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NO-BULL PRIZE

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CASE DESCRIPTION

This business law case is built upon a story, a hypothetical situation that presents many legal issues. The primary subject matter of this case concerns sales to minors, return of damaged property, agency relationships, and liability. Secondary issues examined include the "mailbox rule" for contracts and jurisdiction. The case has been used successfully in Legal Environment of Business courses on both a junior year undergraduate and a beginning graduate level. Depending upon its use in a given course, the difficulty level will vary. If students must spot the issue, then it will be more difficult. The case is designed to be used as an on-going assignment throughout a term with students responding to written questions and then discussing their answers in class. It will take better students approximately 4 hours of outside time to read and analyze the various issues presented here.

CASE SYNOPSIS

In June of 1999 two minors, Chris & Katie, were driving up I-35 to visit their mother in Ames, Iowa, for her 3 week summer custody period. When they stopped for the first night in Guthrie, Oklahoma, they spent the night in a motel directly across the street from Pecos Pete's Used Car Emporium. Upon separating the next morning, they saw it! It was massive. There, in Pete's lot, was a bull on wheels. Not just an ordinary bull. This Fiberglas bull was the kind used in advertising - and, even better, it was mounted on a 2 feet tall trailer.

Katie looked at Chris and Chris looked at Katie. "Bruce!" they both said in unison. They had been talking the day before about what to get their stepfather for Father's Day. And here it was! OK, so it was about 8 feet high and about 10 feet long and maybe just a touch garish. But, it was perfect.

The case story presents a number of issues due to a chain of events. First, they are sold this bull - should Pecos Pete's have done that? Then, they were sent to have a hitch put on their old car. On the road, the bull, being towed behind Chris's car, runs into another car. Stepfather Bruce doesn't want this bull, so they try to return it. But, it's now damaged. The chain of events illustrates a number of the issues typically raised in an introduction to business law course, in an entertaining way.

NO-BULL PRIZE

In June of 1998 Chris and Katie Hayes were driving up I-35 to visit their mother in Ames, Iowa, for her 3 week summer custody period. They lived with their father in Laredo, Texas. As Chris, the older of the two kids, would turn 18 in August, this was his last "required" visit to his mother's house. In the past, the visits had been stormy - their dad didn't have many rules about curfew, etc., while their mother certainly did. He was almost legally an adult and could then do exactly what he wanted (or so he thought)!

When they stopped for the first night in Guthrie, Oklahoma, they spent the night in a motel directly across the street from Pecos Pete's Used Car Emporium. Upon departing the next morning, they saw it! It was massive. There, in Pete's lot, was a bull on wheels. Not just an ordinary bull. This Fiberglas bull was the kind used in advertising - it looked just like the one that used to be on the top of a diner in New Jersey, that they saw when they went to visit their Aunt Sue. But, it was bigger. And, even better, it was mounted on a 2 feet tall trailer.

Katie looked at Chris and Chris looked at Katie. "Bruce!" they both said in unison. They had been talking the day before about what to get their stepfather for Father's Day. And here it was! OK, so it was about 8 feet high and about 10 feet long and maybe just a touch garish. But, it was perfect.

They went over to the lot and found a salesperson. Lulu told them that the Emporium usually didn't deal in bulls, but that they had taken this one in trade on a '60 Studebaker. They could take this bull home, she said, for $350. Chris mentioned that he didn't have a towing hitch on his car. Not a problem, Lulu said. Her main squeeze, Zeke, owned a service facility (Zeke's Garage) and could attach one. "Will you take a personal check," Katie asked. "Sure," Lulu said, "if you have i.d."

While Katie wrote out the check and Lulu verified it with Katie's drivers license, Chris went over to Zeke's and had the hitch attached to his '72 Volkswagen Bug. Zeke did offer one piece of advice to Chris. "Son," he said, "thisun furen car of yurs is a bit rusted. And, thisun hitch might not stay on tight. So, ifun I was you, I would run a rope from the bull's neck to yer back bumper, jist to make sure." By the time Chris returned, Katie had signed the sales agreement, giving her title to the bull. Soon, they were on the road again, happily speeding along with the bull following in close formation. When they stopped for lunch, Chris even let some little kids climb on the bull's back, hold onto the rope, and pretend to ride it.

All went well until they reached El Dorado, Kansas. There, they had a minor mishap... As they were passing a car driven by Margaret Brom, their next-door neighbor in Laredo, the trailer holding the bull broke loose. Ms. Brom was quite startled to see an 8' tall bull careening toward her.

Fortunately, the bull only grazed her car (bad pun) before coming to rest, safely, in the median strip of the Interstate. "OOPS," Chris thought, "I bet I didn't reattach that rope after the little kids rode the bull." But, he didn't say anything outloud. After the drivers exchanged names, addresses and insurance company names, all were on their way again.

It was when they reached Iowa that the problems really started. It seems that Bruce wasn't quite as thrilled with his big bull as the kids thought he might be. In fact, he insisted that they take the bull with them when they left the state - something he thought that they should do soon. Within 2 days, they were on the road again, heading south with the bull behind them. They were a little

concerned. They had a small house in Laredo and they weren't sure what they would do with the bull when they arrived home.

As they were driving, they heard a call-in radio show that was talking about legal things. From that they learned that they might not have to keep the bull. According to the show, minors couldn't enter into contracts. "Hmmmm," they thought, "maybe we can get Pecos Pete's Used Car Emporium to take the bull back!" With this in mind, they headed back to Guthrie.

As luck would have it, there was a detour just outside Guthrie. Unfortunately, Katie, who was driving at this point, took a wrong turn. On the back road, there was an underpass with a sign that indicated that loads over 8'6" wouldn't fit. Ah, but the bull was only 8'. Not a problem .... except that it was on a 2' tall trailer. Then they heard a big CRRRACK and the bull's head fell off when it was decapitated by the underpass. When they went back to retrieve the head, they forgot to set the parking brake in their car. The car and trailer rolled backwards into a farmer's field. Suddenly, their headless bull was surrounded by amorous cows. Quietly, they moved forward and unhitched the trailer. They put the bull's head in the back of the Bug and headed to Pete's.

COMICSTAND.COM: AN E-COMMERCE START-UP

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CASE DESCRIPTION

The primary subject matter of this case concerns entrepreneurship, e-commerce, and marketing. The case has a difficulty level of four and can be used in entrepreneurship, information systems, e-commerce, marketing, and small business management courses. The case is designed to be taught in a 90-minute class session, and requires approximately two hours of outside preparation by students before the case is discussed in class.

CASE SYNOPSIS

This case is about an electronic commerce store that specializes in selling comic books, action figure toys, and other comic related merchandise. The company sells all of its merchandise worldwide over the Internet; it has no physical storefront. Customers pay mostly by VISA or MasterCard, although personal checks are accepted. Products are packaged and sent to customers via UPS and the US Postal Service. The site has been operating for about three months as of the time of this writing. The company and its web site are operated solely by the proprietor out of a home office. This case describes the start-up challenges confronted by an enterprising young entrepreneur in creating a home-based electronic commerce store. In contrast to all the get rich quick hype students hear about starting a dot.com business, the strength of the case lies in the fact that it identifies some of the real challenges, both technical and marketing, faced by such start-up ventures. The case ends with some questions and Internet exercises for students to prepare in advance of class discussion of the case.

HEWLETT PACKARD CORPORATION: AN EQUITY VALUATION CASE

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CASE DESCRIPTION

The primary subject matter of this case concerns the valuation of the common equity for a large corporation. Secondary issues identifying financial strengths and weaknesses through the use of DuPont Analysis. The case has a difficulty level of three (appropriate for junior or senior level courses. The case is designed to be taught in one and one-half classroom hours and is expected to take two or three hours of outside preparation by students.

CASE SYNOPSIS

This case examines the financial situation of Hewlett Packard Corporation and estimates the value of the common equity of the company. In addition to the equity valuation, the financial strengths and weaknesses of the company are also identified through competitor analysis using the DuPont identity. This is a case based exclusively on historical, publicly available information.

INTRODUCTION

Hewlett Packard Corporation was started in 1939 by David Packard and Bill Hewlett and the families of these two men today own nearly twenty percent of the company. Hewlett Packard Corporation has grown to become one of the worlds largest computer companies and the foremost producer of test and measurement instruments. In addition, the company makes networking products, medical electronic equipment, instruments for systems and chemical analysis, handheld calculators and electronic components.

Today, Hewlett Packard's test and measurement instruments, as well as systems and related services, are used by engineers and scientists to design, manufacture, operate and repair electronic equipment including global telecommunications networks. Other principal markets for Hewlett Packard instruments and systems are the aerospace/defense, automotive, consumer electronics, computer, semiconductor and components industries, and scientific research programs.

Most of Hewlett Packard's revenues, however, come from computers. Computers sold by Hewlett Packard range from palmtops to supercomputers and they also sell peripherals and services. Hewlett Packard is one of the fastest growing personal computer company's in the world and is the worlds leading supplier of printers. Computers, peripherals and computer related services account

for nearly 85 percent of sales. Hewlett Packard printers such as the HP LaserJet and DeskJet have set the industry standard for technology, performance and reliability.

As an analyst at Eagle Investment Advisors you have recently been assigned the task of estimating the value of Hewlett Packard stock and issuing a buy or sell recommendation on the stock. Your recommendations are widely watched by clients of Eagle Investment Advisors so you take your assignment very seriously. To get started with the valuation task you have compiled the following information.

THE COMPUTER AND PERIPHERALS INDUSTRY

The 1998 fiscal year for the computer and peripherals industry generally ended on a brighter note than it began. Personal computer makers began 1998 with excess inventory resulting from overly optimistic forecasts for personal computer demand at the end of 1997. This led to reduced sales in early 1998 as the oversupply of personal computers was sold off by companies who had overestimated demand.

Adding to this weakness was the fact that some potential buyers were delaying purchases so they could get the new Microsoft Windows 98 operating system which did not become available until late June 1998. Performance improved in the second half of the year as excess inventory problems were worked out. Overall, the industry managed to boost sales and profit in the 1998 year.

Speaking before a group of securities analyst's in New York City in mid 1998, Hewlett Packard Chairman, President and CEO Lew Platt said "Quarter 2 isn't any kind of result that we would enjoy sending home. We came up short — short of our plan, short of your expectations. We had great top line growth but could not deliver that to the bottom line." Hewlett Packard did see some recovery in sales and profits in the second half of the year and the recovery is expected to continue into the 1999 year.

Overall, the prospects for growth in the industry appear quite good going forward. Although economic growth in the United States economy is predicted to slow somewhat, it is still predicted that the gross domestic product will continue to grow at a reasonable rate and that overseas economies should soon begin an economic upswing which would likely stimulate foreign demand for computers and peripherals.

RATIO ANALYSIS

Hewlett Packard has many competitors of various sizes, however its most serious competitive threats come from its five largest competitors — International Business Machines (IBM), Dell Computer Corporation, Sun Microsystems, Compaq Computer and Gateway, Incorporated. Selected key financial ratios are shown in Table 1 for both Hewlett Packard and IBM — the two largest competitors in the industry.

TABLE 1
CURRENT KEY FINANCIAL RATIOS

	HWP	IBM	INDUSTRY	S&P 500
ROE	.1968	.4136	.4017	.2353
PROFIT MARGIN	.0705	.0881	.0759	.1170
ASSET TURNOVER	1.46	1.07	1.80	1.07
EQUITY MULTIPLIER	1.912	4.3875	2.940	1.8795

The return on equity of 19.68 percent for Hewlett Packard fell significantly short of the return on equity for IBM and for the industry in general. Hewlett Packard's profit margin of 7.05 percent is in line with that of IBM and the industry. The asset turnover of 1.46 for Hewlett Packard is higher than that of IBM, but falls short of the industry average asset turnover. With respect to the equity multiplier, IBM has a multiplier much higher than the industry average and Hewlett Packard's multiplier of 1.912 is much less than the industry average.

VALUATION DATA

Your analysis will require some information about the market in general as well as information on how the price of Hewlett Packard stock will behave under certain market conditions. While compiling the following information you realize that although you are doing a thoughtful job of gathering and analyzing information your estimate of the value of Hewlett Packard stock will be quite sensitive to certain factors. In this regard, you decide that it would be appropriate to conduct a sensitivity analysis to determine how sensitive your value estimate is to various input variables.

Your data collection begins with interest rates. Consulting a reliable online source you learn that the interest rate on a 90 day United States treasury bill is 5.7 percent while the rates on a 60 day treasury bill are 5.8 percent. A 30-year government bond is trading to yield 5.44 percent. Recent rates on certificates of deposit at large banks have been around 5.2 percent and large creditworthy corporations have recently issued commercial paper with a yield of 6.5 percent. During this same time period the Standard and Poor's 500 earned an average return of 19 percent.

