced the same result? Such questions have been fueled by comments made by programmers during exit interviews who have suggested that Eric may be taking the credit for the work of others. While there is growing speculation among the employees of the other departments, Eric's immediate supervisor, Clinton Shaw, Regional Products Group Director, dismisses such comments as jealously of Eric's success and envy over the rewards that he has received.

Some of these same employees also have personal issues with Eric, as not everyone gets along with Eric and his outspoken advocacy of his views. It is very common for Eric to get into arguments over his views at divisional gatherings. He is not at all shy about pushing his political views on others. In fact, Eric is perceived as actually thriving on his frequent arguments and debates concerning his political agendas. While some of the other employees recognize the strength of his beliefs/convictions and can respect his attempts at persuasion, others see him as, at a minimum, a nuisance while others are offended at this tactics. While there is disagreement over his positions, although some share Eric's views, there is near unanimity in opposition to Eric's approach. Eric seems to want to argue for the sake of argument, placing a high value on winning, no matter how insignificant the topic. Perhaps most frustrating is the attitude that Eric takes, "if you don't agree with me, you are wrong," and its attendant implication of "you are not as smart as I am."

As an example, recently in the break room, two of the employees were discussing the pronunciation choices of the disc jockey on the radio. Eric interjected himself into the discussion and proceeded to convert it into an argument over the importance of "correct" pronunciation. During his presentation, Eric went into long diatribes about this position. He would interrupt others, not allowing them to develop and explain their positions. Eric became loud and used profanity in advancing his position. As people left the break room, they were shaking their heads wondering what had just transpired.

Eric left with a smug look on his face content in another "victory" and in the triumph of his position.

Due to the success of Eric's department and his relationship with the division's vice president, many of the other employees tolerated Eric's argumentative behavior. Some even respect the fact that he is such an outspoken advocate for his beliefs. However, his behavior exceeded the limit during one of the recent Friday night outings. It is a frequent occurrence for employees to gather at a bar near the office to relax and socialize after a long week's work. This particular Friday, Eric joined the group. After a while, and a few drinks, the topic turned to the upcoming city election. What started as a discussion of various issues and positions quickly developed into a very heated argument when Eric got involved. Eric and two female employees became involved in a frenzied argument over the merits of the candidates' positions on potholes. Eric had had several drinks and was becoming very loud and obnoxious as he advanced his position. It was obvious to those there that the women, who weren't familiar with Eric and his argumentative style, were becoming uncomfortable. As Eric paused to take a breath in one of his diatribes, the women got up to go to the restroom. Eric followed them and was able to corner them in order to continue his tirade. He had them trapped in the narrow hallway leading to the women's restroom and wouldn't let them pass. He started yelling and screaming profanities as he berated the women. He called the women "idiots" for supporting their candidate, reducing the two women to tears. At this point the bouncer intervened and threw Eric out of the bar.

At 8:00, Monday morning a group of 14 employees are in your office. The group consisted of eight employees who had been at the bar Friday night, but not the two women Eric had cornered, three employees who had witnessed the incident in the break room and three interns from Eric's group. The group is demanding that you fire Eric immediately for his abusive behavior. As the

group sits in your office, a number of issues run through your mind, including: Is this a group of jealous, envious employees who are trying to take advantage of a situation in order to get an outcome they desire? Whether Eric's behavior warrants termination? And if so, whether you have the authority to fire Eric for off the job behavior? And if you fire Eric will you be overruled by the vice president of the division? As Regional Products Group Director, you know that you must do something about this situation, but what?

COMPANY POLICY: OFF-DUTY BEHAVIOR

"Employee conduct during off duty hours is a reflection on the company's image. As such, we expect all of our employees to behave in a responsible manner outside their normal work hours. Failure to do so, may result in disciplinary action.

INTERLANDDATA WEB HOSTING: STRUCTURING THE ORGANIZATION FOR GROWTH

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CASE DESCRIPTION

The primary subject matter in this case is formulating strategic decisions that need to be made regarding a small entrepreneurial firm's future direction. The owners are a couple who are faced with the decision of whether or not to expand as well as with the challenges of obtaining the necessary financing, structuring the organization for growth, and allocating management time. This raises several issues and illustrates several lessons. In particular, management proposes potential changes, offering students the opportunity to critique their plans. Evaluated carefully, students should identify the critical success factors and whether and how these elements can be leveraged as they implement their expansion plans. The purpose of this case is to provide students with enough information about the business situation to be able to chart what course of action the company should take at a given point in time. This case has a difficulty level of four, appropriate for senior level. It is designed to be taught in two class hours and is expected to require four hours of outside preparation by students.

CASE SYNOPSIS

During the summer of 2004, the owners of InterlandData, Mark and Susan Hamidi, began to assess their current position within the Web hosting industry and their alternatives for expansion. After nine years in operation, the company had achieved a reasonably stable, yet not highly profitable financial footing. Both owners are experiencing considerable pressure to expand their organization. They believe that opportunities exist to franchise the operation, or grow by expansion. The case ends with the co-owners faced with making a strategic decision about the best way to expand and how to find both the managerial and financial resources to do so. An implicit question in the case involves the long-term viability of the business.

INTERNAL ENVIRONMENT

Brief History

The two entrepreneurs responsible for InerlandData's success were Mark Hamidi and Susan Hamidi, founder and Chief Technology Officer, and CEO/Director of Marketing, respectively. They have worked as a team since 1995, when Mark founded InterlandData. Initially, Mark operated the business on a part time basis from his home.

Through word of mouth and various search engines in the initial stages of the Internet boom, businesses requested services from InterlandData. By June 1996, it had 100 customers and Mark had moved the business out of his basement into the company's first office. In 1998, the company became incorporated, and by June 1999, it had reached a milestone of 1,000 customers. In the first quarter of 2004, the company had grown to a client base of more than 2500 in 42 countries, and the owners believed that the business was only operating at about 60 percent capacity.

Management and Personnel

There were five employees at InterlandData including Susan and Mark Hamidi. Susan was President and CEO of the company. She joined the venture in 1996 and had previously worked as a Staff Accountant at a network-marketing firm for three years. Her managerial responsibility included direct supervision of two employees, Mary and Pam. Susan's primary goal was to increase the customer base in North Carolina in which the company operated. She worked diligently towards her goal by exhibiting at various trade shows and networking at local professional association meetings.

Mark had only one employee under his direct supervision, Bill, and hence identified his main weakness as his lack of desire and ability to manage people. Yet, Mark felt that his main strength was the ability to analyze and correct technical issues. He felt that one of his biggest accomplishments was the continued growth and profitability of the company despite the economic downturn. Mark a Masters in Computer Science from the University of London.

Mark and Susan owned 100 percent of the stock in the company. They had not set any long-range goals. The company had no written business plan, and the management team did not feel that a formal plan was necessary. "We have been too busy surviving to think about where we should be five years from now," says Mark. "But now that the company is on its feet, we're going to think about the future."

Products and Services

InterlandData's operations consisted of Web hosting, Web design, IT solutions and other Web services. Under Web hosting, the company offered both dedicated and virtual Web hosting packages. Dedicated plans started at $149 per month, while virtual plans ranged from $19 to $60 a month. A standard dedicated hosting package included generous amounts of bandwidth, several email accounts, user accounts, virtual hosts, large amount of disk space, a back-up server, SSL certificate, and 24/7 technical support. These features were relatively consistent among competitors in the hosting industry.

Unlike most of the Web hosting firms, InterlandData did not have an established fee for every feature or service. After a potential client noted where his/her interests lay, the company would begin negotiating procedures with the customer until an agreement was formed between them. The company was also able to offer e-commerce websites, which often included flash animations and database driven features.

With regard to IT solutions, the company offered the independent services of systems programming, computer cabling/networking, secure certificate installation and custom software development. These services like e-commerce services were charged on a project-by-project basis with factors such as time and intensity of the project being weighed. The same tactic was often utilized when providing Web design services.

Operations

InterlandData's office included a reception area, three offices and one room dedicated for servers and technical equipment. The company owned and operated the servers guaranteeing them with a 99.99% uptime.

The company's Data Center was outsourced to a local company. Although InterlandData had back up files, it was very difficult to switch the Data Center if the need should arise. The Data Center staff provided continuous observation through a closed circuit TV system to protect against unauthorized entry. The Network Operations Center was the central nervous system for the Data Center, and it included servers that were housed in a high-tech, locked cabinet with customer

security at heart. Onsite diesel-powered generators were ready and waiting to prevent service interruption at the first sign of loss power. In the event of power disruption, the Automatic Transfer Switch would power the generators within seven seconds for continuous operations.

InterlandData's Customers

The customers served by InterlandData were both individual resellers and businesses around the world. Susan estimated that about 2,500 customers used the Web design and Web hosting services of the company in early 2004. In the USA, the largest customer concentrations were found in the states of Texas, North Carolina, California, New York, and Florida. They had only 216 customers in their own state of North Carolina. Of the USA's customers, eighty percent were small businesses (less than 500 employees), fifteen percent were medium sized companies (between 500 and 1000 employees), and large businesses (over 1000 employees) accounted for about five percent. In the foreign market, the larger customer bases were located in Germany, Australia, England, West Africa, Portugal, Sweden, and Thailand.

Marketing and Advertising

InterlandData's marketing objectives were to attract more users, to retain the business of current users, and to enhance the company's brand awareness. In 2002, the company's marketing and advertising budget was about $19,600, the majority of which was focused on growing the customer base. The company did not have much success with the use of dedicated sales staff in promoting the company's services. According to Susan, the resulting sales volume and the return on investment was not sufficient to support the costs of a sales position. In addition, Susan found print advertising too expensive for the company. She creatively arranged cheaper advertising in some high profile publications.

InterlandData's most effective means of attracting customers was through referrals from existing customers. One of the company's incentive programs was tied to the referral business segment. Some customers who referred others received free hosting services for a designated number of months, others received deep discounts on service charges, and still others received cash rebates. Historically about fifty five percent of the company's new sales had been a direct result of word of mouth.

Customer Service

InterlandData's management believed that attentive customer service was critical to retaining and expanding its customer base. Customer service representatives were available 24 hours a day, seven days a week to provide assistance via e-mail or phone. Although there was no on-site staff at the company's office twenty-four hours a day, the company had a system that received calls after business hours. Customers needing tech support would either email or call InterlandData. After business hours, the on call person who was designated according to rotation, would be responsible for checking the email messages from home and carrying the pager that indicated when the company had received telephone calls. Each server was checked every 2.5 minutes by an automated machine, and if there were a problem, the machine would page the person on duty.

Historical Financial Performance

Like many new ventures, InterlandData's first three years of operation were financially unstable, in part because their services were new to the market. Early marketing efforts generated

positive publicity as well as numerous word-of-mouth referrals among clients. By the fourth year of operation, the financial picture had stabilized as a result of improving operations.

Historically, the business' growth had been financed through retained earnings, and a line of credit with Bank of America. In 2001, the company had its highest amount of long-term debt of $26,038. As of 2000, the company had no long-term debt. In general, the management did not like debt, but occasionally they drew cash on a credit line and paid it off within two weeks.

In particular, operating profits in year 2003 had declined. Further, even though total revenue had been growing in previous years, it became evident that its rate of growth had started to slow or remain at 28 percent. Mark and Susan wanted to reverse these trends and insure a strong position for their business in the future. The company had been making positive profits, and there still existed a lot of upside potential.

INDUSTRY AND COMPETITIVE ENVIRONMENT

The Web hosting industry was characterized by a wide variety of different types of providers, most of them small. In 2004, it was estimated that there were over 10,000 Web hosting providers worldwide. Providers ranged from One-Source Providers, to Application Services Providers and Managed Service Providers. Products and services from One-Source Providers included custom Web site design, custom programming, strategic consulting, marketing and promotion. Application Service Providers incurred the costs of building and maintaining applications and databases for their corporate clients. With Managed Service Providers, the clients had their own servers with full monitoring and maintenance services and around the clock technical support.