In addition to information on market interest rates, Table 2 contains some information you compiled relating to Hewlett Packard and the market.

TABLE 2
COMPANY SPECIFIC AND MARKET DATA

Beta Coefficient for HWP	1.10
Price/Earnings Ratio for HWP	22.9
Earnings per share estimate	$3.35
Return on S&P 500	19%
Dividend expected next period	$0.70
Recent price for HWP	$70.50

Using the data you have collected and stating any assumptions used in your analysis, prepare an equity valuation report containing the following:

1. An estimate of the required rate of return for HWP stock.
2. A DuPont analysis of ROE discrepancies among HWP, IBM, and the industry average.
3. A value estimate for HWP using the constant growth model.
4. A value estimate for HWP using a Price/Earnings valuation approach.
5. A value estimate for HWP using the 2 stage dividend discount model.
6. Prepare a sensitivity analysis for HWP value using the 2 stage dividend discount model.
7. Prepare an overall recommendation (i.e. buy/sell) and explain your recommendation.

HOMETOWN BANK OF LITTLETON: PROFITS AND STRATEGY IN A COMPETITIVE ENVIRONMENT

Jan M. Serrano, Stephen F. Austin State University
John H. Lewis, Stephen F. Austin State University

CASE DESCRIPTION

The case focuses on the management of a small bank with branches. The major issue is a conflict of growth versus profitability. Other issues involving bank management are addressed using peer-bank data and statement analysis.

CASE SYNOPSIS

This case, constructed from real-world data, includes an analysis of the strategic policies of an independent bank attempting to maintain growth and profitability in an increasingly competitive loan environment. Hometown Bank is the second largest bank in the Littleton area. John Kent has been assigned the task of analyzing the bank's financial position. The bank is predominantly a real estate lending bank with a very conservative loan portfolio and strong capital position. The bank has doubled its assets in five years. The growth in the investment portfolio has been much larger than the growth in the bank's loan portfolio, however. This increased asset size without a corresponding high return loan portfolio has dampened bank profitability. Further, this growth in assets has been funded primarily through long-term borrowing rather than growth in deposits. Students are provided with basic accounting data to enable them to construct key financial ratios and comparisons with peer banks. Students can observe first hand the tradeoff between growth and profitability brought on by this bank's management strategy.

REDUCTIONS IN FORCE: A DILEMMA IN THE HUMAN RELATIONS DEPARTMENT AT VY-TEK, INC.

Patricia A. LaPoint, McMurry University
Carrol Haggard, McMurry University

CASE DESCRIPTION

The primary subject matter of this case concerns human resources management and ethics. The case can be used to explore many of the issues associated with human resources management including downsizing and ethical decision-making. The case has a difficulty level of two. The case can be presented and discussed in two 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

Vy-Tek, Inc. is a 67-year old international electronics manufacturing company. Although highly successful, recently its overall performance has not met senior management's expectations. As a result they are looking for methods to boost profitability. One of the possibilities is in the reduction/consolidation of the Human Resources Management Division. Elizabeth Pierce, who has progressed rapidly to a highly responsible position in the HR Division, is caught in the middle. Pierce is called upon to participate in the decision as to what action should be taken. Pierce finds herself in a difficult position. She sees three options. First, she can favor the reductions, a position that senior management feels is best for the company, and which may solidify her desires for promotion to Vice-President but would mean that Pierce's former mentor would lose her job. Second, she can advocate retaining the HR divisions, which would be consistent with her past positions, but appear to fly in the face of the wishes of senior management. Third, she could favor some reductions while supporting the division headed by her former mentor, thus producing some cost savings while enabling Pierce to remain loyal to her former mentor. Pierce must decide which position to support.

A.F. WOLKE

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CASE DESCRIPTION

Wolke is a comprehensive case and is rich in issues that would make it suitable for both strategy and small business classes. Financial data is provided for a two year period, and organization charts are included in the case. It is a classic example of how a small firm employs a differentiated niche strategy successfully only to create problems for itself. In this case Wolke has been so successful that it has expanded globally and is now at the stage where key decisions must be made regarding the firm's future. It now has outgrown its capacity, current personnel, and organization structure that, in turn, are now beginning to result in R&D, scheduling, transportation, productivity, and quality assurance problems. Faced with the increasing competition and a rapidly changing environment the owners are unsure what to do about the situation. The case is targeted for seniors and graduate students (levels of difficulty-- five and six). It has extensive teaching notes including an industry, SWOT, Five Forces, and ratio analysis. The preparation time is expected to take in excess of six hours, and the class discussions should last two hourly class periods.

CASE SYNOPSIS

A.F. Wolke started out as a small paint supplier and later evolved into a manufacture of concrete coatings. In 1995, the company was sold to four employees of one of Wolke's major suppliers. By 1998,the company had grown to eleven employees, new equipment was purchased, and sales increased to $2.5 million. Because of the impact of environmental concerns, Wolke moved to a water based technology. In order to compete Wolke has focused on unique niche markets and developed specific coatings for its customers. In the past two years a conscious effort has been made to improve their marketability. Recently, they have started selling paint in Yorkshire, England. The company is now at the point where their personnel are on the road servicing customers leaving little time for lab work and the development of new products. Products are manufactured in small batches, and some runs have to be completed before others can begin. The plant is small, causing production to be inefficient and unsafe at times. Their margins are further strained by the high cost of using common carriers and the high cost of a unique ingredient in their paint formula. Due to its small size, Wolke has been unable to implement a much needed quality assurance program. The size is also inhibiting their ability to capitalize on new

opportunities, which are constantly presenting themselves. Unfortunately, the absentee owners cannot devote the time and effort to plan for the future.

A.F. WOLKE

The A.F. Wolke Company was founded by Chester Higgenbottom as a manufacturer of individual coatings. Over the years the company never grew larger than a three-man operation and limited its marketing to the Midwest region. In 1985, he sold the company to four employees of one of his solvent suppliers. Under the new ownership Wolke began to expand. Chris Williams, a chemist and paint formulator, was hired as general manger. By 1998 the company had grown to eleven employees, and sales had increased by tenfold. New products and equipment were added to meet the demands of a national market.

Although Wolkes' products have changed considerably, their operating principles have remained the same for over sixty years. They represent integrity, caring leadership, customer satisfaction, quality workmanship, and service. These principles ensure that every Wolke product and employee reflects the values of the company and carries them forward into the partnership with the customer. Wolke is an international coating company dedicated to manufacturing quality paints and coatings to customer specifications. Wolke proudly boasts of having loyal, committed employees who understand and value the customers' needs. Wolke is dedicated to technical excellence, the supply of quality products, and high levels of personal service. It is proud to have many satisfied customers throughout the United States, Canada, Mexico, and Europe. Through the years, Wolke has a well earned reputation for technical excellence, personal service, and product innovation, plus the ability to focus resources on the practical needs of the customer.

Wolke faces intense competition from large, national paint manufacturers such as Valspar, PPG, and Sherwin Williams. These competitors have many more resources and capital allocated for research and development and marketing. But, they also have higher administrative costs associated with large national companies. These companies have universal coatings that they can submit to several different companies that may work and perform adequately. In addition, they focus on larger volume accounts where they can move thousands of gallons of paint. Although Wolke is proud of marketing globally, most accounts are comparatively small and limited to a regional area near the plant because of travel and transportation costs.

Wolke is a small company that has selected unique niche markets that the larger coatings companies do not target. Wolke has been strong and successful due to the one-on-one relationship with its customers and its ability to develop part specific coatings for its customers. Most of Wolke customers use a specific custom-formulated coating. There are many variables that affect performance of paint, and Wolke manufacturers variations of a particular coating to meet their customers' particular needs which enables it to compete with the large manufacturers in the marketplace. Wolke's major niche market is the coat-hanger industry which represent 81 percent of the company's total sales. Other niche markets consist of the metal tank, extruded farm equipment, and the wood finishing industries. Each of these market segments is in need of water-borne paint custom formulated for their particular products and paint processes.

Because of the EPA air quality laws and regulations, interest for water-borne paint grew significantly in the manufacturing plants using solvent-based paint. This presented a threat to the

chemical and solvent companies. As solvent customers expressed interest in a water-borne paint systems, Mr. Williams got involved in the development of a water-borne paint to meet their specific needs. An example of this was the Laidlaw account. Their solvent emissions were not in compliance with EPA regulations. Consequently, they were fined significantly for this noncompliance and felt they needed to convert to a water-borne paint system for the future. Mr. Williams, by trail and error, developed a combination of polyester resins that used water as the vehicle for applying the resin and pigment to the substrate or coat hanger. Within two years, all the other Laidlaw plants were converted to Wolke's water-borne coatings and technology.

The past two years, Wolke has made a conscious effort to improve its marketability. A company brochure has been printed, and a Web site has been generated. Wolke is at the point where the sales and technical personnel are on the road, servicing customers, leaving less time for lab work and developing new products. In 1997, Jeff Martin was hired as a salesman from DeVoe Paint. Mr. Martin has ten years in the paint business as a formulator and inside sales person . He has been assigned a limited number of accounts and is expect to do some prospecting. However, he has primarily has spent his time learning about Wolke products and working in the lab and manufacturing plant. David Wardrip, the technical service manager, is also very knowledgeable about paint formulation and would be a big help in development, but he also has to spend most of his time in the field.

The water-based coatings going into the coat-hanger industry sells in the $9.00-$14.00 per gallon range. Cost of material is running at 64.5 percent of sales. The cost is based upon a raw material that is extremely critical to the quality of Wolke products and to the profit margins. The main component of Wolke's coat-hanger products is a polyester resin made by Reichhold. This is the only resin that has been qualified to meet the product specifications. Wolke has been unable to find a substitute for this resin and is therefore at the mercy of the manufacturer as far as pricing goes.

Wolke batch produces their products in a plant that is not large enough to handle the volume, therefore, production is inefficient and at times unsafe. The facility is inhibiting the growth of Wolke because their single shift is running at over capacity rates. Particular production runs have to be completed before new runs can begin. Because of limited storage, inventory cannot be purchased at volume discounts. Product is delivered to the customer in 5 gallon cans and 55 gallon drums via common carriers that can be expensive and place a strain on margins. Shipping cost were $123,000 in 1998, up 12 percent from 1997. Due to its size, Wolke has been unable to afford to implement quality assurance programs required to compete for business with larger industrial concerns and on government bids.

Through the contacts of the owners, Wolke has many prospects for the future. Other competitors of Laidlaw Corp. have expressed an interest in doing business with Wolke. Kimball International has opened the door to Wolke for specialized water-based finish coatings, mold release agents, and drawer dips. Leggett & Platt in Winchester, Kentucky, has invited Wolke to develop a water-based brown flo-cote for coating their bed frames. Fred Cain Farm Equipment needs a water-based dip coating for painting their bush hogs. In addition, other companies have expressed an interest in Wolke whenever Wolke is ready to work with them. These prospective accounts represent over $1.4 million in additional revenue for Wolke. Although the owners have great contacts through their full time jobs, they are not involved with the firm's daily operations. At the

present time, Wolke has no long-term debt but has neither the resources nor the time to capitalize on these opportunities.

Wolke paint has experienced significant growth during the past ten years. The company has increased sales and profits on a yearly basis during this period. Taxable revenues in December were $2.5 million in 1998, up from $2.2 million in 1997. New products and market niches have been developed which presents tremendous opportunities for the future. It has a strong customer base with which to build upon for the future. Wolke's management is considering building a new manufacturing plant that will enable it to grow and sustain itself in the future. Alternatively, they are considering selling the business. Recently two major producers have approached Wolke and expressed an interest in acquiring the business.

Profit and Loss for June 1998 & 1997		
	June 1998	June 1997
Total Revenue	$266,655	$147,494
Cost of Goods Sold	173,071	105,902
Gross Profit	93,584	41,592
Total Expenses	56,767	47,282
Other Income	2,268	(492)
Net Income	$39,085	$ (6,182)
Balance Sheet for June 30 & May 31, 1998		
	June 30	May 31
Current Assets	$648,099	$122,714
Cash	185,129	161,290
Accounts Receivable	326,835	298,881
Other Current Assets	136,135	122,714
Fixed Assets	67,674	70,257
Other Assets	1,356	1,398
Total Assets	717,129	654,540
Current Liabilities	260,689	230,163
Total Equity	456,441	424,377
Total Liabilities and Equity	$717,129	$654,540

WHITE WATER GEAR, INC.

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CASE DESCRIPTION

The primary subject matter of this case is entrepreneurship. Secondary issues examined are Internet selling and human resource management. The case has a difficulty level of three, appropriate for junior-level courses. The case is designed to be taught in one class hour and is expected to require three hours of outside preparation by students.

CASE SYNOPSIS

This case focuses on White Water Gear, Inc., a business that opened ten years ago in a small community in the state of Washington. WWG specializes in outfitting white water rafting enthusiasts. The majority of its sales are obtained by direct marketing, specifically through the use of a colorful catalogue.

John Appleton, the founder and current CEO of WWG, started the company as an outgrowth of his favorite sport. At that time, he was frustrated in not being able to get the quality products he needed to make the sport more enjoyable. Products such as rafting helmets and water-proof bags that he read about in magazines or that he had seen other rafters using were not available in the local or near-by town sporting goods stores. He talked with the owners of these stores and found that they were interested in stocking the items John was suggesting. This support triggered John to launch a business. He decided to buy rafting products from manufacturers and distribute them to small sporting goods stores in the Northwest.

Initially, the business did not generate enough revenue to make the venture a full-time job for John. This changed when John began selling directly to customers through a catalogue. Although WWG has had a few down years, on the whole the business has been successful. However, with the popularity of the Internet, increased competition, and a growing trend towards kayaking as compared to rafting, John knows it is time to revise his strategies.

The purpose of this case is to explore how John can revise his strategies. Case questions ask students to explore the consideration of both Internet selling and high quality services.

DISCUSSION QUESTIONS AND SUGGESTED ANSWERS

8. **John probably will need to obtain approval from the manufacturers of the products he sells before he can proceed with Internet selling. Why might some manufacturers not allow John to pursue Internet selling?**

Across many industries there is a concern on whether Internet selling will change everything or just add another small sales channel. When retailers believe Internet selling could have a large impact on their sales, they often enter into discussions with the manufacturers of their products. For example, some "traditional" retailers are demanding reassurance from manufactures that Internet sellers won't be able to sell popular products at low prices. Other retailers are threatening to boycott manufacturers whose goods are offered over the Internet. It is this pressure from retailers that can force manufactures to ban or to restrict Internet selling of their products.

2. **Do WWG's products lend themselves to being sold over the Internet? Discuss. (When answering this question think about the five senses: sight, sound, taste, smell and touch. The suitability of a product to Internet selling probably will be impacted by the senses to which it appeals.)**

An examination of early Internet sales suggests products that appeal to customers' sight and sound senses lend themselves to Internet sales. Books, computers, and music CDs are good examples. Products which appeal to the senses of taste, smell and touch may not be suitable to Internet selling. Included here are perfume and food products. Based on this line of thinking, it would appear that rafting gear products would lend themselves to Internet selling.

3. Discuss issues that might limit customers from buying WWG's products over the Internet.

One area students should consider is how familiar customers are with the products. The less familiar they are with the products the less likely they will buy them over the Internet. Another issue is how experimental customers are–how ready they are to try new things. A third area is personal privacy–the degree to which customers believe information they provide Internet sellers will be kept confidential. Finally, a related concern is the level of payment (credit card) security.

4. Discuss the benefits and limitations of WWG increasing its part-time permanent help.

One benefit is that John saves money on training new employees every year, and at the same time he will be better able to meet the peak selling season challenges. However, during the off-season, some employees will be under worked. Because a goal of WWG is to provide high quality services to its customers, the benefits would appear to outweigh the limitations. Having experienced and motivated employees available during the peak selling season will increase the chance of WWG meeting its customers' needs.

Part-time permanent employees could be paid at the same hourly rate as the full-time employees, with limited benefits such as merchandise discounts. This is to ensure that part-time employees don't feel at a disadvantage to full-time employees, and also so part-time employees feel like a valuable part of the company.

5. Even though employee morale is currently high, what can John do to maintain and further uplift employee morale? Consider monetary (i.e., profit sharing, stock options) and non-monetary rewards.

To further uplift moral, possible motivational monetary rewards could include: profit sharing, stock options and increasing benefits. Profit sharing and stock options would be based on company performance and therefore sales associates would have a stake in the company and care more about how well the company is doing as a whole. Benefits could include limited health/dental care and discounts on company products. Benefits should be evaluated based on cost to the company vs. benefits to the employees.

Non monetary rewards could include: 1) sponsoring company socials–i.e., picnics; 2) spontaneous thank you notes from John; 3) empowering sales associates to make decisions for customers; and 4) forming employee quality improvement teams to suggest changes that can be made to improve operations.

NIGERIAN METAL FABRICATORS

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CASE DESCRIPTION

If you've ever wished for a relatively short and straightforward case to demonstrate to your students the essence of what marketing is all about (that is, creation of successful businesses through the process of seeking out the needs and wants of customers and then organizing and executing to satisfy those needs and wants), here's your case. The case has been used successfully with students ranging from freshmen (level 1) on up through executives participating in executive development seminars. It is designed to be taught in one class of approximately one hour and a half, and is likely to require a couple hours preparation time from students.

CASE SYNOPSIS

The case tells the story of the President and General Manager of a company in Nigeria which imports aluminum ingots from overseas and uses them to produce fabricated aluminum products for the local market. For many years, the company has focused on producing roofing sheets for individuals who are constructing a house. Recently, however, the price of the imported aluminum ingots has increased 400%. Because individuals are no longer able to afford the roofing sheets, company volumes and revenues have fallen precipitously. The President believes that the company can be saved by pursuing roofing opportunities (either new construction or re-roofing projects) with private sector businesses and/or governmental units. While the President has submitted bids on 20 commercial roofing projects, and while some of his bids have been as much as 15% lower than the lowest bid of any competitor, he has not yet been awarded a single job or contract. Students are asked to imagine themselves in the role of the President, and to create a successful marketing strategy for the company based on the President's knowledge (set forth in the case) of the needs and wants of industrial customers.

THE SITUATION

James Oke, President and General Manager of Nigerian Metal Fabricators, Ltd. shook his head in frustration as he looked at the file containing the 20 bids on roof sheets for large commercial buildings which Nigerian Metal Fabricators had submitted to property managers, architects, and general contractors over the last 6 months. He and his staff had spent hundreds of hours preparing these bids, but had not succeeded in winning even one job. This was especially frustrating to Oke because he knew that on at least half of these roofing projects, Nigerian Metal Fabricators had been the low bidder. In fact, in some cases, Nigerian Metal Fabricators' bid had been as much as 15% lower than the bid submitted by the company which had finally been awarded the roofing job. Because the winning of large commercial roofing projects was a key component of Oke's plan to increase

Nigerian Metal Fabricators' turnover and profits, Oke resolved to spend much of his long holiday weekend working to find a way to help Nigerian Metal Fabricators compete more successfully for these large commercial jobs.

THE COMPANY

In 1959, Metal Company International, Ltd. established two aluminum-related companies in Nigeria. The first, Metals Nigeria, Ltd. was a rolling mill to convert aluminum ingots imported from Jamaica into sheets of aluminum. The second, Metal Products- Nigeria, Ltd., (hence, MPN) was engaged in the production and sale of fabricated aluminum products in Nigeria, especially roof sheets. MPN's original manufacturing plant was located in the Lagos area.

Over the ensuing years, MPN expanded its operations in Nigeria. Plants to manufacture roof sheets were established in Port Harcourt and in Kaduna. In addition, a large plant to manufacture aluminum windows and doors for the entire Nigerian market was established in Kaduna. However, because Metal Company International's primary motivation for establishing subsidiaries in Nigeria was to develop a market in Nigeria for Jamaican aluminum ingots, MPN did not devote much time or money attempting to develop additional products or expand Nigerian markets. Almost zero money was spent for advertising or market development purposes. In fact, for many years the only promotional literature available in Nigeria on MPN's product line was a small brochure available to interested parties at MPN sales offices.

Up through 1984, MPN was able to fulfil quite effectively its corporate mission of taking aluminum from the rolling mill, converting it into roofing sheets, and moving that product into the Nigeria market. Each year the company would sell 4000 to 5000 tons of aluminum sheets. In general, Metal Company International, Ltd. was pleased with MPN's performance.

CHANGES IN ENVIRONMENT, AND IMPACT OF THESE CHANGES ON MPN

In 1985, the impact of the import license program which Nigeria had implemented two years earlier hit MPN very hard. Because it was unable to procure import licenses for aluminum ingot from its parent company, sales of roofing sheets by MPN in 1985 fell to less than half of the customary volume. This problem continued into the first several months of 1986. While the naira figures for turnover and profits in 1986 remained strong, this was purely an artifact of the loss in value of the naira during 1986. As the tonnage figures indicate, the amount of product moved by MPN in 1986 shrank to approximately 1/4th of the volume for previous years.

The other major problem MPN encountered at this time related to price increases in aluminum sheets necessitated by the fall in the value of the naira. It turned out that MPN's customers were unable to afford the 400% increase in the price of roofing sheets caused by naira devaluation. Thus, MPN encountered problems not only in sourcing their raw materials but also in moving finished products.

In response to the above problems, Metal Company International, Ltd. decided in 1986 to liquidate its operations in Nigeria. Ultimately, Metal Company International's shares in MPN and in the Metal Company Nigeria, Ltd. rolling mill operation were sold to a group of Indian shareholders. At that time, the names of the two companies were changed to Nigerian Metal Fabricators, Ltd.

(hence, NMF) and to Nigerian Metal Company, Ltd., respectively. It was shortly after this that James Oke was brought in from a financial background to be President and General Manager of NMF.

NMF UNDER OKE (PART 1): REVIEW, INITIAL CHANGES, AND RESULTS

One of Oke's first moves as President was to conduct a thorough review of NMF's mission, objectives, and strategies. During the course of this review, Oke reached several conclusions including the following:

* The traditional mission (that is, moving as much Jamaican ingot as possible into the Nigeria marketplace) is no longer an appropriate focus. The company must redirect its energy and attention to Nigerian markets and to serving these markets in a way which increases turnover and profits.
* NMF is currently collecting almost no information relating to Nigerian markets and marketing in Nigeria.
* The current situation wherein 90% of NMF's turnover comes from a declining market (that is, roofing sheet to individual customers) is unacceptable.
* NMF has never developed a really successful new product. However, given the change in mission and the need to reduce NMF's dependence on the sale of roof sheets, it appears that it will be necessary to broaden NMF's product line.
* Given the change in mission and the need to introduce new products, it will be necessary to increase dramatically the awareness in Nigerian markets of NMF and its product line. It will no longer be acceptable for NMF to be far less visible in the marketplace than ABC, Ltd. and XYZ, Ltd, its principal competitors.

Based on the above conclusions, Oke began immediate to move to implement his vision of the company he thought NMF could become. Sensing that customers of aluminum windows and doors refused to patronize NMF because they feared it would not be possible to receive these products from Kaduna in a timely manner, Oke persuaded his Board of Directors to approve a scaling back of the Kaduna window and door plant so that additional plants for these products could be justified in Lagos and Port Harcourt. Oke also created a new product department, to work on additional extensions of his product line. Furthermore, he created a marketing department, and charged it with collection of data relating to customer profiles, why customers purchase NMF products, competitor profiles, changes in the marketplace, how NMF is responding to changes in the marketplace, and why NMF loses business when that happens. Finally, he initiated a promotional program using national TV and billboards, to familiarize consumers with the NMF name and products. In the process, the NMF advertising budget increased from N100,000 in 1985 to nearly N1,000,000.

Results of the above programs were not totally gratifying. Windows and doors sales did increase, especially in Lagos and in the East, but not markedly. The new product department developed additional construction-related products which seemed likely to be quite successful, especially office partitions. The marketing department began to provide useful information on numerous issues including the motivations of buyers to buy aluminum windows and doors (low maintenance, also, higher status and aesthetics), reasons buyers don't now buy windows and doors from NMF (salesmen neither know nor push these products), and the identity of historical purchasers of NMF roof sheeting (primarily, individuals purchasing small numbers of sheets for private construction). As indicated in Exhibit 1, however, the overall impact of these changes on NMF's turnover in 1987 was not great. Furthermore, pre-tax profits decreased substantially, due to the heavy expenses associated with Oke's plant, product, and promotional initiatives.

NMF UNDER OKE (PART 2): ADJUSTMENTS AND RESULTS

Based on these results, Oke determined to work very hard at a relatively small number of issues. The first was continued low volume in window and door sales, even though the new local plants in Lagos and Port Harcourt had eliminated the "transportation from Kaduna" problem. In examining this issue, Oke discovered that most of his salespersons had very little motivation to try to sell windows and doors, because they could generate far higher volumes by focusing their attention on a small number of large sales of roof sheets. In addition, his salespersons, most of whom had secondary school (not university) educations and had worked for the company for many years, tended not to be knowledgeable on the characteristics of these new products and their benefits to customers.