In 2004, the Web hosting market was highly competitive, in part because the market was saturated, supply remained greater than demand and there was a high degree of fragmentation. The existing players in the market in addition to pure Web hosting companies included Application Server Providers (ASP), Internet Service Providers (ISP), telecommunications companies, computer hardware suppliers and large information technology firms. Of the thousands of companies in the industry, some of the major players included Verio, AT&T, IBM, Sprint, Dell Host and Navasota. Although there were big names, there were no big profits within the industry. They intended to serve the market by achieving economies of scale in their operations.

Despite the declining trend in the Internet economy, which began during 2001 and continued through the first quarter of 2004, the hosting industry continued to grow because businesses were increasingly using the Web for commercial activities. International Data Corporation, a leading market research firm, predicted that the Web industry revenues would increase from $5 billion in 2001 to over $19 billion in 2004.

Between 2001 and 2002, the largest threat to Web hosting providers was the poor state of the economy, which generated little consumer confidence in any business. The new trends in 2003 had included substantial price discounting, more standardization of Web hosting products and services and use of do-it-yourself software and books. The competition became more intense with the 2002 launch of small-business hosting providers such as Yahoo! with its "business-class Web hosting service" and AOL with its "AOL for Small Business" offering for small-office/home-office customers.

Outsourcing marketing functions and public relations of Web hosting providers were also developing trends in 2004. Marketing agencies could assist Web hosting firms with all components of marketing communications, from developing the marketing plan and strategy to actual execution of advertising plans or public relations. Advertising and marketing agencies could negotiate media-buying rate discounts of up to 40 percent on behalf of Web hosting clients. These volume discounts provided an economies-of-scale cost savings that even large Web hosting companies could not achieve on their own.

POSSIBLE GROWTH STRATEGIES

Susan and Mark believed that timely decision-making was critical to the long-term growth of the firm. Given the competitiveness of the Web hosting business, it was foreseeable that Web hosting would become as competitive in the future. Mark believed that the companies that provided low prices would eventually decline and go out of business due to the lack of qualified support staff. They felt they needed to make plans and could not afford to wait another year and adopt a "wait and see" attitude.

Mark and Susan were considering franchising the company's operations thinking that it would increase profits with minimal investment on their part. Another possible growth option was to grow via expansion, such as through branch offices, or through licensing of the concept. Still, another option was to pursue niche strategy through focusing on either one attractive industry globally or all small businesses in the state of North Carolina.

With all of these alternatives facing them, Mark and Susan knew they had to make some choices and begin planning InterlandData's future. With financial and managerial resources a primary concern in this decision, the question was which direction to choose and how to best plot a path toward a successful future. To Mark and Susan, none of the choices sounded all that great. Maybe there was something they were missing.

TRANSFORMATION AT BTR

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CASE DESCRIPTION

The primary subject matter of this case concerns the viability of the transformation being undertaken in a large, widely diversified company with a storied past. Secondary issues include assessing merger and/or acquisition partners and the ability to assess organizational "fit" with its environment, between its headquarters and businesses, and across the portfolio. The case has a difficulty of six (appropriate for the second-year graduate level). The case is designed to be taught in three class hours and is expected to require six hours of outside preparation by students.

CASE SYNOPSIS

The story of BTR spans exactly 200 years and includes some of the most prominent leaders in British industry. The decision to be made in the case is the direct result of a successful corporate strategy coming out of phase with the changes going on during the 1990's. New management attempts to refocus the firm, but the plan is not well formulated initially, requiring adjustment and a protracted period of implementation.

The case describes the recent history of BTR in two major phases. The short first section begins in 1965 and is marked by the application of a niche-oriented business acquisition policy. Management scanned the environment for wayward businesses that would respond to BTR's methods. Heavy reliance was placed on sound financial reporting and oversight, after a period of transformation.

By the end of 1995— after exactly 30 years— BTR's performance had sharply deteriorated. Forces outside and inside the firm incite mammoth change in the company. Initially, BTR was to be an "international manufacturing and engineering company," a more focused firm, better able to exploit relationships between the businesses. The depth and pace of the changes required were underestimated, however, and corporate management was forced to re-develop BTR the following year into a "leading global engineering company". But, the difficulties of the changes, and the complicating factors of BTR's decreased dividend and an over-extended warrant program, suggest that time and patience may have run out on the firm. At the end of the case, management is left to decide whether to finish implementing the current strategy or to seek partners for merger.

STONEBRIDGE COUNTRY CLUB: CASH… IS THERE ENOUGH?

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CASE DESCRIPTION

The primary subject matter of this case concerns the development and use of a cash budget as a key component in a cash management system. The case requires students to have an introductory knowledge of accounting, finance and general business issues, thus the case has a difficulty level of three (junior level) or higher. The case is designed to be taught in one class session of approximately 1.25 hours and is expected to require 2-4 hours of preparation time from the students.

CASE SYNOPSIS

Paul Sparks, a successful pharmacist and avid golfer, recently sold his family run drug store and is negotiating with Golf Corp LLC to purchase Stonebridge Country Club. Stonebridge Country Club is a private golf course that Sparks has been a member of for the last 20 years. Sparks and Golf Corp LLC have tentatively agreed on a purchase price providing Sparks can arrange financing. Sparks has developed projected income statements, balance sheets and cash flow statements for the first four years of operation for his new company and approached a local commercial bank for a working capital loan and equipment financing. The bank expressed an interest in making the loans but requested Sparks include a cash budget for the first year of operation.

STONEBRIDGE COUNTRY CLUB BACKGROUND

Stonebridge Country Club opened in 1979 as part of a 450-acre residential real estate development in Abilene, Texas, a west Texas community located 190 miles from Dallas/Ft. Worth. Abilene, like many Texas cities, had benefited greatly from soaring oil prices during the late 1970's and early 1980's. In 1979, Abilene had a population of over 100,000 and only 36 holes of golf, one 18-hole private course at Abilene Country Club and one public 18-hole municipal course. Mike and Josh Andrews, owners of LaMiss Inc., a 40,000 barrel-a-day refinery located in Louisiana on the Mississippi River, were the primary investors in Stonebridge. The Andrews brothers reasoned the time was right to build an additional private course in Abilene. San Angelo, a smaller city to the south of Abilene, already had five golf courses in 1979. In addition, Abilene Country Club was known more for its dining and social aspects rather than quality golf. The Andrews brothers had hoped the community would respond to a high quality, golf oriented country club. Initially, their assumptions proved correct and during its peak, Stonebridge attracted over 400 members. However, even as early as 1982, there were signs that the oil boom was nearing its end. The gradual decline of oil prices made it less and less profitable for many companies to continue operations in the oil patches of West Texas. By the late 1980's, LaMiss Inc. had ceased operations as giant competitors were refining 500,000 barrels of oil a day more economically.

Concurrently, Stonebridge's membership had steadily declined and the Andrews brothers eventually sold the club in 1990 to a local civic-minded philanthropist, Jane Nichols, who continued operating the club while Stonebridge members set about trying to increase membership to raise money and buy the club. Nichols realized if Stonebridge Country Club closed, the property values around the club might drop which would reduce school funding and limit growth during an already turbulent economic period.

Stonebridge members eventually arranged to purchased the club in 1993 from Nichols, but were not able to completely pay off the debt until 1999 when members, after several years of disagreement concerning the club's future, finally agreed to sell Stonebridge to Golf Corp LLC, a private company specializing in country clubs. According to a former member, "There were a lot of arguments about why membership was stagnant and who we should borrow more money from, and it appeared that there was really no other way out".

In January of 1999, Golf Corp LLC purchased the club and grounds, and invested over $1 million in renovations, repairs and remolding in order to boost membership. Golf Corp LLC was founded in 1991 with a strategy to acquire and manage golf courses in "demand driven" markets that provide opportunities for revenue growth and margin improvement through Golf Corp's integrated marketing and operational programs. The essence of Golf Corp's strategy is to "market" each course as a separate brand with well-defined customer segments, distinctive positioning, tailored "one-to-one" programs - and responsive tracking and follow-up. However, by 2004, Stonebridge was not expected to provide the return required by Golf Corp's investors and once again, Stonebridge Country Club was up for sale.

BUYERS BACKGROUND

Paul Sparks is sixty-one years old and recently sold the family run drug store he opened 30 years ago. Sparks graduated from the University of Texas' College of Pharmacy in 1965 and a few years later returned to Abilene to open Hillsdale Pharmacy. Mr. Sparks is an accomplished golfer with regional recognition, having won numerous local amateur tournaments over the past 20 years. Traditional retirement activities were not enough to completely satisfy Sparks and when the opportunity to purchase Stonebridge Country Club arose, he decided to pursue a lifelong dream of owning a golf course.

Sparks lived in the residential community adjacent to Stonebridge Country Club and had been a member of the club on and off over the last 20 years. Initially, Stonebridge was a fabulous golf facility with adequate dining, clubhouse and pool facilities, but the decline in oil prices led to a decline in membership and eventually a decline in capital improvement spending needed for maintenance and upkeep. Sparks had dropped his membership in 1992 and joined Abilene Country Club even though it was less conveniently located across town. Sparks, like many of his friends, had become increasingly frustrated by the deterioration of Stonebridge's golf course conditions over the years. Sparks decided to rejoin Stonebridge in 1999, when the club was sold to Golf Corp LLC, under the impression that Golf Corp LLC would have the financial resources to return the golf course to its previous splendor.

Reportedly, Golf Corp LLC had invested over $1 million in renovations and improvements, but in Sparks' opinion, course conditions remained adequate at best. Most of the revitalization efforts were targeted at the dining facilities, club house, and pool. Although membership numbers at Stonebridge had risen to around 200, up from 160 in 1999, the club was no where near the over 400 members seen during the oil boom years of the late 1970s and early 1980s.

GOLF INDUSTRY

Prior to 1970, the golf market had two different types of courses, lower budget courses operated mainly by municipalities, and more upscale private country clubs. In the earlier 1970's a new trend known as "A Country Club for a Day" began to emerge as the title for newer upscale daily fee courses. These courses were open to the public and provided high quality design, maintenance and service. At present, most of the industry research is based on a three segment framework, which classifies courses as municipal, daily-fee, or private. Table One provides a historical perspective on the number of golf facilities under each of the traditional market segments. Over the last 30 years, the golf course market has gradually emerged from a three segment market to one that contains many market segments.

In reality, the golf course market now contains many more market segments. These market segments are based on several interrelated factors with a focus on the type of customer served. For example, a private club may serve local residents in a certain income bracket, while a similar private club may be structured to serve corporate clients.

On the demand side, the total number of golfers in the United States has remained fairly flat over the last five years, but has increased from 10 years ago. In 1994, an estimated 23 million Americans were classified as golfers having played 421 million rounds of golf at approximately 11 thousand courses. By 2004, the number of American golfers has grown to 27.4 million and the number of rounds played increased to approximately 498 million. Of the 27.4 million total golfers in the US, 12.8 million are classified as core golfers (playing more that seven rounds per year) and 14.6 million are occasional golfers (playing one to seven rounds per year). The average core golfer plays 37 rounds per year (see Table Two for a year by year comparison of growth).

THE SITUATION

Sparks and Golf Corp LLC have tentatively agreed on a purchase price providing Sparks can arrange financing. During the negotiation process with Golf Corp LLC, Sparks was assisted by Rick Scott, an associate with Williams Inc; headquartered in Little Rock, Arkansas. Williams Inc. is one of the largest investment banking firms off of Wall Street and has a long historical record of assisting firms arrange financing for new ventures. Williams Inc maintains over 30 offices in key financial cities throughout the United States, including Dallas and Austin.

Sparks, with the help of Scott, developed projected income statements, balance sheets and cash flow statements for the first four years of operation for his new company and approached a local commercial bank for a revolving credit agreement of $200,000 and property and equipment mortgage loan of $1,200,000 (no principal payment is required until maturity). Sparks would invest $600,000 as equity. The projected income statement, balance sheet and cash flow statement for the first year of operation is provided in Tables Three, Four and Five. The bank has expressed an interest in providing the credit but asked Sparks to prepare a cash budget for the first year of operation to ensure the requested financing is adequate. Sparks was unsure how to begin and requested Scott's assistance. Scott stated that similar to preparing forecasted financial statements, they needed to prepare a list of operating assumptions.

THE TASK

Prepare answers to the following questions:

1) Construct a monthly cash budget for Stonebridge for the period January through December 2005. Assume that all cash flows occur on the 15th of each month. Is the requested

$200,000 revolving credit agreement sufficient to meet the needs of Stonebridge during the year? Explain your answer.

2) The cash budget contains both cash inflow and cash outflows. Which do you feel are likely to be the most accurate? Explain your answer.
3) Scott thought it would be beneficial to prepare two additional cash budgets, one based on 75 new members and another with 125 members. Construct two additional monthly cash budgets using the different levels of new members and again assume that all cash flows occur on the 15th of each month. How do the different new membership numbers impact Stonebridge's cash needs? Will the $200,000 revolving credit agreement be sufficient? Explain your answer.
4) Without constructing a new cash budget, explain the impact on Stonebridge's cash requirements if the 100 new members are recruited but there is a three month delay when they join (e.g. expected January members don't actually join until April, February members join in May, etc.).
5) Why is depreciation expense not part of the cash budget?
6) The monthly cash budget prepared assumes that all cash flows occur on the 15th of each month. Suppose most of Stonebridge's outflows are at the beginning of the month, while its collections are toward the end of each month. How would this fact alter the cash budget?
7) Suppose the bank refused to grant the revolving credit agreement what options are available to the company?
8) Temporary excess cash can be invested in marketable securities. What are the characteristics of marketable securities? If excess cash is projected to be continuing rather than temporary, are marketable securities the appropriate investment? Explain your answer.
9) Once again assume all cash flows occur on the 15th of each month. How large of a revolving credit agreement would you recommend Sparks arrange with the bank? Defend your answer.

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WHITTAKER MEMORIAL HOSPITAL

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CASE DESCRIPTION

The primary subject matter is strategy under adverse conditions for a small community hospital. The case examines operational, financial and market factors for strategy development. Issues of governance and stakeholder claims for a non-profit, community organization are also examined. As a student case analysis assignment the case is appropriate for an undergraduate capstone course in business policy presented in the context of strategy for non-profits, single business strategy, or governance topics, and for a senior or master's level course in health case management. While class presentation depends on the instructor's choice of scope of the subjects covered, a full discussion and analysis can be rendered within a 50 minute period. A student should anticipate a 2-3 hour commitment to complete the case questions.

CASE SYNOPSIS

Whitaker Memorial Hospital is a small community hospital created to serve the health needs of the African American community in the early 1900's. The hospital has over time expanded but by the 1980's has experienced declining demand and growing financial problems which result in an attempt to reorganize under Chapter 11. The Hospital Director Dr. Bryant in 1995 has successfully led an attempt to save the hospital from a merger by contesting the authority of the sitting board and pledging to continue the hospital's operation as a community institution.

The case narrates in background the history of a unique American institution, the African American hospital, and traces through the case of Whitaker Memorial the complexities of surviving in a changed society. The case presents the hospital's difficulties with management, operations, and changed market conditions. As the original "community" of the East End has changed by 1995 the issues of "Who is the 'community' served by the hospital?" and "Who has a claim to govern the community hospital?" are raised and resolved in the narrative.

ZEIT SAIC: THE ENTREPRENEURIAL HISTORY OF A FAMILY BUSINESS IN ARGENTINA

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CASE DESCRIPTION

The primary subject matter of this case concerns developing an action plan to attempt to save an old line Argentine manufacturing and service firm in the face of a collapsing economy in Argentina and significant technological change making their main product obsolete. The primary focus is that of general management and as such encompasses most of the business disciplines, but stresses primarily finance, marketing and corporate strategy issues. Secondary issues include the role of preparing and analyzing financial statements to aid management decisions and an appreciation of international issues. The case has a difficulty level of four, and is positioned for use in an undergraduate senior level cap stone strategy and policy course. The case is designed to be taught in ten class hours and is expected to require about five hours of outside preparation by students.

CASE SYNOPSIS

This case follows the career of George Brown, particularly in relation to Zeit, S.A.I.C., his family's business. After an on and off early association with Zeit, George, late in his career, joined the Company permanently in 1990 as V.P. In 1998, against the objections of his family, he purchased full control of the Company. That year was momentous since it began a steep decline in the business fortunes of Zeit precipitated by both changing technology and the Argentine financial collapse. The setting for student recommendations is in the middle 2003, near the bottom of the Argentine depression.

ZEIT SAIC: THE ENTREPRENEURIAL HISTORY OF A FAMILY BUSINESS IN ARGENTINA

THE BEGINNING.

The muddy water of the Rio de la Plata slapped against the hull of the old British freighter as the city of Buenos Aires (Bs.As.) came gradually into focus through the morning mist. The long and dangerous journey from Southampton was nearing its end. German U-boats prowled the Atlantic and would have liked nothing better than to send this or any English ship to the bottom. The year was 1940 and an eight-year-old boy, George Brown, his extended family and all of their limited physical possessions were aboard. They were about to begin a new life in what most would then agree was the greatest city in the richest country in the southern hemisphere. Even though their prospects appeared bright, Buenos Aires was a very foreign place. None of the Browns spoke Spanish; in fact, only the children were truly fluent in English. Six years prior the Browns, then known as the Brauns, left Germany ahead of Nazi oppression of the Jews. The Browns were not only smart to leave Germany early enough to assure their safety; they were smart enough to get a substantial sum of money converted to British pounds sterling and have it wired to Barclays Bank

in London. Despite that money was frozen in the bank because of the war prohibitions, it acted as a guarantee for a big loan from a distant relative and provided the cushion necessary to re-establish themselves in their new home.

Argentina in 1940 was very different place both absolutely and relatively than it is in the early days of the third millennium. The country's population was only 15 million and of that 4.5 million were Portenos, versus 36 million and 11.3 million respectively in 2001. Some would argue that Argentina had passed its peak position in relative wealth prior to their arrival. In the late 1920s it was estimated that GDP per capita was equal to that of France and not far behind the U.S. or the U.K. In 2001, the Argentine per capita GDP was 38%, 28% and 41% of that in France, the U.S. and the U.K. respectively. The Great Depression, still going strong in most of the world, had not been kind to any country, but the associated falling prices for commodities such as wheat and beef, particularly devastated the Argentine economy. Good prices and high demand had not yet returned. In 1940, Argentina produced little sophisticated manufactured goods. Yes, it was self sufficient in its simple needs such as pots and pans, soap and furniture, as well as fully competent to process its agricultural based exports. Most high technology manufactured products such as high-tension electrical cable, light bulbs, telephones and gas turbines were imported, up until the year before mostly from England; more recently from America. Furthermore the war, just really beginning in Europe, would both greatly increase the demand for Argentine foodstuffs, but perversely, make its delivery to market almost impossible. The Brown family, since the early days of the 20th century, had an involvement in the German electrical fixtures and components manufacturing industry. The hope was that this expertise would be valuable in Argentina.

THE ZEIT SWEET TIME.

The protectionist environment existing all over the world in 1941 permitted the Brown family to discover a business opportunity in Buenos Aires. The production and distribution of technology based manufactured goods such as telephones and other electro-mechanical devices in an expanding and protected market was a niche crying out to be filled**.** In partnership with another family, the Weiss's, who immigrated at the end of the 19th century, the Brown's bought 40% of Zeit stock. Despite the crisis of the Second World War, the Argentine domestic market was growing rapidly. Although The Browns were dealing with a new business culture, their commitment to hard work and their wise business judgment permitted them to improve their financial situation. In 1951, George's father bought an additional 10% of the stock, reaching 50% control of Zeit.

Other than three years spent in Germany in the mid-1950s working as an apprentice at Lichtlighter, a Hanover based manufacturer of time recorders, George had been educated in Bs.As., married, raised a family and felt himself to be fully Argentine. Over time, George gained more experience in the family business, but as the youngest son of one of the partners he found it difficult sometimes to have his business ideas taken seriously by his father. In 1959 his expectations started to be fulfilled when the management offered him the possibility of running a new business as CEO of Roticator Co., a new affiliated company. At that point, Zeit management discovered a new market challenge through the development of a new product, the "Tele-Communicator". Their business technology was so innovative that it permitted customers to easily make external and internal calls on one single device for the first time. At Zeit this product line was usually referred to as the "intercom." In order to minimize risks Zeit decided to divide the company into two business units. They settled on a new corporation called Roticator with George the 27-year-old CEO. While Zeit continued offering their mechanical time recorder and other mechanical devices, this new product line set Roticator free to explore and experiment with new markets. Obviously, in order to preserve and nurture the new business, Zeit was prepared to give financial support in the early years. Fortunately, the business was a success from the beginning. In five years, Roticator became the clear market leader in a new growing market: business telecommunications. By helping their customers

fulfill their needs in communications, Roticator conquered their competitors and dominated domestic market share. The business became so strong that Roticator was in a position to open branch offices all over the country. Within ten years, Roticator offered their services in most populous Argentine cities: Rosario, Cordoba, Santa Fe, Mendoza, Parana, Mar del Plata and La Plata.

The secrets of their success were based in two strategies: the rental equipment system and ultimate quality support maintenance. Through the former, the company was able to rent medium and small devices to their wide range of customers**.** Through rental systems, both parties got several benefits. The customers got updated equipment (though not as often as today) and excellent technical support without paying a heavy initial investment. Roticator received an increasing and steady cash flow and loyal customers. Literally, the latter strategy was a sine-qua-non condition for the success of the former. Without excellent technical support, nobody would ever have trusted Roticator as their strategic partner to propose and implement communications solutions.

Everything was almost perfect until the mid-1970s. By then the political and economic environment of Argentina had shifted outrageously. A violent political environment and growing economic instability created an inadequate framework for innovation and business success. At that time, George was really worried. He was afraid that the business would not be able to survive these joint threats**.** George was preoccupied not only with external threats, but also with their own company internal weaknesses. The Zeit shareholders were really delighted with the high dividends paid over the last ten years and they were not capable of suffering a reduction. Even though Roticator profits were “juicy”, shareholders hardly recognized that the underlying technology was becoming old. In a market closed to imported goods, such as in Argentina over that period of time, sometimes seeing true world competitive reality was difficult. George was the only one who identified this as the major challenging problem for the future of Zeit.

During October 1978, George reached a tough conclusion about the required future direction of Zeit. He decided to force the issue and announced an ultimatum to the shareholder Board of Directors at their November meeting. Either Zeit would modify their short-term business focus and invest substantial funds into the R&D needed to update the product line, even if dividends had to be substantially reduced, or George would present his resignation. Unfortunately, the Board accepted his resignation. The major shareholders were unreceptive, particularly to the idea of reduced dividends. The intercom business was a great cash cow! Perhaps at that stage of their lives, the older generation viewed sure cash now as far superior to uncertain cash later.

GOING BACK TO THE BATTLEFIELD.

The convulsive situation in the 1980s demonstrated that George was “right on” about the problems facing Zeit. Since 1975, triple-digit annual inflation (an sometimes even higher) was the norm in Argentina, lasting until 1992. All the economic uncertainty (high inflation, huge interest rates, increasing governmental liabilities) adversely impacted the political and social order. Within this crisis environment, the enterprises and entrepreneurs were forced to modify their business practices. At this point, all their efforts and decisions were focused to survive the inflation not to serve the client needs. All companies’ profits were made from financial operations, such as investing in junk and government bonds and other high-risk investments, not from the normal reality of making and selling products. Zeit was not an exception in this speculative game.