In an attempt to address the above issues, Oke decided to introduce both product/market training and an incentive pay scheme. Regarding incentive pay, Oke began by setting a monthly target for each salesperson of 2 or three tons per month (depending on the territory) of roof sheet and N50,000 of doors and windows. Salespersons who met both criteria could earn ½ percent commission on any additional sales. However, after a three month period during which no salesperson earned any commission, Oke revised the program to incorporate one quota for roof sheet and a separate one for windows and doors. At this point, a few salespersons started earning commissions, and sales of windows and doors began to increase, especially in the Lagos market. As regards product knowledge, Oke hired a marketing professor from a local university to come and run training sessions for his salespersons, to improve their knowledge of products and consumers.

The results of these initiatives were very gratifying. Soon, monthly sales of windows and doors in the Lagos market exceeded those in the Kaduna area, in which NMF had been selling these products for many years. These increases are reflected by NMF's turnover and tonnage figures for 1988, which increased 73% and 36%, respectively, over the figures for 1987.

The second issue, which Oke began to address early in 1989, was NMF's declining roofing sheets business. As indicated earlier, data collected by the marketing department suggested that NMF's traditional customer, an individual needing a relatively small number of sheets for a private dwelling, could no longer afford to purchase aluminum sheets and was switching to galvanized sheets. Because the roofing sheet business represented such a major portion of NMF's sales, and because it was the core business on which NMF had been built, Oke knew that any real turn around for his company depended on a successful revitalization of the roof sheet business. Thus, he instructed his

marketing department to prepare a report on the characteristics of the commercial market for roofing sheets. A summary of the marketing department's major findings is as indicated in Exhibit 2.

YOUR ASSIGNMENT

Assume you are James Oke. Develop a brief setting forth your suggestions for re-vitalizing NMF's roof sheet business.

Exhibit 1
5 YEAR SUMMARY
(000 omitted except for tonnages)

UNTIL 1986: METAL PRODUCTS-NIGERIA, LTD.
AFTER 1986: NIGERIAN METAL FABRICATORS, LTD.

Measure	1984	1985	1986	1987	1988
Turnover	N14, 871	N27, 351	N31, 938	N34, 275	N59, 285
Pre-tax Profit	N717	N4, 748	N5, 686	N2, 790	N6, 234
Net Income	N360	N2, 574	N3, 294	N1, 694	N3, 987
Tonnages	3500	1609	980	1050	1425
Assets:					
Current (net)	N5, 174	N5, 867	N7, 996	N7, 004	N8, 606
Fixed (net)	N1, 176	N1, 732	N8, 383	N10, 480	N11, 287
Total (net)	N6, 350	N7, 599	N16, 379	N17, 484	N19, 893
Shareholder Equity	N6, 350	N7, 599	N16, 379	N17, 484	N19, 893

Exhibit 2

CHARACTERISTICS OF THE COMMERCIAL ROOF SHEET MARKET IN NIGERIA

Major Commercial Roofing Opportunities: apartment buildings (flats), government-financed housing projects, manufacturing plants, plus both public and private-sector warehouses and storage sheds. In each case, opportunities exist both for new construction and for re-roofing of existing structures.

Decision-Making-Unit (DMU) Characteristics: For the re-roofing opportunities, the buyer (that is, the individual or organization who pays for the re-roofing project) is usually the owner of the building. However, the decision-maker is often a professional buildings or a property manager. For new construction opportunities, the money usually flows from a general contractor to the roofing contractor. However, the decision-maker (that is, the individual who decides what company or individual will be awarded the roofing job) is usually the architect who sets the specifications which the roofing material must meet. Once an architect has decided which supplier he wishes to work with, it is quite easy for the architect to write specifications which exclude all but the favored supplier.

Factors believed to favor aluminum sheeting over alternatives: Zinc sheets are an alternative to aluminum sheets, because the zinc sheets are cheaper. However, both professional building managers and architects appear to favor aluminum roofing. Reasons given include the following:

* lighter weight
* attractive appearance
* low maintenance
* ability to get longer lengths of aluminum sheets than the standard zinc sheet.

Factors believed to influence choice of Roofing Supplier: Personal relationships and price are likely to impact the supplier choice decision. Having said that, however, market research suggests that both professional buildings managers and architects tend to favor roofing sheet suppliers who meet the following criteria:

* has own rolling mill
* affiliated with overseas companies (for sourcing of materials not available in Nigeria)
* has conducted business in Nigeria for many years and has a good reputation
* financially strong
* can offer a total roofing package. This means that the supplier must have personnel with the technical and social skills to provide technical advice to building managers and architects about the characteristics of the product and the way the job should be planned and executed. It also means that the supplier must be able to supply roofing sheets and to provide installation services. Large companies are especially likely to prefer suppliers who can provide the entire "roofing package" working independently and with little supervision. As regards the "roofing package," analysis indicates that the aluminum roofing sheets themselves account for between 80-85% of the cost of an aluminum roof. Installation accounts for the remaining 15-20%.
* quality product, where "quality" means (1) that the product can be scheduled to be available at the desired time; and (2) the percentage of sheets being outside of the desired thickness (say, 32mm-35mm) is very small. As it happens, the high grade equipment used by Nigerian Metal Company to produce roofing sheets means that a very high percentage of the product produced by Nigerian Metal Company and sold by NMF falls within whatever tolerances are agreed to by NMF and a customer.

A CASE OF CROP-SHARE VERSUS CASH LEASES

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CASE DESCRIPTION

The primary subject matter of this case concerns the evaluation of crop share versus cash leases. It is appropriate for intermediate accounting. The case has a difficulty level of three (appropriate for junior or senior level courses. The case is designed to be taught in one and one-half classroom hours and is expected to take two or three hours of outside preparation by students.

CASE SYNOPSIS

Lance, a farmer in northwest America, grows wheat and peas. In addition to his own land, he has several landlords. One of Lance's leases is coming up for renewal next month. The landlord has told Archie that he wants to change the lease to a cash lease from the crop-share lease that they have had for twenty years. The elderly landlord wants more security for his wife in case something happens to him. This news is a little unsettling to Lance, because all of his leases have always been crop-share. Lance is also distraught because his landlord wants to receive $80 an acre, like several landlords in the area. Lance leaves the discussion shaking his head. How did he get in this position and what should he do?

Crop-share leases have been traditional in the Northwest. Under a crop-share arrangement the landlord and the tenant-farmer share the expenses as well as the crop. Each party is then responsible for marketing his share of the crop. The share arrangement varies by type of crop and by type of expenses. The usual share arrangement for wheat is 2/3 to the tenant-farmer and 1/3 to the landowner and for peas is a and split. Variable expense that increase yields are usually shared in the same percentage as the crop is shared. These expenses include seed and fertilizer and sometimes herbicides. Sharing these costs in the same percentage as the crop encourages the parties to use optimal amounts of the input to maximize returns.

The advantages of crop-share leases compared to cash leases to the tenant include: (1) sharing the risk of low yields and low prices with the landlord and (2) the need for less operating capital since the input costs are shared.

The disadvantages of crop-share leases to the landlord include: (1) the variation of revenue because of yield and price variations, (2) the loss of income due to increases in costs, (3) the loss of crop due to natural disasters (i.e., hail or fire), (4) the changes in the knowledge needed to make marketing decisions, and (5) the increasing complexities of government subsidy programs and insurance programs.

To minimize the risks of crop-share arrangements, cash leases have become increasingly popular over the last several years. Under a cash lease the tenant-farmer pays the landowner a fixed amount per acre. The tenant-farmer assumes all of the risk of both price and yield variations. Since these risks are transferred from the landlord, historically the landlord was willing to accept a lower

lease amount compared to the crop-share arrangement. However, the amounts in cash leases have been increasing drastically, and not due to increasing market prices for the crop (in fact the price for wheat has been at a twenty-year low for three years). The artificially high cash lease amounts have been caused by farmers being able to receive up to $80 per acre under a government program called Conservation Reserve Program (CRP). Therefore, the landowners have been demanding the $80 per acre for cash leases instead of entering the CRP. This price is about $20 higher than originally received in a cash lease.

Now with the increased cost of cash leases, higher equipment and repairs costs, and very low market prices, the tenant-farmer's cost of production is higher than the revenue. The purpose of this case is to expose the accounting students to a business situation in which the company cannot raise the price of their goods to cover the cost of production. The case will require the students to develop a spreadsheet that will help the tenant-farmer estimate a reasonable cash lease amount, which will require the student to project both production costs and prices. The case information will include prior year's production costs, a background of current market prices for both wheat and peas, and typical lease provisions for both crop-share and cash leases.

If prices were stable, most of the uncertainty in crop-share arrangements for both parties would be removed. Unfortunately, this has not the case. The price of wheat and peas has been very volatile over the past twenty years. To mitigate this problem, prior to the 199? Freedom to Farm Act, wheat farmers were virtually guaranteed $4.00 per bushel through government subsidies, if they followed specific rules and procedures. They payments are being phased-out over the next few years. The landlord and tenant-farmer shared these government payments in the same percentage as the crop is shared.

ST. LOUIS CHEMICAL: THE BEGINNING

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CASE DESCRIPTION

The primary subject matter of this case concerns business start-up issues. Secondary issues examined include the components and importance of a business plan, evaluation and selection of a business organization form, and evaluating sources and types of start-up capital. 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 2-3 hours of preparation time from the students.

CASE SYNOPSIS

The case tells the story of Don Williams, a young business professional who is considering starting a new business. Williams was the Director of Sales for the distribution division of Midwest Chemical, a manufacturer and distributor of chemicals. Midwest was been sold and the acquiring firm did not require his services. As a result of his chemical distribution business experience, contacts with customers and suppliers and the cash he received from the buyout of his Midwest stock options and severance package, he is considering beginning a chemical distribution business. Williams has a solid understanding of the chemical industry and the distribution process. While at Midwest, he had Profit & Loss (P&L) responsibility but his knowledge of accounting and finance is limited.

The case contains information on the chemical distribution process and the Small Business Development Center (SBDC) Program administered by the U.S. Small Business Administration. SBDCs provide management assistance to current and prospective small business owners. The case requires students to investigate the purpose and use of a business plan and examine business start-up issues, including selecting a business organization form and evaluating sources and types of start-up capital.

THE SITUATION

Don Williams, the Director of Sales for the distribution operation of Midwest Chemical, a large, regional chemical manufacturer and distributor, has been told that the sale of Midwest to a large multinational chemical manufacturer had been finalized. Williams was aware of the sale negotiations but he didn't really think the company would be sold. The company had entered sale negotiations a number of times during the last five years, but for a variety of reasons the sale was never completed. To add to his surprise, Williams was told that after the acquisition his services,

along with most of Midwest's senior management, would not be required. This didn't necessarily reflect unfavorably on the management team of Midwest but without adjustments, combining the two firms would result in substantial management duplication.

Don Williams is thirty-two years old and had been employed by Midwest Chemical, since graduation from Iowa State University with a degree in chemical engineering. With Midwest he has moved through a number of management positions, each with an increased responsibility. For the last four years he had been Director of Sales for the distribution operation. In an effort to develop the business skills necessary to handle a senior management position, he continued his formal business education. He recently earned an MBA from St. Louis University after attending evening classes for four years.

Williams has a career decision to make, to seek a position with another firm or become an entrepreneur. Despite his advancement at Midwest, Williams always had aspirations of someday operating his own chemical distribution business. It appears that "someday" may be now.

The exercise of his stock options as well as proceeds from the sale of stock he has accumulated since joining the firm will provide him with a large amount of cash. Although he is not sure of his exact tax liability, he expects to net about $180,000 from the buyout of his options and the sale of his stock. In addition, he will receive a severance package amounting to $30,000.

The proceeds from the sale of his Midwest holdings (stock and options), severance pay and family savings could be used to start the new business. He and his wife can contribute $60,000 from savings, and a second mortgage on their home could add another $50,000 but his wife is hesitant to consider a second mortgage. In fact his wife has reservations about the whole idea of starting a business.

Another source of start-up capital could be Don's father. His father is retired and living in Florida but he recently sold a chain of dry cleaners for a profit of more than $3,000,000. Don thinks his father may be willing to invest $200,000 in his new business.

Before pursuing employment Williams wants to investigate beginning a chemical distribution business located in the St. Louis area.

CHEMICAL DISTRIBUTION

A chemical distributor is a wholesaler. Operations may vary but a typical distributor purchases chemicals in large quantities (bulk - barge, rail or truckloads) from a number of manufacturers. Bulk chemicals are stored in "tank farms", a number of tanks located in a dyked area. The tanks can receive and ship materials from all modes of transportation. Packaged chemicals are stored in a warehouse. Other distributor activities include blending, repackaging, and shipping in smaller quantities (less than truckload, tote tanks, 55-gallon drums, and other smaller package sizes) to meet the needs of a variety of industrial users. In addition to the tank farm and warehouse, a distributor needs access to specialized delivery equipment (specialized truck transports, and tank rail cars) to meet the handling requirements of different chemicals. A distributor adds value by supplying its customers with the chemicals they need, in the quantities they desire, when they need them. This requires maintaining a sizable inventory and operating efficiently. Distributors usually operate on very thin profit margins. *RMA Annual Statement Studies* indicates "profit before taxes as a percentage of sales" for Wholesalers - Chemicals and Allied Products, (SIC number 5169) is usually in the 3.0% range. In addition to operating efficiently, a successful distributor will possess

1) a solid customer base and 2) supplier contacts and contracts which will ensure a complete product line is available at competitive prices.