After some successful personal entrepreneurial activities during the 1980s, George returned to his first love: Zeit, and its time recorders and telecom equipment. At his return in1991, the Board was quite different. His father and the Weiss’ were retired and his brother Jerome ran the business. As Commercial VP, George, now age 59, carefully analyzed the then current situation and discovered that the company was far away from its earlier operating margins. George inspired the preparation of a short-term plan in order to reach the break-even point. The first measure of the plan

was to merge Roticator back into Zeit in order to reduce fixed costs and an unproductive organizational structure. Secondly, the plan initiated a profound downsizing process all over the company. Employment went from 142 to 91. At first, these initiatives were well accepted by the Board.

FACING THE CRUEL REALITY: ZEIT IN THE NINETIES.

In 1992, the macroeconomic environment was modified once again. The Argentine government stopped the high inflation and opened the market wide to all kind of imported capital and consumption goods. Zeit not only still had a substantially out-of-date technology (electromechanical vs. digital controls), but also their overheads were inefficiently high and costly. At this point, without high inflation, which they had learned to live with, and being thrown into a competitive market now opened to imported goods, George and the Board quickly realized the real dimension of the enterprise's crisis.

The telephone ringing on the morning of May 6, 1992 in the Zeit office on Calle Alsina was eventful. It was not just another customer notifying the Browns that their Zeit intercom system was no longer needed. This cancellation took the Zeit installed base of intercom systems to four digits from five. At their peak in 1987, Zeit had 12,348 systems in almost every Argentine business of any size and each generated an average monthly rental payment to Zeit of approximately $42*. In that year, intercom systems, first

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All monetary values are translated into 2005 based U.S. constant dollar amounts.

introduced by Zeit (really, their Roticator subsidiary) made up 87% of revenue. From 1960 until 1990, cancellations were rare and the installed base continued to grow as the Zeit sales force successfully "beat the brush" for new customers. What was disturbing in the early 1990s was that other than the normal amount of bankruptcies, cancellations were mostly from their technically most sophisticated customers. They claimed that the Zeit systems were primitive and that much better and cheaper intercom communication systems were available from new Asian suppliers. The writing was on the wall! It was only a matter of time until the main product of Zeit, that product that sustained the Browns and allowed them to prosper financially, would be at the end of its product life cycle.

Even more disturbing, the electronics and telecommunications revolution that was just beginning to sweep the world in the early 1990s seemed ever accelerating. The Zeit installed base of intercom systems was melting away at an ever-increasing rate and the ability of the sales force to find new customers was falling even faster. Exhibit 1 shows the pattern of the annual lease revenue from the installed base of Zeit intercom systems over the years. Fortunately though, over time Zeit had added new products to their line. In 1956 they purchased the right to produce and sell the mechanical time recorder (AKA "time clock") system of Lichtlighter, Gmbh. of Hanover Germany. Over time Zeit refined and expanded its offerings of time recorders. Exhibit 1 also shows annual sales revenue related to time recorders over the same 1965-2002 period.

Under George's management as Commercial VP, performance of the Zeit time recorder business in the 1990s was good and getting better. Unfortunately, the intercom business continued its steep decline. Manufacturing of both time recorders and intercoms was sited in a Zeit owned 1200 square meter facility in suburban Bs.As. Most products were assembled from foreign imported electrical components and domestically produced mechanical parts. The success of the time recorder business could primarily be attributed to Zeit' contacts with thousands of Argentine businesses through the customer's use of Zeit intercoms. Of course, the 1989 withdrawal of their major foreign competitor, Bailey Controls of Boston, USA, certainly helped. Early versions of time recorders also provided auxiliary (and very profitable) sources of revenue such as proprietary paper time cards specially printed to accept time records. Overtime though, as time recorders became more electronic and particularly as data began to be processed by download to computers, this "gravy" declined in

importance. Exhibit 2 shows details of time recorder, auxiliary businesses and the declining level of intercom rental operating margins over most of the 1990s.

DOUBLING THE BET: 100% of ZEIT AND A FIVE-BULLET STRATEGIC PLAN.

On the cool rainy evening of August 12, 1998 George sat in his favorite restaurant, Pedemonte, on Avenida de Mayo awaiting the arrival of Richard Brown, the eldest son of his brother Jerome. Over the past two years, Jerome, in declining health, had gradually withdrawn from the day-to-day management of Zeit, leaving George

(The remainder of this case along with Instructors' Notes is available on request. For a copy please send your e-mail address to: paul.s.marshall@widener.edu)

MR. FAHAD AL BANNAI, VICE PRESIDENT AXIOM TELECOM

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INTRODUCTION

Leaders make a difference in organizations. They can simply use their leadership skills and abilities to turn the organizations around. They are the ones who make things happen. When looking closely at the success of leading organizations, one usually observes the leadership process applied by upper-management personnel. Axiom Telecom has proved itself as the leading company in Telecom Products in both the wholesale and retail business in the United Arab Emirates (UAE). In order to understand the success story behind this flourishing company, an interview with Axiom Telecom's Vice President, Mr. Fahad Al Bannai, was conducted. This report provides a background overview about the company and presents a profile of one of the leaders behind the success of Axiom Telecom.

INDUSTRY OVERVIEW

Before exploring the business Axiom Telecom operates in, it is essential to understand the industry in which the business runs in. Axiom Telecom's main products and services are related to telecommunication services and products provided by the telecommunication services companies and telecom devices manufacturers. The company is best known for the sale of leading brands of Mobile phones and wireless devices.

The mobile service in the UAE is probably the fastest growing telecom service provided by Etisalat (The local telecommunication company). The mobile phone penetration has been increasing rapidly for the past few years. It reached 86.8% (against the UAE population figure of 4 Millions) by the end of year 2004. The increase in the number of mobile subscribers demands for an increase in the number of wanted mobile devices. Also, the introduction of new mobile technologies such as 3G would require the availability of new types of mobile phones that supports such technologies. As a result, new opportunities are created for mobile devices retail stores.

The wireless related services have also showed an impressive growth during the past couple of years. The introduction of Wireless DSL and Wireless Cable services by the Internet Service Provider (eCompany) requested the retail businesses to offer Access Point devices and Wireless cards for sales. The popularity of GPRS and WAP services also allowed the telecom related companies such as Axiom Telecom to expand their creativity and innovation to offer services that are directed to GPRS and WAP customers.

COMPANY OVERVIEW

Axiom Telecom was established in 1997 as part of a UAE local corporation, Al Bannai Enterprises. Al Bannai Enterprises is a family owned group of companies that started operations in 1960, in Dubai. The Group has fourteen different business operations in a diversified marketplace.

Today, Axiom Telecom is a leading authorized distributor for many International recognized Brands of Mobile and Wireless devices such as Nokia, Sony Ericsson, Samsung, Motorola, i-Mate, Siemens, Palm and Thuraya. The company started its wholesales business in 1997. However, with a potential growth in Retail Market and the attractiveness of this industry, the company decided to

invest in a retail business in 2001, after overcoming a number of obstacles. Recently, the company added another service to its line of business, a service that they call "Value Added Service".

Axiom Telecom specializes in wireless telecommunication products such as mobile phones, satellite handsets and wireless access devices and network cards. The firm has more than 40 outlet stores in prime retail locations such as major shopping malls and business centers as well as more than 65 accessory points in Emarat Service Stations across the UAE. Between the UAE and Saudi Arabia, Axiom Telecom has a little more than 650 employees.

COMPANY'S SERVICES

Axiom Telecom has divided its target market into four categories: Corporate, Distribution, Retail, and Value Added Services.

Corporate: Axiom's Corporate Division targets small, medium and large companies. The division bases its service on three main concepts: dedication, value for money and advanced Services (1-website). In order to capture a large portion of business clientele, the company offers them reasonable rates for a variety of business solutions. This strategy has been very effective in the retention of its business customers. The retention of business clientele is of prime importance as the revenue and profit generated from this target market is the highest.

Distribution: Axiom Telecom has built its brand name around quality and value added services. These qualities enabled the company to be the major distributor of mobile phones and accessories not only in UAE, but also in Pakistan and Jordan. The world leading mobile devices manufacturers trust Axiom Telecom to distribute their products in the countries where Axiom Telecom operates. Dawn Robson, i-Mate's General Manager has stated recently in a press release after declaring a strategic regional partnership with Axiom "We are looking forward to extending our existing relationship with Axiom and building relations between the two companies. Axiom us well known, trusted name and this is of ultimate importance as a distributor of i-mate devices as customers want to buy their devices from a reliable source with market experience and excellent after sales support." The company has also recently started its operation in Saudi Arabia, while studying to open operations in other countries in the Gulf and Middle East. The distribution division of Axiom Telecom is being operated through both direct and indirect channels. The company's objective is to maximize its market share through building a flow of communication and cooperation between the company and its dealers.

Retail: Since 2001 when the management of Axiom Telecom envisioned the potential market growth in the retail business, the company started heavily investing into the retail business. With the managements' great achievement of breaking the monopoly contracts, which the UAE Local agents had with major mobile phone manufacturers, the company started adding different brands of mobile phones and accessories to its line of products. It started with Nokia Mobile phones, and then Sony Ericsson followed by Siemens, Motorola and others. Axiom Telecom was the first company to be an authorized dealer for multiple brands of mobile phones. It was also the major reason for influencing Nokia mobiles manufacturer to change the contents of its trade contract with Emirates Computers. The outcome of that pressure was that Axiom Telecom was awarded a Nokia mobile distribution contract for distributing, selling and repairing Nokia mobile phones and accessories.

Axiom's retail stores fall under two main categories: -

1. Grade "A" Stores – These are basically the full blown stores offering a wide array of services to the customers and are located mostly in shopping malls. The target customers of these stores are those who look for value added services and are not sensitive to devices' prices.
2. Kiosks – The kiosks offer a limited range of products and services and are operated through partnership arrangements with various supermarkets like Spinneys, Lulu Centers, Union Co-op etc. Despite the fact that these kiosks are small in size and limited in service provision, they play a vital role for the success of the firm and add a good amount of revenue to the organization. This is due to

the fact that they are both cost-effective and target a higher penetration of customers than the Grade "A" stores. The target market for such kiosks is the middle to low-level customers who in a way are price sensitive. Besides these kiosks at major supermarkets, Axiom also sells mobile phone accessories, on consignment basis, across 65 Emarat Service Stations in the U.A.E.

Value Added Services: In a competitive industry and market, the best way to distinguish the company is through a high level of customer service and by offering services that are unique. The wireless technology itself has been booming in the past few years and it is predicted to keep growing in the following years especially with the introduction and implementation of new wireless technologies such as 3G, GPRS and WiMax.

The new designed mobile phone devices and other wireless technology devices support different value added services such as games, customized ring tones, Internet connection, Bluetooth and many more. Axiom Telecom introduced Axiom Plus, which is targeted at mobile users. Axiom Telecom offers mobile users with a wide range of new and exciting services such as wallpapers, picture messages, animated MMS, operator logo, and games. In addition to these services, which are primarily directed to mobile phone users, Axiom Telecom offers other value added services to its general customers. These services are:

Theft Insurance:	a new (same model) phone is given to the customers who are a victim of a robbery.
Two Year Warranty:	the first and the only retail business who offer a two year warranty on their products
Price Protection Guarantee:	if the price of the product drops within 5 days of the purchase, a credit note that covers the difference will be given to the customer
Standby Phone:	during the repair, a standby phone is given to the customers whose phones are covered with the Axiom Warranty.