WILLIAMS' EXPERIENCE

Williams has a solid understanding of the chemical distribution process. While with Midwest, Williams developed solid customer contacts in the St. Louis metropolitan area, as well as with major customers in Missouri, Illinois, Iowa, Indiana and Tennessee. He has also developed valuable contacts with key chemical manufacturers. While at Midwest, he had Profit & Loss (P&L) responsibility but his knowledge of accounting and finance is limited. He has completed a preliminary site location investigation and examined other start-up issues but is not sure how to put everything together. Williams has discussed his situation with a friend who is a commercial lending officer with a large local bank. He suggested Williams visit the Small Business Development Center at St. Louis University. His friend thinks the Small Business Development Center could provide the assistance Williams needs to determine if his new business is feasible.

SMALL BUSINESS DEVELOPMENT CENTERS

The U.S. Small Business Administration administers the Small Business Development Center (SBDC) Program to provide management assistance to current and prospective small business owners. SBDCs are a combined effort of the private sector, education community and government (state and federal) to stimulate economic growth by aiding development of new businesses. Most SBDCs are housed on university campuses and receive a portion of their operating funds from the schools. Many SBDC counselors are faculty members from a variety of academic fields.

Anyone currently operating a small business or interested in starting a business can receive free, confidential assistance from the SBDC. Counseling and training activities include preparing a business plan, examining sources of financing, preparing loan requests and in general providing guidance on how to start a business.

THE MEETING

Williams arranged a meeting with Frank Charles, the Director of the Small Business Development Center, to determine what assistance, if any, the SBDC can provide in beginning his new venture. Before becoming the Director of the SBDC, Charles owned and operated a number of small businesses as well as worked as a commercial loan officer for a commercial bank. Charles explained the services available and asked Williams to describe his proposed new business.

Williams described the chemical industry and the role of a distributor. He would begin operations in St. Louis from a leased warehouse/office building located in an industrial park. The facility would be leased for five years at an annual cost of $60,000 and includes two, five-year renewal options. The facility would need to be modified to handle both liquid and dry chemical repacking operations, as well as storage tanks for bulk liquids. Exact numbers have not been developed but he thinks the modifications would cost about $250,000. With the modifications and six employees, Williams estimates the facility would support an annual sales volume between four and six million dollars. First year sales dollars are estimated to approach five million, with his

existing customer contacts providing the majority of the sales. Initial inventory would require an investment of $600,000. Williams expects to offer credit terms of net 30, the same as the industry. Williams is very confident the estimated first year sales can be achieved and can be doubled in the second year of operation. According to *RMA Annual Statement Studies* distributors report a "Sales/Total Asset" ratio between 2 and 4.

Charles asked Williams what form of business organization he intended to select. Williams indicated he hadn't really given it much thought and didn't know much about any organization form other than the corporation.

Given the industry experience of Williams, Charles thinks the proposed new business venture has merit, but told Williams he needs to convert his ideas and thoughts to a business plan. A formal business plan would provide Williams with a guide to starting the business. Williams has been involved in preparing three year plans and annual budgets but has had no experience in preparing a business plan. Williams admitted he doesn't even really know what a business plan includes. Charles suggested that one of the SBDCs counselors could provide help in preparing the plan. Charles said the plan would also help quantify the assets and financing needed to start the business. Williams agreed to work with a counselor to develop a plan before a final decision to begin the business is made.

THE TASK

Assume the role of a SBDC counselor and help Williams begin planning his new business. Prepare answers to the following questions.

What is the purpose of a business plan?
What are the components of a business plan?
What business organization forms are available for selection? What are the advantages and disadvantages of each form? What organization form would be best for Williams's new venture?
What sources of capital, other than personal funds and his father's investment, might Williams consider? Examine the type of capital provided by commercial banks, venture capital firms and business angels. What are the characteristics of each?
Williams has considered some startup costs. What other costs might/should be included in determining financing requirements? What operating costs should be included and how should they be estimated?
Describe the function of Small Business Development Centers.

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RECOGNIZING AND DEALING WITH ETHICAL DILEMMAS IN THE JOB INTERVIEW PROCESS

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CASE DESCRIPTION

The primary subject of this paper is the difficulty many students encounter in recognizing and dealing with ethical dilemmas in a job interview process. Secondary issues examined include decision making in unstructured environments, obtaining and analyzing data relevant to such decision making. The case has a difficulty level of three; it is appropriate for junior level students. The case is designed to be taught in one class period (approximately one hour) and is expected to require two to three hours of preparation outside the classroom by the students.

CASE SYNOPSIS

This paper provides two cases that can very effectively be used to stimulate the students to think "out of the box". While a student is generally prepared to answer most questions about their academic background and their career goals, they need to carefully consider other questions they may be asked during the interview process. In each of the two cases a student is faced with an ethical dilemma in the interview process and is unable to address it comfortably.

In the first case, a traditional aged male student is asked to provide information about his other interviews. The student is in a dilemma because some information he had provided during the interview about another interview has now changed. He is not sure whether he should change his answer to reflect the situation as it stands now, or lie in order to be consistent with his previous answer.

In the second case, a non-traditional female student has held a part-time job to pay for college. She has never questioned her employer's business ethics and is now faced with an ethical dilemma because she does not want to be judged for her employer's questionable business practices.

R J REYNOLDS TOBACCO

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INTRODUCTION

In 1997, RJ Reynolds Tobacco Company is the second largest producer of tobacco products in the world. While (as was the case for most of the firms in the tobacco industry) the company has diversified into other areas (primarily food products), a large portion of its operations are still directed within tobacco products. The company has also experienced considerable restructuring in its leadership positions over the last several years.

While the company has shown financial promise over the last several years, can this American landmark continue to be successful in spite on the environment in which it operates. Have the choices of diversification provided enough of a buffer to protect it from the downside of its core operations?

The purpose of this case is to illustrate RJR's vulnerability to both massive pressures from the macroenvironment (especially in the areas of legal & political activity) as well the ability of a firm with highly concentrated efforts in one industry to compete in an extremely competitive industry environment. The ability to stem the tide of the external environments is extenuated due to the company's own internal environment. How should the company respond to the impending outcomes of adverse litigation, a socially hostile consumer base, and the ever changing demographics of the country? Has the company made the needed changes at the top to continue to survive in an extremely competitive market?

HISTORY - RJR NABISCO

For $85 a share (4.9 billion) RJ Reynolds Tobacco acquired Nabisco early in June of 1985. In 1986, by charming the Board of Directors, Ross Johnson edged out RJR CEO, Wilson, and had been named to the post of CEO of the 19th largest company in America. The honeymoon was short lived. Johnson hated small town Winston-Salem and quickly began looking for a new headquarters. Meanwhile in the "glass menagerie", corporate headquarters, old RJR people were disappearing rapidly, to be replaced by Nabisco (read Standard Brands) executives. The question began to be asked "who bought who?" Job eliminations, the first ever in the company's 100 year history, were announced in early summer 1986. This was in large part due to the planned opening of Tobaccoville Manufacturing Center in September. It had been hoped that normal attrition would eliminate the need for massive layoffs prior to moving to the state of the art facility, but approximately 1,400 positions were lost. The Winston Rodeo, a long time sports promotion, (sponsor of the top 60 NPRA Rodeos in the country) was discontinued and the Scoreboards sold to Coors Brewing. These funds were transferred to the Nabisco Golf tournaments and used to keep people like O. J. Simpson on payroll

(he received $250,000/year to show up at golf tournaments, which he rarely did). In 1987 Johnson donated the "glass menagerie" to Wake Forest University and packed RJR Nabisco corporate offices off to 11 leased floors and a $20 million jet hanger (for what was becoming known as the RJR airforce) in Atlanta.

Fascinated with the media business, Johnson made an offer to CapCities for their 80% of ESPN (Reynolds owned the other 20%), they turned him down flat. That was the only attempt at building anything the first year in Atlanta. Meanwhile, Johnson sold off Hublein, Kentucky Fried Chicken, all the pipe tobaccos, Winchester Cigars, and many other small business units. The divestiture monies went into the bank to pay down debt. When the market crashed on October 19, 1987, RJRN stock went from the mid sixties to the low forties, where it stayed for several weeks. Even though the company reported a 25% increase in profits for the year the market ignored the stock. In March 1988 the company's board authorized a buy back. Forty-one million shares were eventually bought at about $53.50/share, then the street price relapsed to the mid 40's. In June, the Industry's unbroken streak of legal victories ended. The jury cleared the industry of conspiracy, however, Anthony Cipollone was awarded $400,000 in damages for his wife's death. Even with this behind the company, the stock went nowhere. The market was waiting to see if Johnson could do anything besides auction off a company.

Throughout the summer and early fall of 1988 Johnson played with several merger, takeover ideas, but the idea that gradually took his fancy was a management lead Leveraged Buy Out. At 9:35 on the morning of October 19th, the news of a $75 per share offer for RJR Nabisco crossed the Dow Jones news service wire. The first public shot of what was to become the largest and nastiest LBO in history. November 30, 1988, the Board of Directors accepted the Kolhberg, Kravis and Roberts $109 per share bid. On February 9, 1989, $18.9 billion, the cash portion of the $25+ billion winning KKR bid, started flowing through the nation's financial markets.

KKR - RJRN

Nabisco's European foods, Baby Ruth and Butterfingers, Del Monte, and several domestic Nabisco lines were sold. Tobacco cut 2,300 factory and middle management jobs, trade loading was discontinued, and Premier, the first smokeless cigarette was killed. In 1991, two years before the earliest redemption date of bonds for stock, KKR issued an RJR Nabisco IPO for $11.25 a share. Regional and divisional sales offices were restructured. Field sales support staff was terminated, their jobs consolidated into regional office processes. In 1993, the first ever elimination of field sales positions further streamlined the tobacco business unit, and Workforce 2000 was underway. Meanwhile, increasing pressure from legal actions, FDA pronouncements, and a growing public anti-smoking sentiment kept the stock price depressed.

The competition was not idle during this period. Sensing vulnerability, Philip Morris increased it's sales force and introduced two low cost savings brands (Bristol and Basic) to undercut RJR's segment leading Doral. In response Reynolds instituted an aggressive price promotion strategy to shore up declining market share. The promotion, a combination of in store, on carton/pack coupons, and mail in rebates, combined with print media support restored much of Doral's market. In addition, the company fought back with it's own sub savings brands, Monarch and Best Value. In the fall of 1993 Philip Morris retaliated by dropping the wholesale price of full price brands by $4 per carton and savings brands by $3 per carton.

Despite reducing the LBO debt by over $17 billion, by 1995 the company's stock dropped to $6 per share. It traded throughout the early months of the year between $5 and $6 per share. The company changed marketing directions, attempting to reduce in-store promotions and buy-downs, reducing emphasis on market share gains, especially in the low end margin products, Monarch and Best Value. Management devised a two-part plan; a five for one reverse split, and a July 3 announcement of further restructuring, including field sales. This same year also saw KKR sell out of the rest of their interest in RJRN Holdings.

POST KKR

Also in 1995, the company took a more active role in it's distribution system and reduced the length of time available for wholesale payment discounts. The upgrading of EDI systems was complete and terms for contract bonuses were adjusted to reflect the fact. Instead of the previous alternatives for payment and contract rebates, Electronic Funds Transfers within 14 days resulted not only in the 3/4% discount, but were credited against year-end contract bonus money. Included in the new contracts signed with distributors was a clause allowing field sales access to computer generated retail shipping figures. From these sales reps can perform individual retail outlet analysis for store management. Philip Morris and B & W also unveiled similar contract changes.

Late in 1995, Bennett LeBow, of the Brooke Group, who had purchased Liggett & Meyer Tobacco (the smallest company in the industry with less than 2% market share), announced a bid for control of the RJRN Board of Directors. Although LeBow's Brooke Group only controlled 7% of outstanding RJRN Holdings shares directly, they formed a plan they hoped would win over sufficient shareholders to their side. The first tactical move was a settlement with several of the states' Attorney Generals. This settlement, the first of its kind, broke ranks with the heretofore-solid industry stance. It also included a provision that RJ Reynolds Tobacco be included in the settlement provisions should Brooke Group gain control. The second move was an amendment to spin tobacco off from foods. Apparently, LeBow and his group (including former RJRT executive Ralph Angiolli) felt that these to steps would sway activist shareholders to vote the Brooke Group slate. (This also assumes that there are enough activist/unhappy shareholders to make a significant impact.) The incumbent board won by a 3.8 to one majority. The spin off vote also received a similar proportion of votes. The spin off was not a new idea, the board had been exploring the concept of separating the two companies for a while. In fact 19.5% of Nabisco was sold as an IPO in early 1995. During the summer of 1996 Nabisco restructured it's field sales force, redefining or eliminating about six thousand jobs. Additionally plants were closed and the total 1996 restructuring cost amounted to over $400 million.