In additional to these services, Axiom Telecom established a world class repair center which is the biggest repair center for mobile phones in the Middle East. The repair center is: equipped with the latest state-of-the-art servicing equipment, run by qualified and experienced Electrical and Computer engineers, and staffed with service employees who focus on customer satisfaction.

COMPANY'S PRODUCTS

Axiom Telecom is an authorized distributor of the following products/brands.

Mobile Phone and Accessories: Nokia, Samsung, Siemens, Sony Ericsson, Motorola, i-mate, and Thuraya
Wireless Devices: HP and Palm
Wireless Connectivity: Nokia, 3COM, and Anycom
Flash/Multimeda cards and readers: SimpleTech
Multimedia Devices: JVC and Kodak

AXIOM TELECOM MANAGEMENT

Axiom Telecom CEO: Mr. Faisal Al Bannai, currently 37 years old, holds a bachelors degree in Business from Boston University. He also has a Masters Degree in Business Administration, which he obtained from a university in London. Mr. Faisal Al Bannai founded Axiom Telecom LLC in 1997. He started Axiom Telecom as a wholesale business because the telecom products retail business was operated through certain authorized dealers who had valid contracts with telecom products manufacturers. Despite the fact that the company was generating profits in the wholesales business, Mr. Al Bannai envisioned a potential attractiveness in the retail business. He faced many obstacles during the planning stage of shifting the company from only a wholesales business to a wholesales plus a retail company. One major obstacle was the fact that the UAE Telecom products

market was monopolized, and major brands of mobile manufacturers already had exclusive contracts with UAE Local agents. Mr. Al Bannai believed that in order to gain a good market share, he should be awarded distribution and sales contracts with dominant mobile manufacturers. Nokia mobiles at that time captured around 70% of the UAE mobile phone market share. Thus, Mr. Faisal Al Bannai tried to have a contract with Nokia to sell its products in the UAE. After several failing attempts, Axiom Telecom was given a challenge by the manufacturer of Nokia Mobiles. The challenge was that if Axiom Telecom could achieve the highest sales volume of Nokia 9210 Communicator, they would be awarded the contract. The challenge was accepted and it was met. Hence, the company was awarded the contract of selling Nokia mobiles in the UAE.

Mr. Faisal Al Bannai was also awarded Shaikh Mohammed Bin Rashid Al Maktoom prize for the lifetime achievement award for his outstanding success and accomplishment with Axiom Telecom.

Axiom Telecom Vice President: Mr. Fahad Al Bannai completed his Bachelor and Master degrees in Business Communication from Boston University. He joined Dubai Police force after his return from the United States in 1997 while working part-time for Axiom Telecom. For the last three years of his employment with Dubai Police, he was the Financial and Economic Crime Section as the Head Assistant. While working for this section he developed his leadership skills. Working in the Financial and Economic section helped him to appreciate the essence of hard work and dedication. Late in 2004, Mr. Fahad Al Bannai decided to resign from his job at the Police force in order to join his brother, Faisal Al Bannai, in looking after the family business, which was quickly moving from one milestone to another.

INTERVIEW ASSESSMENT

Mr. Fahad Al Bannai identified a number of key characteristics that produce a successful leader who would be qualified to handle such demanding tasks that pertain to a higher level of management. The key factors specified by Mr. Fahad Al Bannai are stated below.

FOCUS: In the year 2000, the upper management of Axiom Telecom shifted its focus from wholesale business to a new line of businesses. The management drew a vision for the company, which stated that in order to survive and be profitable in such a competitive industry it was essential to grab the end customers' business. Therefore, the company approached the leading mobile phone manufacturers trying to have trade contracts with them. They kept trying till they succeeded in their aim in 2001 when they established three retail stores. Focusing on the need of the end-users, the company improved its services year by year. Today, Axiom operates approximately 230 retail stores in U.A.E. and Saudi Arabia. This is a monumental achievement on the part of the management of Axiom Telecom considering its humble beginnings. Mr. Fahad Al Bannai stated that he keeps his focus on Axiom Telecom's mission, vision, values and strategic goals. He, as a leader, does not get too involved with the method used to achieve the desired outcome. He, however, makes sure that the organization is being built in a capacity that allows it to reach the desired outcome. To further succeed, this capacity building need not be extremely rigid as to adopt structures, policies and processes; conversely, it should be flexible, creative and innovative.

AUTHENTICITY: Axiom Telecom's Vice President Mr. Fahad Al Bannai believes that "being yourself" is an important characteristic of leaders. It enables them to project the same image to their followers and thus urges them to perform better and adopt innovative styles in performing their duties. Being an authentic person allows the followers and subordinates to know when and what is expected from their leaders. Understanding their leaders' expectation and performing to meet these expectations, promotes, builds and maintains the trust between the leaders and the followers. Mr. Fahad, Al Bannai mentioned that, in the very same day that the interview was conducted, he was at the Axiom Telecom branch in Deira City Centre joining his sales staff with their duties and tasks. Mr. Fahad's modest action enables the staff to feel close to the Vice President of the company they

work for. His action also helps him understand and experience the problems that his sales staff may be going through. Fahad was "being himself" while interacting and dealing with both the staff members and customers. Fahad's attitude encourages the subordinates to speak up when having problems since they would feel that their leader would understand them. This enhances the morale of the employees and would make them feel that their leader is always backing them up.

COURAGE: Mr. Fahad Al Bannai believes that any fear should be overcome by having the courage to take risky and big steps. This quality is also evident in Fahad's brother, Mr. Faisal Al Bannai, Axiom Telecom's CEO, who was able to make a risky decision of entering into the retail market in 2001. Had Faisal not taken this opportunity due to not having enough courage for such a step, Axiom Telecom would not be in the position they are in now, a 4 billion-dirham company. When Fahad was asked where his source of inspiration and influence stems from, he mentioned it was from his elder brother, Mr. Faisal Al Bannai.

Courage is what it takes to witness a huge growth and to overcome challenges facing many organizations. A factor that also coincides with courage is the ability to take initiatives. A leader should have the courage and the bravery to be the first to present a certain idea or a concept to the market. An effective leader does not simply react to situations and try to remedy them, conversely, effective leaders always have a back up plan, which in times of need, they take the initiative to use instead of just following everyone else in the same direction.

Fahad admits that people make mistakes, but he thinks that as long as the person admits that he was wrong then there is no problem. He stated, "We are all humans, and mistakes are expected to happen, so long that they are admitted."

When asked about the motto in life that Mr. Fahad Al Bannai had followed, which enabled him to reach where they are today, he mentioned that he has always believed that life is full of opportunities. People just need to see them and grab them. He stated as a response to this question that his motto is "Grab opportunities. Don't be afraid to go into a certain area. If you believe in something, go ahead, but be ready to work hard for it day and night to achieve your goal." He has also given us an example of a simple opportunity that he envisioned and turned to be a successful business for the company. It was related to selling mobile phone accessories in Emarat Service Stations. It was a simple idea, yet it accounts for a significant portion of the company's profit.

EMPATHY: Fahad has an open door policy in his organization, specifically in his office. In fact, he encourages his employee to communicate with him and inform him of any problems they may experience. He does not even mind if his employees talk to him about different issues whether they are business related or not. His office door is always open as long as he is not extremely busy in an important meeting or so. He implied that he listens to his employees and he takes their suggestions into consideration. In fact, the suggestions are always studied and evaluated. He mentioned that a number of employees' suggestions were implemented after they were found to be beneficial to the organization. He believes that everyone is included in the loop and everyone should be given the chance to express him/herself.

During the interview it was obvious that Fahad had a great belief in communication and the wonders it can lead to. He believes that through communication everything is possible. When asked how he influences others to make decisions that he wants, he replied "through communication"

TIMING: According to Mr. Al Bannai "timing is of the essence." Although he finds that all the other factors are important, timing is the most important because what differentiates leaders from non-leaders is knowing when to make critical decisions and when not to. Once this decision is made, all other factors are then considered. Fahad supposes that things shouldn't always be done immediately but one should be able to prioritize and get ones' team to prioritize as well.

In Fahad's opinion, another factor that adds to the list of factors mentioned above is that one should be passionate about what he/she does. Leaders should love what they do in order to be effective and good in what they do. They must feel that what they contribute to the organization plays a significant role in its success. They need to believe that their efforts and leadership styles

are essential requirements that influence the employees' level of motivation, which in turn increases their satisfaction, and improves their performance.

PERSISTENCE: Fahad's opinion is that a person should not be disheartened by failure and instead should strive even harder to achieve their goals/ambitions. In its former years Axiom Telecom was mainly involved in the wholesale trade of mobile phones and despite their numerous efforts they were unable to enter into the retail market. This was primarily due to the existence of exclusive distribution rights, which prevented Axiom from entering into the retail market. Fahad mentioned in the interview that Axiom had to go and "bang on the doors of mobile phone manufacturers" for several years and then finally in 1998 they were offered the distribution rights for selling Nokia handsets in Pakistan. This was not exactly what Axiom was looking for at that time but nonetheless they were not disheartened and saw this as an opportunity to establish themselves and gain a foothold into the retail market. A few years later, the break that Axiom Telecom was looking for came when mobile phone giant, Nokia, decided to hold a competition for selling its 9210 Communicator model. Axiom ended up selling the most number of units and emerged as the clear winner. Subsequently Nokia offered Axiom distribution rights and the concept of exclusive distribution rights in the UAE market was scrapped.

HUMAN CAPITAL: Fahad attributes most of Axiom Telecom's success to the strength of its human capital, namely the employees. Therefore Axiom has a very thorough screening process before hiring for a job. During the interview when asked as to what were the qualities that Axiom looked for when hiring a person in a managerial or leadership position, Fahad responded by saying, "We look for 3 things: -

1. He/she should be an expert in their field.
2. He/she should be a team player.
3. He/she should have people skills."

Fahad pointed out that he always consults his upper management staff before taking major decisions and encourages them to speak up and give him their valuable feedback. He mentioned that the company does not discriminate on the basis of gender and women occupy upper level managerial positions in the company, most notably the Head of the Export Department of its satellite phone division Thuraya.

Axiom also employs people of different nationalities from Britain, Australia, India, Pakistan, Philippines etc.

Axiom Telecom makes concerted efforts to develop its employees by offering numerous training programs and encouraging its employees to strive harder by providing them with promotions and other benefits.

Leadership style is the manner and approach of providing direction, implementing plans and motivating people. Three different styles of leadership exist, namely, authoritarian (autocratic), participative (democratic) and delegative (free reign). When Fahad was asked which leadership style more reflects the way he deals with his employees, he pointed to the Participative Power Style.

This type of style involves the leader and the employees together in the decision making process although the final decision is up to the person with the most authority, the leader. This leadership style is not a sign of weakness; in contrast it is a sign of strength that employees respect. The Participative style of leadership is used when the employees have some of the information and their leader has the other part of the information and when put together a better decision is made. Also, the participative style of leadership encourages the employees to feel that they are part of the team. It encourages them to take ownership of their project.

When Mr. Al Bannai was asked what motivation does he give employees to enable them to perform their certain duties with satisfaction, his response was that he motivates them financially and as mentioned earlier he tends to communicate with his employees and spend more time with

them at their allocated branches. By motivating them financially, each employee has a basic salary but on top of that each sales person has a monthly sales target set for him/her. If the employee achieves his/her target (100% or above) he/she is entitled to a monthly commission related to the staff performance. Also, employees who achieve the yearly target are awarded a yearly bonus at the end of the year.

In Fahad's opinion the rewards of being a leader is that one gets to witness the achievements, or as he called it, "the fruits", that he/she worked hard to achieve. As for the penalties of being a leader, in a joking manner he mentioned the depression that comes from the handling of such a position. In his own words: "It is tough. You have to juggle things here and there. At some times it is so much pressure and it requires hard work."

Problem solving process: Problems are faced with rationality and a great deal of thinking at axiom. In case of problem, the first stage is to gather information from different sources and levels of the company to have a better understanding of the problem. Second, solutions and suggestions are discussed through a meeting with the related departments and stuff in order to arrive to the best possible solution. The decision is taken with the participation of the involved people to get a high quality decision with a higher better commitment.

By categorizing himself as a participative leader, Mr. Fahad "open door" policy engages him in behaviors that enhance his stuff fillings of personal worth and importance. Also, it helps him to achieve a higher goal accomplishment by such activities as scheduling, coordinating, planning, and providing the necessary resources to the right people.

Honesty and Integrity: Mr. Fahad believes that honesty is the key for a good communication between a leader and his stuff. Both good and bad news are communicated with a complete free environment at axiom. This open communication environment between the leader and his employees will save the company resources, because it is cheaper and more efficient to deal with problems and bad news today than in the future.

Axiom's Future Plans: Axiom plans to expand its operations to the following countries by the 1st Quarter of 2006: - Kuwait, Bahrain, Qatar, and Oman.

When asked during the interview about the possibility of Axiom Telecom going public he said there were no immediate plans for taking the company public, however he did not rule out the possibility of doing so in the future

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ABSTRACT

Though the global airline industry has been through its darkest hour since the turn of the new century, airlines in the Gulf have fared considerably well. However, one airline that caught the attention of one and all was Air Arabia – the first low cost airline in the Middle East. After drawing tremendous media attention for its pioneering way of promoting air travel, the airline carried over half a million passenger in a span of one year and also reached break even in the same period.

The purpose of this study is to analyze the leadership philosophy of the person under whose helm this airline was conceived, developed and is being presently run – Adel Ali, CEO of Air Arabia.

Ali's past record gives ample reasons to comment that he possesses "the right stuff" which, as per earlier studies, differentiates leaders from non leaders. Furthermore, having spent over 25 years in the airline industry in various parts of the world, Ali's leadership style also portrays a good mix of task and people orientation. His exposure to varied situations – e.g. war, organizational crisis, extreme deadlines, poor project management etc. – has only helped him to understand better the importance of being at the forefront, supporting one's associates, and taking bold steps which others may not dare to take.

Ali is undeniably a "people's person," being a strong believer in open communication, team work and empowerment. The factors that distinguish Ali are his unmatched passion, drive and determination to lead his followers towards immensely challenging goals – the strongest example being his success in launching an airline operation right from scratch in 6 months when the industry standard lingered around 1½ years!

Truly an outstanding performer and a team player, Ali fosters an environment for able, ambitious, achievement oriented, hard working and passionate individuals to excel in.

MORE THAN JUST A SOFT DRINK

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CASE DESCRIPTION

The primary subject matter of this case concerns the Coca Cola Company and its decisions to change the formula in the 1980's. It also looks at the culture of the firm that led up to the change and its relationship with customers. It is appropriate for junior/senior level courses and could be covered in 60 to 90 minutes. Outside preparation by students would be 1-2 hours.

CASE SYNOPSIS

Coca Cola is one of the most recognized logos by both adults and children in the United States and abroad. For Coca Cola lovers everywhere a fateful day in 1985 will forever be remembered as a turning point for the product to which they had become so fiercely loyal. Coca-Cola in that year introduced New Coke, which was a bit like putting a miniskirt on the refurbished Stature of Liberty, or painting the White House red, or scribbling graffiti on a Norman Rockwell (Demott, 1985).

PROCEEDINGS

Coca Cola was bon in Atlanta May 8, 1886 when pharmacist, Dr. John Stith Pemberton produced the syrup for Coca Cola. He carried his formula to Jacob's pharmacy. There it was sampled and pronounced "excellent". It was placed on sale for five cents a glass as a soda fountain drink. The syrup was teamed with carbonated water to produce a drink that was immediately "Delicious and Refreshing" an idea that continues to echo today wherever Coca Coal is shared.

Dr. Pemberton's partner and bookkeeper suggested the name and penned the famous trademark "Coca Cola" in his unique script. During the first year sales averaged a moderate nine drinks per day. Never realizing the potential and future impact that his product would have, Dr. Pemberton, gradually sold portions of his business to various partners and just prior to his death in 1888 he sold his remaining interest to Asa G. Chandler. Mr. Chandler bought additional rights and soon acquired complete control of Coca Cola. (Heritage/Chronicle_birth 1)

The time following the acquisition is referred to as the Chandler Era in the Coca Cola history. By 1892 Chandler had boosted sales of Coca Cola syrup nearly ten times. His complete focus was on the soft drink and in order to maintain the level required he sold his pharmaceutical business. The business continued to grow and prosper and in 1894 other syrup manufacturing plants opened outside of Atlanta including plants in Dallas, Texas, Chicago, Illinois and Los Angeles, California. Three years after Coca Cola's incorporation Chandler had the pleasure of announcing in his annual report to the shareholders that Coca-Cola is now drunk in every state and territory in the United States. In 1894, in Vicksburg, Mississippi bottling machinery was installed and cases of Coca-Cola were sold to farms and lumber camps along the Mississippi River; this was the first time that Coca-Cola was bottled. The plants grew to over 1,000 over the next 20 years. Coca-Cola searched for the container that would best represent the genuine Coca-Cola drink. The bottle shape that we all have come to recognize Coca-Cola by was granted a trademark by the U. S. Patents Office in 1977. (Herritage/Chronicle_the_chandler_era 1)

Chandler sold the Coca-Cola Company to an Atlanta banker named Ernest Woodruff for $25 million in 1919. Under Woodruff's leadership the Coca-Cola Company soared to commercial success. (Heritage/chronicle_man_named_woodruff 1)

Coke sales slowly began slipping over the next 15 years, Coca-Cola's preference was dipping and so was consumer awareness. The summer of 1985 would soon change the course that Coke was currently on. On April 23, 1985 Coke introduced New Coke, and took the biggest risk in consumer goods history (Heritage/cokelore_newcoke_include 1). This change came after the same formula had been sold for 99 years. The changed was preceded by taste tests of more than 190,000 consumers in 25 different cities in both the U.S and Canada (Demott 2). Unfortunately these tests failed to take into account something that would make the success of the new formula fizzle under the critical eyes of the consumers. The tests didn't expect the consumers to so fiercely protest even Coca-Cola changing the unique taste that had been the landmark of the company. The public's outcry was heard all across America from the formation of protest groups such as the "Society for the Preservation of the Real Thing" and Old Cola Drinkers America (Heritage/cokelore_newcoke 2). Chairman and Chief Executive Officer Roberto Goizueta actually received a letter addressed to "Chief Dodo, The Coca-Cola Company"; he said the thing that most upset him was that the letter was delivered to him (Heritage/cokelore_newcoke). All at once all eyes were on Coca-Cola, realizing how important Coke was to them.

The experience taught everyone a lesson, what Coke didn't realize was who actually owned Coke, the consumers. By June The Coca-Cola Company consumer hotline was receiving 1,500 calls per day compared with 400 calls prior to the introduction of New Coke. Everyone seemed to hold any Coke employee personally responsible for the change. (Heritage/cokelore_newcoke) On July 11, 1985, a mere 79 days after the introduction of New Coke, Coca-Cola brought back the original. Two top executives at Coke pulled together to make the decision to bring back old Coke, giving it the name Coca-Cola Classic (Greenwald 3). Coca-Cola Classic was sold alongside Coca-Cola and had two different target markets and therefore two distinct advertising campaigns. The youthful market of New Coke encourages consumers to "Catch the Wave" while the more emotional more nostalgic market of Coke Classic is encouraged by the slogan "Red White and You" (Heritage/cokelore_newcoke 2).

Coke now recognizes that the test marketing was flawed. It didn't properly inform the consumer the consequences of their choice; choosing New Coke meant giving up the old favorite. Coke emerged stronger than ever and was fighting its fiercest competitor from both sides. It backed into the one of the most powerful strategic positions in the consumer marketplace; after all they can satisfy the die-hard Coke customers and the consumers who like the sweeter taste of New Coke (Greenwald, 6).

The future looked brighter than ever for Coke as it continued to take it products global and expanded in several directions. In 1990 Coca-Cola relaunched new Coke with a new name Coke II, and with its new look it sent another crushing blow to its rival Pepsi. Coke had become as much a part of America as apple pie and fire works on the 4th of July. It will remain unfaultered by this decision and will continue to hold a strong place in the U.S soft drink industry as well as worldwide markets.

The decision to introduce the new formula was a non-programmable decision; it was a unique problem with no clear-cut criteria or adequate information other than the flawed survey data and the stagnant numbers in the industry. Coke was forced to take action and the executives felt the decision must be made rather quickly to maintain their stronghold; this led to a more behavioral type decision, it looked at how the consumer was responding to taste tests. (Daft, 444)

Coca-Cola's culture most resembles a clan culture. Everyone is working together to achieve the goals set by the executives (Daft, 358). Coke's strategy for interacting and maintaining an edge in the competitive market was driven by the consumers' lack of enthusiasm for soft drinks in general. Coke had to reenergize the population's interest in soft drink products (Daft, 50 and 134).

Coke encouraged trying new and innovative ideas by sending the message that it is ok to take intelligent risks even if they don't work out as intended" (heritage/cokelore_newcoke 1). Goizueta urged employees to take intelligent risks in their jobs, saying it was critical to the company's success (heritage/cokelore_newcoke 2). The culture allows employees to take an active part in the processes that affect their daily work (Daft, 358). The fact that they are involved in the decision process and the implementation of the change helps to foster the change and improves the overall success rate of the change. Mr. Goizueta states that "Coke set out to change the dynamics of sugar colas in the United States, and we did exactly that –albeit not in the way we planned." (Heritage/cokelore_newcoke). He further states that the most significant result of the "New Coke" was that it sent an incredibly powerful signal… a signal that we really were ready to do whatever was necessary to build value for the owners of our business (Heritage/cokelore_newcoke). This lets the employee know that they are important and they matter. This will foster better employee confidence in themselves and in the organization they work for.

The decision to introduce New Coke utilized different dimensions of the decision models discussed in textbooks. It had an element of a trial and error model in that they did go back and renounce their decision, brought back Coke Classic and pulled New Coke from the shelves. This trial and error however did prove to be beneficial because it gave them more insight into their external environment and allowed them to see what the consumer expected. They gathered information from their consumers before making the decision and realized that more information should have been disclosed and gathered in order to make the most informed decision.

However; in keeping the consumer happy, the stock prices and profits increased and ultimately the stockholders were pleased. It also allowed for participative decision making because the decision to produce and sell Coke Classic was not made by one individual, it was a top down decision in that the individuals involved were two executives (Daft, 444). The requirements for a successful change appeared to be stacked in Coke's favor. They had the need for a change because the market was becoming lethargic, and the results from the taste test indicated that the population in general would like the smoother, sweeter taste of New Coke. Another element required for a successful change is management support. Coke not only had management support they also had the support of the employees. They made the decision from the top but including involvement at all levels. They were prepared for resistance internally but didn't expect it to occur externally and with such force. They had a change agent who not only supported and believed in the decision but had the authority to make decisions during the process (Daft, 398).

Organizations looking to Coke as an example could take several lessons to heart. First be sure that the external environment is carefully monitored and that the entire story is passed on to the consumer. Conflicts with change are generally expected from the internal environment however, in this instance the greater conflict came from the consumers, not realizing the impact they had by choosing the taste of New Coke. They rejected the change and demanded that the original product be brought back. Organizations need to realize that even with all the technology that is available to organizations today the decisions are still made by humans and therefore are highly susceptible to human error. Other organizations could learn to expect the unexpected and when that occurs to bow out gracefully and recover as much as possible, all the while holding on to as much dignity as possible.