Throughout 1995 and 1996 tobacco continued to lose ground in the full price category, Winston, long the flagship brand was tanking (down 8%), Salem once the best selling menthol cigarette in the country declined steadily, the only full price brand with promise was Camel, averaging about 4% growth per year. The brand family had been extended over the years and the Camel light was having measurable impact on Marlboro sales. In 1996, reading Mr. RJ's book, the company reached back to it's early days and reintroduced Red Kamel , with graphics reminiscent of the early product. Camel Menthol was also introduced in the second quarter of 1996, in test markets. Both line extensions have shown positive growth and profits, and Camel menthol was introduced nationally in 1997.

Unfortunately the ramifications of this, and previous Camel brand success, has been increased legal actions and threats from the FDA about the brand family's advertising. Just prior to Camel's 75th birthday, in 1988, the company scrapped it's "Where a man belongs" advertising in favor of the "french camel" style of advertising. The cartoon character became an instant hit, not only with the franchise's smokers but with the competitor's customers and non-smokers alike.

First quarter 1997 was flat with a continued decrease in domestic volume, reflecting national trends. Some of the effect was due to a shorter shipping period over the prior year. However, third quarter 1997 results show positive signs. The repositioning of the Winston brand with the "No Additives, No Bull" promotion has increased the brands sales by 10%. The company showed a 9% gain in domestic volume. However Philip Morris' Marlboro accounted for 35% of all cigarettes shipped domestically during the quarter, raising PM's market share to 49% total. Although Joe Camel has been discontinued as a result of the proposed national June 20, 1997 industry settlement, the substitution of the traditional camel in promotional materials does not seem to have materially affected sales. The out of court $10 million dollar settlement with the City of San Francisco, likewise, did not admit to any wrong doing in the use of the Joe Camel advertising, or it's discontinuance. The effect of the settlements on earnings has, however, been severe. RJR's net income posted in the third quarter was just $122 million, reflecting the $133 million after tax effects of the settlements. Traditionally tobacco has provided the lion's share of corporate profits, in 1996 while contributing 48% of total sales, tobacco was 67% of operating contribution to RJR Nabisco Holdings. The settlement dollars removed from the net profit can significantly impact RJR Nabisco's cash flow position and limit the international growth of the firm.

While the June 20 settlement appears to be dead in the water currently, many capitol observers feel that it will be resurrected in 1998. Former FDA head and tobacco foe William Kessler has reversed himself and come out in favor of it, provided the $l.50/pack increase is included. The provisions allow for payment amounts to be prorated according to market share. This benefits RJR in it's current position as distant number two. 1997 figures released so far indicate that RJR's total share has dropped to just over 25% of the total market. Much of this loss can be attributed to the decline in the savings/low cost segment of the market (1997 savings segment has dropped to 27% from 30% of total market), where RJR's Doral is the mid-price industry leader and low end brands, Monarch and Best Value, contributed more to market share than profits. Maintaining Doral's market position, while allowing the low-end market share to deteriorate has increased profits, while reducing promotional costs. (To understand this, the profit structure of the cigarette industry must be understood. In 1995 the profit in one carton of Winston [10 packs] was approximately equal to the profit in 8 cartons of Doral, and 23 cartons of Monarch or Best Value. Specific profit amounts vary with firm and production costs.)

Reversing the 1994-95 de-emphasis on market share, refocusing on core brands, Camel, Winston, and Doral, to build the brands franchise has had positive effects on the bottom line. Increased presence in emerging markets by Reynolds International has contributed volume increases in 1997, however exchange and transaction rates have limited profits. (Value Line estimated in its July Company evaluation that transaction costs would affect International profits by $60 million.) Some of the growth internationally has come from purchases or strategic alliances, such as the 1996 purchase of 50% of Azerbijan Tobacco Co. In addition, on November 12, 1997, International opened a new $9.1million plant in Tunisia.

Continuing the separation of foods and tobacco remains an issue, not only at RJR Nabisco but industry wide. In December 1994 American Brands sold the industry's number four American Tobacco to B. A. T.'s number three US subsidiary, Brown & Williamson, in 1996 their U.K. tobacco division Gallaher was spun off, and then the firm changed it's name to Fortune Brands. Now B. A. T. may spin off it's $2.6 billion per year tobacco business when it merges with Zurich Insurance Co. Philip Morris is also grappling with the issue, spin tobacco off from it's food lines, Kraft and General Foods.

CURRENT LEGAL ACTIONS/ISSUES

Florida	Counsel representing RJR and other companies signed an agreement with Gov. Chiles to settle claims against them. Requires that all billboard advertising be discontinued and that the state be paid $550 million on Sept. 15, 1997 and annual payments thereafter. Amounts prorated by Company market share.
Mississippi	Similar to Florida settlement.
San Francisco	Mangini Settlement, scheduled for December 1997 in Superior Court. Settlement of $10 million, requires that the defendants acknowledge that the lawsuit along with public controversy surrounding Joe Camel, was a "substantial factor" in the phase-out of Joe Camel Advertising. Requires prompt removal of Joe Camel billboards and cessation of the use of Joe in advertisements and promotional materials in California.
Texas	Reimbursement of state Medicaid funds, trial in Texarkana. Legislation passed in last session requires that all self serve cigarette displays be removed or replaced with non-self serve by January 1, 1998.
Georgia	Raymark Industries suit against B & W includes RJRT and RJRN for contribution/damages related to asbestos litigation.

The above are a representative sampling of the types of legal challenges and legislation currently being pursued by the individual states. In addition, the FDA is still challenging court rulings on the agency's legal right to control/limit the types and placement of tobacco advertising and the sales locations of the product.

CONCLUSION

The years spent paying KKR off for the LBO severely hampered the competitive position of RJRN in the tobacco industry. As a declining industry, the nineties should have been entered from a position of greater strength. However, management's refocus on market share through brand identification of core brands, Winston, Camel, Doral, and Salem, has provided positive growth through the second and third quarters of 1997. The uncertain nature of the national industry settlement will continue to affect cash flows until there is a resolution of this issue.

The continued support and upgrading of the technology sales tools at the field sales level provides a solid platform for entering the year 2000. Industry wide RJR seems to have recommitted itself to leadership at the field sales level. EDI throughout the distribution system is solidly in place and should continue to maintain and forge good relations with the participants in the system.

THREE NOT-FOR-PROFITS PARTNER TO CREATE A FOR-PROFIT SOCIAL ENTERPRISE: THE FITZ SUMMER LEARNING CAMP

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CASE DESCRIPTION

The primary subject matter of this case concerns entrepreneurial new venture start-up of a for-profit social enterprise by a nonprofit organization. Secondary subjects include: intrapreneurship, social entrepreneurship, developing partnerships, consulting and strategic planning with introduction of change issues as well. The case has a difficulty level of four through six appropriate for senior level, and first or second year graduate level. The case is designed to be taught in two class hours and is expected to require two to four hours of outside preparation by students.

CASE SYNOPSIS

This disguised case gives an up close view of a unique model that is emerging nationally that involves not-for-profits starting for-profit entrepreneurial ventures to make money to help fund other projects. These "social" enterprises usually help solve social issues or solve social challenges in the process of doing a for-profit operation. This particular case involves a partnership of three distinct not-for-profit entities to develop a money making venture: the leadership of Fitz Elementary School, an innovative public school with over half of its students coming from low-income families; Community Allies (CA), a philanthropic membership entity that engages young professionals in giving back to their communities with both their money and their time through working with literacy organizations, elementary schools and mentoring programs; and a university's entrepreneurship center which works with not-for-profits in the development of social enterprises. A team of MBA students researched how the elementary school could earn rather than raise extra income for its special projects for which grant funding was about to end. The student consultants developed a

business plan for a technology based summer learning experience and are currently working with Fitz and the CA to implement the summer camp during the next summer. As of this writing, the consultants are preparing to make a presentation to the principal and the representative from CA responsible for this project.

The case may be used for discussion on consulting process, clarifying use of entrepreneurship for-profit business in not-for-profit sector, intrapreneurship, a start-up within an existing organization, creation of a social enterprise, and introduction of changes. Can students in an MBA program or business school relate to and find value in working with the not-for-profit sector? Can not-for-profit management and staff adjust to a for-profit mentality? This provides a good opportunity to get into discussions of differences and similarities between for-profit and not-for-profit. What are the issues involved in getting not-for-profits to think entrepreneurially? How much profit is enough to make it worthwhile for the organization to pursue the venture?

COLIN POWELL

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ABSTRACT

The study of leadership has been a very important field of research throughout the years. Numerous models of leadership have been developed approaching the concept from every conceivable angle. When individuals recognized at strong leaders are studied, the approach is to examine that individual in “the present tense.” Very little research has focused on how individual leadership traits evolve over time.

General Colin Powell has received considerable attention over the last several years in terms of several leadership roles. The ability he had to orchestrate the Gulf War activities has garnished him international acclaim. His leadership potential has also place Powell in the political arena. Much of Colin Powell’s approach to leadership can be traced to events that occurred during the early years of his life.

The purpose of this case is to examine an individual who is well respected in regard to his leadership abilities as demonstrated late in his career. A closer look, however, of how these leadership skills were manifested at early points in his life and career are examined.

As many researchers have argued, are leaders born or are they made? Do we change in our approach to leadership as we are given additional responsibilities? What provides a strong base for an emerging leader?

COLIN POWELL'S YOUTH

Numerous events and experiences while growing up on Kelly Street in Harlem had a significant impact on the life of this outstanding officer and individual. Colin as with most of us, had his character shaped by two loving, but demanding parents--Ariel and Luther Powell. Many of the Jamaican men of the time during Colin's youth "*…were weaker personalities than their wives. The women set the standards, whipped the kids into shape, and pushed them ahead*" (p. 15). This was not the case with the Powell family. Luther was the "*…ringmaster of this family circle*" (p. 15). Luther had high expectations for Colin--both in his professional as well as his personal life. Ariel provided a blend of passion and determination. She also, provided a strong glue with their Jamaican past and family.

There were numerous occasions where Colin did not meet Luther's expectations. On one occasion, Colin was sent home from a church camp for stockpiling beer. On a more serious note, Luther always considered Colin's academic motivation was lacking. Colin's high school G.P.A. of 78.3 surely served as a limitation of college choices. Even after the young Powell entered City College of New York (CCNY) and only stayed one semester as an engineering major before changing to geology, Luther wondered what his future would hold. Colin, on the other hand, saw "*…geology as an easy yet respectable route to a degree*" (p. 28).

The one area that Colin did not show any signs of minimization was for the ROTC curricula. This was an area that Colin could apply his passions and energy.

ROTC

Colin's first semester at CCNY had not been a very uplifting experience for the 18-year-old until he made the decision to join the ROTC. He had always been "… *much attracted by forms and symbols*," (p. 27) and he missed the camaraderie that had existed back on Kelly Street. A natural choice for Colin was to join, and, as some might say, the rest is history.

After entering the ROTC program at CCNY, Colin made the decision to join the Pershing Rifles (PR). The PR fraternity was one of three ROTC fraternities on campus--PR being considered the elite of the three. It was there that Colin met Ronnie Brooks--an officer cadet (one-year Colin's senior). Ronnie had a significant impact on Colin at both CCNY and for years to come.

Colin saw qualities in Ronnie that he lacked in himself. Ronnie was "… *sharp, quick, disciplined, and organized*" (p. 28). Colin "…*set out to remake [himself] in the Ronnie Brooks mold*" (p. 28). Whatever accomplishments Brooks achieved, Colin looked to that as the bar to reach or surpass.

Colin's first position in the PR was as the recruitment officer--a minor position, yet one he took very seriously. While all of fraternities (including the PR) had used the showing of pornographic films as a recruitment technique, Colin decided that the best way to bring in new recruits was to show films about what they really did--drill. When pledge day passed, this new approach resulted in the largest pledge class ever for the drill team. The value of Cadet Powell had begun to rise.

Colin's career continued to echo that of his friend, Ronnie Brooks. As Ronnie would move up, Colin would step into the vacated position. When Ronnie moved from trick drill team commander to the commander of the regular drill team, Colin took over the trick team. In his first major competition Colin's team astonished the audience by not just marking time between maneuvers (as every other team did), but, instead by doing a dance solo. The team scored 492 out of 500 winning first place.