The events of the decision to market New Coke in 1985, which some hail as the marketing blunder of the century, with consumers hoarding the "old" Coke, and calls of protest by the thousands changed forever The Coca-Cola Company's thinking" (Heritage/cokelore_newcoke 1). The Coca-Cola Company was able to take what could have been a major failure and turned it into something positive for the organization. They proved to their employees and the public that they are a learning organization, which promotes communication and collaboration so everyone is engaged in identifying and solving problems, enabling the organization to experiment, improve and increase its capability (Daft, 28). It was able to move forward with new products and come out of

the situation a better company because the public saw them in a different light. It also allowed them to teach a valuable lesson to their employees, one that will hopefully help to shape the future at Coca-Cola. It taught the employees that it is ok to make a decision that doesn't work out the way it was anticipated.

QUESTIONS

In class discussion the following questions could be addressed:

1. How could a firm make a major change like this without adequate information?
2. Should a change of this magnitude only be made by a CEO?
3. What methods of information gathering should a firm use to stay abreast of its customers wants and needs?
4. What can a firm learn from these kinds of mistakes?

COOKIE JAR RESERVES–THE CASE OF CALLAWAY GOLF COMPANY

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ABSTRACT

Callaway Golf Company was founded by Ely Reeves Callaway Jr. Mr. Callaway came up with the idea of a stainless steel golf club taking its name from a World War I German cannon known for its long-distance capabilities. The club was known as the Big Bertha Driver. Callaway Golf also produces putters, balls and clubs. During 2002, Callaway Golf Company had a disagreement with the auditing firm of KPMG Peat Marwick over the accounting for $17 million of warranty reserve costs. At issue was the reduction of Callaway Golf's warranty liability. Callaway Golf determined that the liability should be reduced by $17 million. Callaway's management believed that the reduction should be accomplished by an increase in the current's period's income of $17 million. KPMG agreed that there should be a $17 million reduction in the warranty liability but felt that the reduction of the liability should be treated as a cumulative error and corrected retroactively and additionally KPMG felt that the financial statements prior to 2002 should be restated. This case examines the accounting issues raised by the disagreement between Callaway Golf and its auditor and discusses the relevant sections of GAAP. Additonally, the case discusses the use of cookie jar reserves in accounting and recent SEC statements regarding such accounting.

GELATO NATURAL S.A.

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ABSTRACT

Ariel Davalli is the Vice President of Gelato Natural S.A., a company which (at the time of the case) was selling Chungo (it's high-quality homemade ice cream) from several locations in the northern suburbs of Buenos Aires, Argentina. Based on high demand for its products from individual consumers living in the northern suburbs, the company invested $2,000,000 U.S. dollars to significantly increase the capacity of its factory. This $2,000,000 expansion was funded by borrowing $750,000 U.S. dollars (the loan comes due in four years) and by shifting the local-currency equivalent of $1,250,000 of working capital into fixed assets. Unfortunately, just as the expanded factory started production, the economic environment in Argentina deteriorated significantly. In addition, the exchange rate of the peso with the U.S. dollar fell from 1-to-1 (at the time of the loan) to 3-to-1. Currently, demand for Chungo is stagnating, and the new factory is operating at only 30% of capacity. Additional data and information in the case include:.

1. *For Argentina: Historical overview, a sample of recent statistics from the World Bank, and (for benchmarking purposes), comparable statistics for the United States.*
2. *On the company: Historical overview, current performance, and numerous factors impacting that performance.*
3. *Characteristics of the company's current strategy, including descriptive information on the product line, characteristics of the distribution system, information on the promotion and pricing strategies the company is currently using, etc.*
4. *Characteristics of the current competitive situation.*
6. *Detailed data on the attitudes and behaviors of buyers of homemade ice cream in Argentina.*

JONES' MARKETS, INC.

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CASE OVERVIEW

This case challenges students to review policies used by Jones' Markets Inc. to evaluate the performance of produce managers (that is, the individuals in charge of fresh fruits and/or vegetables) in its many supermarkets. In particular, students are asked to review the guidelines Jones' Markets uses to charge back against produce managers the costs of fresh fruits and vegetables which have spoiled. The case is appropriate for senior-level undergraduates as well as students in MBA and Executive Development programs. The case could be taught in a one hour and a half class session; if handled this way, it is likely to require at least a couple hours of preparation by students. Alternatively (because it is very short), the case could be distributed in class, prepared (on the spot) by the students, and then discussed (on the spot) by the class.

CASE SYNOPSIS

The case consists of an e-mail received by the author. In this e-mail, the produce manager from the Jones' Market in the author's home town describes the policies used to handle the charging back (against produce managers like him) of the costs of fresh fruits and vegetables which have spoiled and must be thrown away (that is, "pitched"). The produce manager then raises the question of whether the policies governing the charging back of spoiled fruits and vegetables are a "valid way of interpreting data to reduce shrink at the store level." As it happens, the key issue raised by his question relates not so much to "shrink" but much more directly and importantly on the way Jones' Markets, Inc. evaluates the performance of its produce managers. There is very little data in this case; the data which is available consists of 1) A description of the policies Jones' Markets, Inc. currently uses to evaluate the performance of its produce managers; and 2) A few comments/questions regarding these policies which the product manager posed to the author.

IS IT TIME TO UNLEASH A SOCIAL ENTERPRISE INTERNET BUSINESS ON THE GLOBAL MULTIBILLION DOLLAR WEDDING INDUSTRY? A CASE STUDY

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CASE DESCRIPTION

The primary subject matter is the potential entry of a business with a social enterprise strategy into a highly competitive industry. It can be used to introduce business social enterprise, triple bottom line, and sustainability strategies and practices. Secondary issues include the use of business plan competitions for testing out an idea, securing initial funding, and developing vital networks. The case has a difficulty level of three to five and works well in the undergraduate policy or strategy capstone class or first-year MBA. The case is designed to be taught in one to two class hours.

CASE SYNOPSIS

This case revisits a business plan that won first place in 1999 in its university's business plan competition. Subsequent to winning the award, the team had concluded the opportunity, as they had explored it, was a "too-little-too-late" Internet startup and the team members were not in a position to want to pursue an online wedding information site at the height of the dot-com boom. Six years later, Bill, the would-have-been CEO of Wedding Information Site, received an e-mail from his instructor urging him to revise the strategic position of Wedding Information Site and secure an MBA team to enter the business plan competition again. The instructor proposes that a social enterprise component be added to the business strategy that would result in a significant impact for good (i.e., the "triple bottom line" of people, profits, and environment) on the $70 billion a year wedding industry in the United States alone. The key issue is how to position Wedding Information Site's social enterprise strategy and practices to become a competitive force, to secure initial financing, and ultimately to become a desirable buyout from an established competitor or to become a significant competitive force in the multibillion dollar industry. Venture capitalists are not traditionally known for looking first at social return, then financial return. However, this is potentially a very compelling investment opportunity for the right investor.

This case is a teaching tool to explore how to use social enterprise and the triple bottom line strategies and practices from the startup as a viable market entry strategy. This model can potentially change an industry and have a significant impact on people, profits, and environment while meeting the needs of various stakeholders including shareholders. It is arguably the predominate model of the 21st century for doing business.

REIT VALUATION: THE CASE OF DUKE REALTY CORPORATION

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ABSTRACT

This case will require the student to value the equity of Duke Realty Corporation, (NYSE: DRE) and make a buy or sell recommendation as an independent analyst. The data given should be examined to determine whether or not the company's stock is valued above or below the market price in order for investors to make a buy or sell decision. The student must assess the real estate industry environment using Porter's five-force model of competitive strategy and the DuPont identity. Valuation techniques employed include the capital asset pricing model, the two-stage dividend-discount model, the P/E valuation approach, and the Gordon model.

The student is placed in the role of an equity analyst and asked to prepare a buy or sell recommendation for Duke Realty Corporation (NYSE: DRE) stock. DRE is the a large office and industrial property owner and manager operating in the midwest and southeast. The student must assess the competitive environment of DRE using the DuPont identity and Porter's five force model of competitive strategy as well as estimate the value of the stock. All information in the case is publicly available.

VENDOR REBATE MANAGEMENT: KHF, INC.

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CASE DESCRIPTION

The primary subject matter of this case concerns the notion of vendor rebates and their effect on the financial reports of the firm. The activities surrounding this particular situation are essentially "window dressing" efforts designed to meet profitability demands through creative accounting techniques. The case has a difficulty level appropriate for intermediate and advanced undergraduate accounting and finance courses. The case is designed to be taught in one class hour and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

Jim Layton, controller for Kitty (Hawk Food), Inc. for the past five years, is faced with a demand from KHF's bank that KHF increase profitability from the prior years. If the profitability of KHF is not increased, the bank has indicated that it will withdraw line of credit funding for KHF's operations. Without the line of credit, KHF would face severe financial distress. While credit from other sources might become available, it would be at less desirable terms, partly because the firm's current bank had forwarded the most favorable term several years prior, but also because the bank's withdrawal of funding would influence other creditors in future funding requests. Jim is approached by one of the firm's suppliers concerning vendor rebates, a scheme of questionable integrity, but one that could present more favorable financial results without the firm actually performing better.

MONOCHROMATIC PERSONNEL SCANNING AT TECHMARK

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INTRODUCTION

"Mike, I need you and Pat to come to my office immediately," said Jim Taylor, Senior Director of Employee Relations and EEOC, over the phone to Mike Arend, Senior Director of the Telesales Group of TechMark. "We have a serious problem regarding possible discrimination in your group."

BACKGROUND OF TECHMARK

TechMark was a global, integrated provider of mobile computing, wireless networking and barcode scanning products sold to an array of customers in several core markets. TechMark's products were used to amass, access and distribute information throughout an organization, thereby increasing efficiency and minimizing human error.

As TechMark's sales and scope, both geographically and technically, continued to expand throughout the 1980s and early 1990s, it became clear that the company needed partnerships to adequately address the marketplace.While servicing large retail and government clients on a direct basis had always been the core business, TechMark did not have the headcount, software development, integration skills, or the geographic reach to penetrate new markets and develop new applications on its own.

Perhaps the most critical benefit of being a loyal TechMark partner was the receipt of the "golden nugget," i.e. a sales lead. Potential customers who contacted TechMark for a product or solution to a business problem (route accounting, inventory management, access control, etc) were directed to a partner for fulfillment.

THE TELESALES GROUP

In 1999 this investment in partner relationships was realized through the large expansion of the Telesales Group. The group was formed in 1994 by Mike Arend, with the assistance of Pat Hagen. Telesales was a polyglot, performing both customer service and marketing activities. Most of the staff was comprised of older women who had risen through TechMark's ranks, often coming off of the manufacturing floor. In many ways their job was administrative: answering calls, sending out product literature and calling prospects culled from tradeshows, direct mailings and other corporate marketing efforts. To assist in this effort, a third-party call-center (ETI) was employed and did much of the outbound calling. In 1994 the annual quota was 4 million dollars. By 1999 it had grown to nearly $40 million and the workload, or growth expectations, showed no signs of diminishing.

THE NEW HIRE

Katherine Anderson was quite pleased she landed a job with TechMark. The job, as it was positioned to her by her recruiter, allowed her to learn many aspects of TechMark's business, played a key role in directing sales activity, and prepared her to take an official management position within a two-year time frame. The job was phone-intensive, but Katherine was very sociable and thought that speaking with customers was interesting, if not fun.

When Katherine went to Pat with questions about her job or TechMark's products, she was always referred to Gloria or one of the other older women for answers. As the other new hires - Tara, Rob, and Rhonda - joined the team, they were instructed to do the same.

PRODUCT TRAINING QUESTIONS

When Katherine asked Kerri how she managed to deflect calls requiring product knowledge she simply shrugged:

"I tell them that it's not my job to know, but that I can get them help. I either transfer them to tech support or get a partner to talk to them…"

Katherine replied, "I thought that tech support was only for customers who already purchased equipment, not presales….and aren't we supposed to send qualified prospects to business partners, and not people just fishing for information?"

Kerri shrugged, "I haven't gotten too many complaints yet….."

Unsatisfied, Katherine approached Pat.

Katherine: "Pat, I wanted to talk to you about something that keeps coming up – and the rest of the new hires are experiencing it too."

Pat: "What is it Katherine?"

Katherine: "I was wondering about getting some formal product training for us. Quarterly sales training is coming up for the field sales force. I was wondering if we could attend."

Pat: "Well, Telesales never has before…Besides, we need to have people on the phones…"

Katherine: "But the customers are asking questions that we don't know the answers to. Sometimes I feel stupid that I can't answer questions about our own products."

Pat replied, "How you feel is your concern. We all know that you are not stupid. In your job, we find it is counterproductive to know too much about product…*we diagnose, we don't prescribe*…."

Soon, however, tech support was sending callers back to Telesales, as they were being told not to spend their time on pre-sales inquiries. One afternoon, after a particularly frustrating call, Katherine popped her head into Mike's office.

Katherine: "Mike, sorry to bother you…do you have a minute?"

Mike: "Sure, Katherine. When the door is open I am always available. You look concerned…is there a problem?

Katherine: "Well, the group and I feel that some product training will really help us do our jobs better. Callers are asking us questions about our products all the time, and we don't know how to answer them. Tech support is refusing to take any more presales calls and my partners are complaining about being used as a help desk."

Mike asked: "Product knowledge has never been that important before…has something changed?"

Katherine: "I think it's always been important, only that the women in the group have tried to get bits and pieces on their own…besides, in the four months I've been here, the levels of inquiries keeps increasing….buyers are getting smarter…."

Mike: "Does Pat know about this?"

Katherine: "I talked to her twice but she doesn't think it's a problem."

Mike: “I’ll see what I can do.”

TELESALES INTERACTIONS

Through the remainder of 2000 Katherine continued to do well. She had consistently made her quota and received bonus pay at the end of each quarter. The group had continued to grow, with two new graduates joining the Telesales group. Though the NASDAQ had swooned, TechMark seemed secure in its core markets and all the talk in the hallways centered on expansion, growth and new opportunities.

Though required by HR, no formal performance reviews were done at year’s end. When she asked Gloria about this, Katherine was told: “Pat doesn’t like doing those too much. In a couple of months HR may notice that no forms were filed…then Pat may have you do your own and she will sign them.”

Katherine: “That’s the way she does it every year?” “Yup” chirped Gladys.

AN INTERNATIONAL OPPORTUNITY FOR KATHERINE

Shortly after, Katherine was asked to take on responsibility for Mexico and Latin America, while transitioning her existing territory to the other team leaders. “It’s going to be a lot of work, but Pat and I think that you are up to it, “Mike commented. “I think this is going to be an area of tremendous growth and we want you there to help drive it.”

Katherine and Cathy stayed late nearly every evening for several weeks to handle the backlog. Rob and Tara worked diligently during the day as well, though they, like Pat and Kerri, were out the door by five.

Cathy sent several emails to Pat asking her to make sure that everyone was shouldering an equal share of the workload. Pat sent out a single missive asking that everybody pitch in. The situation improved temporarily but soon deteriorated. After returning from an unannounced and unscheduled 30-minute coffee break, Kerri found herself the target of Cathy’s frustration. A shouting match ensued.

Upon hearing of the disturbance, Pat pulled Cathy aside and chastised her for her outburst in the workplace. When pressed about the personal phone calls, long lunches and unscheduled breaks taken by “certain members of the team,” Pat’s response
“Work it out.”

INITIAL DISCUSSION WITH HUMAN RESOURCES

From that point on, Katherine was certain that there was a definite undercurrent of hostility directed toward her. Uncertain as to its cause, she began to talk with Jim Taylor, in charge of employee relations and EEOC issues at TechMark. She did not want to lodge a formal complaint; she was simply looking for some advice and support. There were few black associates at TechMark and she started to feel quite isolated.

Over the next several months Katherine would find much cause. Among the incidents she noted: Others, generally Kerri, Tara and Pat, took extended lunches and coffee breaks. Katherine was cited the one time she returned 15 minutes late in the afternoon.

While others regularly had friends from other parts of the company sit in their cubes and chat, Katherine received an email from Pat informing her that she was not to be visited during the work day. On two occasions Katherine walked over to Tech Support or Product Management to ask a product question and was cited for leaving her desk without letting the other group members know where she was going. Pat would often pull Kerri and Tara into unscheduled meetings at the last minute with no explanation, rationale or advanced notice. This was perhaps most painful of all, as

Katherine distinctly felt like an outsider, unable to contribute to the group or participate in steering its direction.

At Jim's urging Katherine scheduled a meeting to sit down and talk with Mike to solicit some feedback. She heard nothing but positives. When Katherine conveyed her impression that Pat did not like her, Mike told her to dismiss the notion out of hand.

"She thinks the world of you," Mike commented.

Later that week Pat pulled Katherine aside and complimented her on the work she was doing. "Is there anything I should be doing differently?" asked Katherine. "Nothing at all" Pat replied.

Yet the ill feelings seemed to linger and Katherine repeatedly documented instances of what she deemed unequal treatment and expectations. As her morale was fading, TechMark was going deeper into a tailspin. Executive management was being purged and the organization seemed directionless and drifting. With Mike on the road all the time and Pat effectively absent, Telesales seemed rudderless. Instead of feeling like a young manager Katherine was feeling more and more like an administrator – forced to handle unanswered customer service calls and send out marketing literature. The fact that others in the group were doing far less made her feel more and more resentful. She accessed a manager's report from the calling system that TechMark used. It showed that she had taken 3300 calls in the first reporting period of 2002; Kerri had scarcely taken 800.

Soon Katherine found herself soliciting Tony Sassone for a position reporting directly for him. While Tony was too mindful of corporate politics to actively poach her from Mike, he let her know that he was open to the change when "the time was right."

FEEDBACK TO THE TOP

As new management swept into power, a series of "all-hands meetings" was held. Their purpose was to introduce the new executives, address questions of strategic direction and, importantly, raise employee morale. TechMark Associates were once again encouraged to "take risks, challenge the status quo, and commit to personal and professional growth."

"Tell us how we are doing," CEO Gable exhorted, "and how we can do it better."

Katherine took his words to heart and sent emails directly to Gable; they also found their way to Bill Naughton and Al Tracy. In her missive she introduced herself, the Telesales Group, and made several suggestions for needed improvements. She neglected to copy Pat or Mike on any of her letters.

Surprisingly enough, Gable responded and asked Katherine to schedule a meeting to discuss Telesales. Surprised and pleased with the response, Katherine sent the CEO's reply to Mike. Pat was never copied. Later that day Pat was in Katherine's cubicle with a printed copy of the email thread.

Pat snapped. "What are you trying to do?"

"Nothing at all. Gable asked for feedback and I thought I might have something to say that could really help out," Katherine replied, somewhat taken aback by the forcefulness of Pat's approach. "I thought this was a good thing."

Pat: "Now he wants a meeting! What do you plan to tell him?!?"

Katherine: "I just wanted to talk about what this group does and how we could do our jobs a little better – perhaps with a dedicated tech support resource to answer customer's presales questions."

Pat: "We've been doing just fine for all these years. What makes you think that you need to change it?"

Pat walked away, shaking her head "you're going to get us all fired…."

Katherine's private meeting soon would include both Pat and Mike who insisted on crafting the agenda. Katherine did not openly object but was distraught and sought Gloria's council.

Katherine: "Why does this keep happening to me? Why does Pat hate me so much?

Gloria: "Hate you? She's terrified of you…."

THE LAST STRAW

Soon morale was on the rise, both within the company as a whole and inside the Telesales group in particular. Mike's job in distribution development was given to a new hire, and he was tasked with turning Telesales into a focused Inside Sales team. He would be given the resources to hire 20 new employees. Clearly, Katherine had every reason to believe that nearly three years of unflinching service would finally be rewarded.

To her dismay, when applicants for the new jobs were being brought in, Pat, Rob, Kerri and Tara were doing all of the interviews. She was not asked to do a single one. Disturbed, she approached Pat.

Katherine: "Pat, I could not help but notice that I was not being asked to interview any of the job applicants. Should I be worried?"

Pat: "Not at all" was the warm and reassuring reply. "You are our Latin American champion… These applicants are not bilingual."

Somewhat reassured, Katherine tried not to think about events at headquarters as she flew down to Brazil for a week long tour of territory operations. Coming back, she was shocked to learn that there would be no promotion. While Kerri, Tara and Rob had been promoted to supervisory status, she was still frozen in the same pay "zone." Where the three would be directly reporting to Mike, she was still under Pat.

Though she tried to bear up, she found herself so distraught that she had difficulty functioning. Getting no satisfaction from Pat and no audience with Mike, Katherine finally picked up the phone:

Later that afternoon, Mike was shocked to learn that both he and Pat had been implicated in a formal racial discrimination claim (discrimination against an African-American). Pat knew immediately who filed it.

FITNESS PRO: MANAGING A GROWING BUSINESS

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CASE DESCRIPTION

The primary subject matter of this case concerns entrepreneurship. Secondary issues examined include operations, finances, marketing, distribution, warehousing, policies, procedures, and information systems. The case has a difficulty level of four. The case is designed to be taught in one and one-hour hours and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

The case examines how a physical therapist started an exercise equipment and personal fitness business: Fitness Pro. Eventually, the sone takes over the business and moves it to the Hilton Head Island, South Carolina, and Savannah, Georgia, areas of the Southeast United States. As the business begins to grow, the founder's son looks for growth opportunities that fit his business model. He finds it in a similar business located in Tallahassee, Florida: Fitness Master. As these two businesses merge into one named Fitness Pro, they later start a new business in Jacksonville, Florida.

Within a few years, the business has three retail stores in Savannah, Tallahasee, and Jacksonville, and several outside who focus strictly on commercial accounts. With growth, however, comes growing pains. Major problems facing the two owners are what to do about rising shipping costs, warehousing, inventories, and financial control. The partners decide to bring in a more experienced partner to help them negotiate with their supplies. Also, the new partner is trying to help the business develop accounting and financial information systems.

The case ends with the three partners trying to develop a strategic plan for the future of the business.

Special thanks for research provided by Sharon Locklear, Ryan Martin, Rick Page, and Patrick Razuri, all of Georgia Southern University.

RFID AT RODNEY STRONG VINEYARDS

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ABSTRACT

This case investigates a decision that a winery had to make concerning whether it should implement Radio Frequency Identification technology (RFID). The push for RFID implementation has been led by Wal-Mart and other large retailers. The winery management had to wrestle with economic issues as well as the possibility of losing an important customer.

The first issue to investigate was cost. RFID is a very expensive technology to implement. There are some savings to be achieved by using RFID but it may never pay for itself. John Leyden must spell out all of the costs in order to perform a breakeven analysis. Many companies performed this same type of analysis when Electronic Data Interchange was rolled out in the 1990's.

Secondly, John has to look at the actions of his competitors to see if and when they are going to adopt RFID. With any new technology, there is usually a tipping point where it becomes a necessity for remaining competitive.

Most important, however, he needs to assess the needs of his customers. There was a potential to lose sales if his customers viewed RFID as a requirement for obtaining future business. From a supply chain management perspective, protecting relationships with customers may be the most important issue.

CASE OBJECTIVES

This case is suitable for an undergraduate or MBA level Operations or Supply Chain Management class. It is designed to facilitate discussions about breakeven analysis, supply chain management, and technology adoption. Although this case is specifically about the wine business, the underlying concepts are general enough to fit most companies facing a technology decision. It provides and excellent example of a breakeven analysis as well as listening to the voice of the customer in a business-to-business relationship.

It will also make students aware of a dynamic new technology that may change the way business is transacted in the near future.

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