The next year while serving in Ronnie's old position of regular drill team commander (and thus responsible for the trick team) Colin learned a valuable lesson. Even though he had sensed that the trick team was losing its edge under his successor, he did not make a reassignment for the position. The trick team bombed miserably in its first competition. Powell "… *learned that being in charge means making decisions, no matter how unpleasant*" (p. 35). In essence, "…*being responsible [may] mean pissing people off*" (p. 36).

Between his junior and senior years at CCNY, Colin attended the ROTC summer training program at Fort Bragg, NC. Based upon his "… *grades, rifle range scores, physical fitness, and demonstrated leadership*" (p. 35), Colin was selected as the "Best Cadet Company D"--second only to one other for the whole base. He learned from a white sergeant that his color might have been the reason for not being selected number one for the base.

In the summer of 1958, Colin Powell was commissioned as a second lieutenant in the U.S. Army. He received a regular commission because of being selected as a "Distinguished Graduate". Although he received his diploma from CCNY the next day, Colin could not get too excited about the event. He viewed his "…*B.S. in geology as an incidental dividend*" (p. 37) to being commissioned in the Army. "*Yet, even this C-average student emerged from CCNY prepared to*

write, think, and communicate effectively and equipped to compete against students from colleges that [he] could never have dreamed of attending" (p. 37). Now, it was off to infantry school.

A YOUNG OFFICER

Colin headed directly to Fort Benning, Georgia for infantry training. It was there that many career-defining lessons were learned. The first dealt with hammering home a military officer's creed. The hammering began subtly by viewing the "Follow Me" statue (an infantry man leading his men into battle), and ended with the recognition that an officer was responsible for entering "*… into battle up front, demonstrating courage, determination, strength, proficiency, and selfless sacrifice*" (P. 41). Other lessons learned by Colin can be summed up in 8 very valuable statements—words he never forgot.

He also learned "*… that Americans must know the reason for their sacrifices. As such, officers had a responsibility to put soldiers in harm's way only for worthy objectives*" (p. 41).

After infantry training 2nd Lt. Powell attended airborne training where it came to his attention that he didn't enjoy jumping out of an airplane with a parachute. He completed the course knowing that being an Airborne Ranger would be a necessity for a successful career, and (more importantly) "*… conquering one's deepest fears is exhilarating*" (p. 44).

FIRST COMMAND

After a short leave, 2nd Lt. Powell headed for his first assignment—Gelnhausen, Germany. His assignment was that of platoon leader to Company B, 2d Armored Rifle Battalion, 48th Infantry. He relished the command and immediately felt "*… paternal toward men close to [his] own age, and even older*" (p. 45).

It was there that Colin was "*… about to discover an Army far different from the romping, stomping, gung ho airborne rangers of Fort Benning*" (p. 45). His first supervisor, Captain Tom Miller, was typical of many of those teachers—"*… mostly World War II and Korean-era reserve officers, barely hanging on ... These men may not have been shooting stars, yet there was something appealing about them, something to be learned from them, something not taught on the plain at West Point or in the texts on military science and tactics …*" (p. 45).

One of the first lessons came when Colin was directed to have his platoon guard a 280 mm atomic cannon. Because of his haste in preparing for the privilege of guarding a nuclear weapon, Colin lost his pistol. On the way to the assignment, Colin noticed his .45 caliber pistol was not in his web holster and immediately notified Capt. Miller. Miller advised him to continue on with the assignment. Shortly after that, Capt. Miller arrived with the pistol. He advised Colin that a young boy in the village had found the pistol and had discharged a round before he could be stopped and the pistol confiscated. He further advised Colin that this should never happen again.

Colin was devastated not only by his own military faux pas, but also by the possibilities that could have occurred if the bullet had found an unexpected target. Later, Powell discovered that Capt. Miller had found the Pistol in Colin's tent. Instead of administering normal military punishment (punishment that could have ended Colin's career) the captain had decided to use shock therapy with Colin. It worked. Miller's approach made a lasting impression that sometimes not going by the book

might be the best approach—"*… when they fall down, pick'em up, dust'em off, pat'em on the back, and move'em on*" (p. 46).

The first of many additional areas of responsibility was handed down to now 1st Lt. Powell while in Germany. Colin was assigned to prosecute three enlisted men on charges of manslaughter. These three individuals, while drunk and driving military vehicles ran into a family in a Volkswagen—killing three people. Powell (not trained in law) faced a civilian defense attorney hired by the three enlisted men. Colin was successful in this prosecution. The experience caused him to realize something very important about himself—he was a good communicator.

Powell was assigned numerous other additional duties while stationed in Germany. Almost all of these duties ended with the same result—success. Even when success was not the final result, Colin still learned. Once when assigned as the executive officer for a new company commander, Captain Louisell, Powell was overheard shouting at a fellow lieutenant. Louisell chastised Powell for his temper both verbally as well as on his performance report. The report read: "*He has a quick temper which he makes a mature effort to control*" (p. 49). These words, even to this day, are evoked whenever Colin begins to lose his temper.

Lt. Powell gained even further knowledge of his role as an officer on his second assignment, Fort Devens, Massachusetts. While beginning this assignment as a liaison officer (gofer), he quickly moved to executive officer of Company A and then to company commander. One supervisor he had during this period was Lieutenant Colonel William Abernathy. Abernathy taught Powell much about the average soldier—treat them with respect. Abernathy felt strongly that a commander had to find a way to "*… reach down and touch*" each and every member of their command. He "*… found a way to demonstrate caring in a fundamentally rough business*" (p. 59).

1st Lt. Powell became the envy of many of his fellow career officers when he was selected to serve as a military advisor to the Army of the Republic of Vietnam (ARVN). Before Colin left for this assignment, however, he had one matter of unfinished business to attend to.

VIETNAM

Lt. Powell was assigned to the 2nd ARVN Battalion Commander, Captain Vo Cong Hieu at A Shau Valley. The outpost sat right across the boarder from Laos on the Ho Chi Minh trail. It didn't take long before the futility of this conflict came to life for Colin. When he quizzed Hieu why the outpost was there, the reply was:

> "*Very important outpost.*"
> *"But why is it here?"*
> *"Outpost is here to protect airfield."*
> *"What's the airfield here for?"*
> *"Airfield here to resupply outpost.*"

Hieu was a very capable officer and Colin had considerable respect for his leadership abilities. And, "*… as soon as [Hieu] concluded that [Powell] was not an American know-it-all, Hieu warmed to [Colin]"* (p. 90). Colon also discovered that he could get more changes made by letting Hieu think that he had come up the idea. This led Colin to conclude the *"… there is no end to what you can accomplish if you don't care who gets the credit"* (p. 90).

Gaining the respect of the soldiers was not quite as simple. Early during his tour, Powell's worth to the troops seemed to ride a roller coaster. At one point, the troops had finally begun to trust the American advisor. This was until a Marine helicopter gunner mistakenly opened .60 caliber fire on their patrol killing and wounding several ARVN soldiers. They all wanted to know "… *Why you do this? Why shoot us*?" It took some time before Colin could regain their trust. In fact, it wasn't until another frightening event occurred before that happened.

The ARVN followed an uncomfortable procedure (one Colin constantly fought to change) of moving through the jungle single file. The VC had an easy time of ambushing the column. When Colin could not get them to alter this procedure, he at least wanted them to wear flax vests. Because of the heat, the point man constantly refused to wear the body armor. Finally, through Colin's insistence, a few men adapted the policy. One day on a normal patrol, the point man was ambushed. Everyone rushed to bring Powell to the point. There was the soldier unharmed. Colin dug the shell out of the armor and passed it around for everyone to see. *"Powell's stock was back on the rise. [He] was a leader of wisdom and foresight. The only problem now was that during the next supply delivery, [Powell] could not get enough vests for all the men who wanted them"* (p. 89).

"*The ARVN soldiers were courageous and willing but not always easy to train. [Powell] instructed. They smiled, nodded, and often ignored what [he] said*" (p. 95). On one occasion, Colin spent hours trying to convey the importance of speed in unloading the supply helicopter. He explained over and over that the best procedure was to have two soldiers board the craft as fast as possible, and the rest of the men would act as a fire-brigade of moving the supplies to the trees. *"[Powell] scratched an outline of a helicopter into the dirt and [they] drilled again and again"* (p. 95). The next day a helicopter landed and all the men tried to climb inside. *"They were uncomplaining as [Powell] began drilling them all over again, and, finally, they got it"* (p. 95).

Vietnam gave Colin the opportunity not many new military officers could experience—warfare. Although much of the activity did not sit well with Colin, he continued to feel quite strongly about the fact that *"... mine was not to reason why"* (p. 87). *"However chilling this destruction of homes and crops reads in cold print today, as a young officer [Powell] had been conditioned to believe in the wisdom of [his] superiors, and to obey"* (p. 87).

Even when a new commander (Captain Kheim) was assigned to the ARVN at A Shau Valley, Colin remained focused on the nature of his job. This was true even in light of the inability Colin and the new commander to connect. Kheim was the type of officer *"... who expressed his authority by barking foolish orders rather than exercising sound judgment"* (p. 93).

One night when Powell was awakened by mortar fire from the nearby hills, he went outside to find Captain Kheim giving orders to return fire. Powell tried to convince Kheim not to return fire thus giving the VC a way to pinpoint their location. Kheim refused the advice. This allowed the VC to hit their camp killing and wounding numerous soldiers including Kheim. Kheim's departure did not disturb Colin in the least.

Captain Kheim was replaced shortly after the attack by Captain Quang. Quang was a capable officer, but *"... [Powell] was senior in terms of service with the unit and had the confidence of the men"* (p. 95).

After being wounded, Powell was allowed to complete the remainder of his tour at 1st ARVN Division Headquarters as an assistant advisor for the operations staff. His new boss was George Price. *"[Powell] felt reassured working with George. He still talked nonstop, but [Powell] listened closely, since what he said usually made sense. And, much of what [he] saw at headquarters badly*

needed explaining" (pp. 99-100). Those directing the operations had little if any first-hand knowledge about what was really going on in the field. *"McNamara's slide-rule commandos had devised precise indices to measure the unmeasurable"* (p. 103). Although uncomfortable with the situation, Powell was able to come to terms with the Vietnam situation.

Powell's final duty in Vietnam was as the Commander of the Hue Citadel Airfield. *"After dealing with intelligence wizards and puffed-up pilots, [Powell] began developing another rule: don't be buffaloed by experts and elites. Experts often possess more data than judgment. Elites can become so inbred that they produce hemophiliacs who bleed to death as soon as they are nicked by the real world"* (p. 102).

One thing that kept Captain Powell going during this time was knowing that he would be heading back home soon to Alma, his son Mike (whom he had yet to see), and a new assignment to attend "Infantry Officers Advanced Course" (IOAC)—another career assignment. Before leaving, he thought back on his experiences in Vietnam. The most valuable accomplishment was that the *"…shared death, terror, and small triumphs in the A Shau Valley linked [him] just as closely to men with whom [he] could barely converse. [He] left comrades of the 2d Battalion with more than a tinge of regret"* (p. 99).

INFANTRY OFFICERS ADVANCED COURSE

Upon returning to Fort Benning, Georgia, Colin and his family had several months to wait before the Infantry Officers Advanced Course (IOAC) began. In this interim period he was assigned as a member of the Infantry Board—a group responsible for testing new technology in the area of infantry advancement. This allowed Colin to move his family on base and to get reacquainted. Near the time to begin the IOAC, Powell was asked if he was interested in returning to the Infantry Board upon graduation. His decision seemed somewhat out of character for some of his previous military choices—he accepted a non-promotion assignment.

After graduation, Colin did return to the Infantry Board. His stay, however, was very short lived. Within a year, he received a new assignment—instructor for the IOAC (another "coveted assignment"). After finishing the instructor course (*the* pivotal learning experience of his life according to Powell), he returned to IOAC—wearing clusters.

While there were numerous other experiences that General Powell had over the remainder of his career, those of his youth, family, and early years in the Army served as a valuable frame of reference for this exceptional career officer.

INFORMATION VISUALIZATION: MEETING INFORMATION OVERLOAD AND SPIRALING COST PROBLEMS AT HEALTHCARE CONSULTING SERVICES

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CASE DESCRIPTION

This case is appropriate for a healthcare management class to determine the advantages and disadvantages of establishing an oversight committee for the implementation of technologies to aid in providing healthcare while minimizing costs. The class is appropriate for the junior level and should require three hours of class time and perhaps two hours of outside preparation.

CASE SYNOPSIS

Medicare's ever-increasing degree of government regulation and oversight coupled with tightening profit margins has prompted many hospitals to seek assistance in maximizing their legal and just patient service reimbursements. Companies have been formed to aid hospitals in properly coding and documenting procedures performed on Medicare's patients. A significant problem for these companies is the efficient and effective use of their corporate resources in both marketing and client service areas. The large volume of data requiring analysis by corporate management often leads to information overload with many decisions being made in a by-the-seat-of-the-pants fashion.

Healthcare Consulting Services (HCS) is a healthcare consulting company that provides Medicare consulting services to client hospitals spanning the continental United States. Marketing to 6,470 prospective hospitals poses an onerous problem for Sam Smith, VP of Marketing. The product sales cycle is long, arduous, and expensive. Closing one account requires multiple visits for product concept marketing, data acquisition, and product presentations, once the data analysis is complete. The data must be requested from the prospective client, who may or may not have it in electronic form. Once acquired, analysis of the pertinent data may or may not indicate a hospital's need for HCS products and services.

Identifying and contracting with qualifying hospitals does not solve the problem. Judy Johnson, VP of Operations, is challenged with servicing the client, cost effectively. Servicing a client requires continued data acquisition by a Health Information Manager (HIM), Physician review of patient charts, and data analysis and reporting. These factors in conjunction with client location have

a dramatic effect on contract profitability. The human resource and travel costs associated with staffmg the client are in most cases exceeding the revenue generated. Raising the revenue per client is not an option; HCS services are already among the most expensive in the market.

Up to now, limited attention has been paid to human resource and travel allocation. In the past two years, this method of client farming has taken HCS from a multi-million company to one teetering on the edge of bankruptcy. Gail Gentry, VP of Information Systems believes a significant infusion of new technology will provide a partial solution. This infusion must be done despite the fact that HCS is a company where technology is regarded as a necessary evil and new advances are embraced very slowly. Existing systems are more for data processing rather than strategic application of information technology.

Gentry, Johnson and Smith are proposing the formation of a Strategic Operations Committee to reduce cost and improve marketing by identifying potential clients that would result in profitable contracts. She believes this could be accomplished through the use of quantitative factor analysis, and geographical information systems. The implementation of such a system will also benefit operations and IS. Operations will benefit directly from improved client selection, streamlined scheduling and optimal employee placement. The technological improvements will benefit IS in data acquisition, transmission, analysis and reporting.

VINCENZE'S DILEMMA: EENIE, MEENIE, MINEE, MO

George Mechling, Western Carolina University

CASE DESCRIPTION

This case is appropriate for a quantitative methods class and should require about three hours out of class preparation and two hours of in class discussion. It is appropriate for a senior level class.

CASE SYNOPSIS

Vincenze has a lucrative business leasing vending machines for use in office and government buildings and educational facilities as a result of aggressively and imaginatively and marketing his service to commercial and non-profit organizations and municipal and state governments. An important contributing factor to his success has been his willingness to insure that the machines remain in working order. Vincenzo understands that malfunctioning vending machines not only cost him lost revenue directly but also aggravate would-be patrons and lessees as well. This aggravation can lead to the indirect loss of revenue in several irreparable ways: unrenewed contracts and loss of customer returns. His machines are acceptably reliable as far as Vincenzo is concerned. However, he has enough of them installed that even with a small percentage of them breaking down, breakdowns occur with enough frequency that Vincenzo has made it a practice of employing maintenance crews to keep his machines functioning properly. This has worked well so far. His operation's location to date has restricted itself to only one municipality, a populous community of a compact geographical area and with a good traffic flow infrastructure. These two features have made accessing malfunctioning machines relatively unproblematic. Once notified of a malfunctioning machine, Vincenzo can easily get one of his maintenance crews to that machine with dispatch unless of course, his crews are already involved with previous commitments.

Vincenzo now has the chance at several contracts in nearby Hooterville. He is understandably excited about this opportunity to expand his operation to another municipality. Vincenzo knows however, that any success at this new venture will be predicated on his commitment to the upkeep and serviceability of the machines he puts in place. Therefore, Vincenzo must decide how he should go about insuring that the operation of his machines will be maintained. He knows that he can detail one of his maintenance crews to Hooterville but he also knows that to put his own maintenance team out in the field in Hooterville is going to cost him $110/hour. Based on his experience with his machines, he will have enough in Hooterville that he can expect malfunctions at a rate of 2 machines/hour. His crews being experienced with these machines can repair them on average, at a rate of 2.5/hour. While considering the task of detailing one of his teams to Hooterville, a sales representative from HotShot, Inc., a regional vending machine servicing company drops by to see Vincenzo with an offer. HotShot has crews in Hooterville and will assign two of its crews to

servicing Vincenzo's machines when they malfunction. This does not mean that those two crews will service only Vincenzo consequently, each crew will be able to service only 1.5 machines/hour or so the sales representative thinks. HotShot will charge Vincenzo a piecework rate of $90 for every machine HotShot repairs.

HotShot's offer piques Vincenzo's interest but he is unsure as to how to go about evaluating it. He reasons that if each of HotShot's teams can handle 1.5 machines/hour, two teams should certainly have the service capacity to handle two machines malfunctioning on average per hour. With that in mind, Vincenzo figures that HotShot is going to cost him $180/hour compared to his own crew that costs $1 10 and will do the same amount of work in an hour. But is this true? He decides to place a telephone call to his technical advisor, Yolanda Friedlander and call her in to discuss how to evaluate this decision and see what advice she might be able to offer.

Yolanda is a bright and resourceful MBA student who had accepted a retainer from Vincenzo to advise him on technical matters of an operations/management science nature. This had come about as a result of the recommendation of her advisor, Professor Moriarty. Vincenzo had depended on his operations manager for such expertise but his operations manager had recently quit and in the interim until a new operations manager was hired, Vincenzo's need for this kind of expertise had certainly not slackened on that account. Consequently, he approached Moriarty, who happened to be one of his bridge partners, for assistance. Moriarty agreed to assist Vincenzo with one of his graduate student whose work he would guarantee. After meeting with Moriarty, Yolanda realized that she had an opportunity to accomplish a number of objectives. The most obvious was that she could have an outside chance of landing the operations job with Vincenze if she liked the work and did well for him. (She knew that Moriarty would never let her "mess things up" for Vincenze but she also knew that she had better not require much of his assistance keeping that from happening.) Also, she knew that even without a chance at the operations job, working with Vincenze would provide experience for her to record on her resume'. Furthermore, Moriarty worked out a directed individual study for her work with Vincenze that would count for graduate credit. Finally, Yolanda would get a stipend from Vincenze for her work with him. Spring was coming and the extra money would be handy given the expensive thong bikini she had been eyeing.

Yolanda met with Vincenze and he explained the decision-event he was facing. After her meeting with Vincenze, Yolanda identified a number of questions that she needed to answer in order to reinforce the decision she would recommend that Vincenze make. If you were Yolanda, what would your answers be to the following questions?

6. What was wrong with Vincenzo's notion about going with his maintenance because he reasoned that they would handle the same number of machines (2/hour) and HotShot's two teams for less money?
7. What kind of problem is this in terms of the various analytical methods that constitute what is known as management science or quantitative business methods?
8. Once the relevant method has been identified what makes this particular problem different from the usual way problems to which this method applies are presented?

SPORTING GOODS DISTRIBUTORS (C): A CASE STUDY IN COMPUTER SECURITY AND SMALL BUSINESS MANAGEMENT

Joseph J. Geiger, University of Idaho
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CASE DESCRIPTION

This is a small business case that can be adapted to general management, strategy, and information systems project management courses. Vv%en employing "bonus" assignments noted in the Instructor's Notes, the case can be used in advanced information systems classes. The case focuses on an internal computer security problem that was exacerbated by poor employee-employer management practices. The result of these problems was an employee revolt that led to the near destruction of the firm. Issues of business ethics are also found in the case.

CASE SYNOPSIS

The case uses a dramatic narrative style to tell how a small business owner lost control of his company due to poor management practices and an inadequate internal computer security system. Sporting Goods Distributors (SGD), was a small U.S. based manufacturer, retailer, and worldwide catalog sales firm. Until the advent of the company owned maquiladora-based manufacturing division, employee loyalty and productivity had been enhanced and sustained by a combination of flexible working hours, reasonable pay, and a generous profit sharing bonus system. Losses from the manufacturing division significantly reduced funds for the bonus plan and drew the employees into conflict with the owner over total pay and overall company strategy.

The conflict resulted in an employee revolt led by the chief operating officer (COO). A take over attempt ensued backed by outside financing obtained by the COO. All but two of the over two dozen employees at the main facility participated in the walkout. The remaining employees and the owner found themselves locked out of every main computer system in the firm. They were unable to conduct business at any level. The revolt was quickly broadcast to major elements of the customer base. Demands were made to the owner to sell out quickly to new management and ownership (who were prepared to hire the old employees) or to face new competition while he was attempting to recreate SGD. The owner refused, was almost immediately confronted with a new start up business run by the former COO and whose product line and potential customer base closely resembled SGD.

The case provides opportunity for analyses covering business ethics, management styles, and (primarily) small business computer security.

NOTE

Joseph Geiger and Norman Pendegraft of the University of Idaho wrote this case. The case was written for classroom discussion rather than to illustrate effective or ineffective management practice. Data, information, and names have been modified to protect identities and proprietary information. The case is a follow-on to an earlier case describing the creation of the manufacturing division and a journal article focusing on small business computer security issues. All data and information were compiled by field research and interviews with individuals directly involved in the situation described in the case.

NIKE, INC.: HIGH ENERGY PERFORMANCE

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CASE DESCRIPTION

This case was developed through the use of secondary research material. The case is appropriate to be analyzed and discussed by advanced undergraduate and graduate students in a Business Policy/Strategic Management class. The case allows the instructor the flexibility of concentrating on one strategic issue, or as a means of examining the entire strategic management process.

It is prudent to specify to students what element, or elements, are the focus of analysis. The instructor should allow approximately one class period for each element addressed. Using a cooperative learning method, student groups should require about two hours of outside research on each element researched.

CASE SYNOPSIS

In 1998 Nike is ranked as the world's #1 athletic shoe and apparel company and controls more than 40 percent of the United States athletic shoe market. The company designs and sells shoes for just about every sport. Nike also sells casual shoes and a line of athletic wear including caps, running clothes, shirts, shorts, and equipment. Subsidiaries include Cole Haan (dress and casual footwear), Sports Specialties (team hats), and Bauer (hockey equipment).

Fiscal year 1998 saw Nike post record-breaking revenues of $9.5 billion dollars. Unfortunately, high revenues do not guarantee continued success. In a highly competitive environment such as athletic footwear and apparel, inappropriate strategic decisions can result in missed revenues, declining profits, lost market share, and ultimately, low stock prices. The management team at Nike knows this to be true. Their responsibility is to make progressive, intelligent, strategic decisions to increase revenues while simultaneously minimizing costs.

The purpose of this case is to illustrate Nike's position mid-year 1998 and to determine if the strategies that management proposed at that time were appropriate for the rapidly changing athletic shoe/apparel industry. Which company strengths could be utilized to take advantage of opportunities in the market? What internal weaknesses were magnified because of corresponding external threats? Considering Nike's situation at that time, what recommendations should be make regarding these critical issues?

THE CASE OF THE ROACH MOTELS

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CASE DESCRIPTION

This case requires students to apply managerial accounting concepts to a proposed business start-up and to assist the owner in planning and controlling the business after it has opened. Roscoe Roach is considering buying a motel in Juneau, Alaska. Roscoe knows nothing about accounting and has hired a skilled accounting student to assist him. He expects his accountant to provide relevant data and to also recommend what decisions he should make based on that information. The student is required to evaluate the motel as a business opportunity, determine the cost behavior of the motel's expenses and prepare budgets, decide which cost drivers to use for allocating indirect costs, examine the appropriateness of the motel's pricing policies, prepare segment statements to determine which areas of the motel are the most profitable, and advise Roscoe on the attractiveness of several business opportunities. The case is intended for a junior level course in managerial accounting.

THE CASE OF THE "I AM NOT A CROOK" CROOK

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CASE DESCRIPTION

This case extracts two simple lessons from a more complex case. The first lesson is the simple fact that the same offense can be tried twice without violating the concept of double jeopardy. When applicable, a case can be tried in criminal court for violating existing law(s) and it can be tried in tax court for failing to pay taxes on profits obtained from violating the law(s). The second lesson, and the primary focus of the case, is what makes it interesting. A defendant can be found guilty of not paying taxes on ill-gotten gains even though the defendant was not found guilty of violating the law that generated those ill-gotten gains. This case can be used to simply make these two points (difficulty level of one with minimal outside preparation), or it can be used as a starting point for an extended discussion into the legal distinction between acquittal and innocence (difficulty level of three with extensive outside preparation). Most accounting professors would probably prefer to treat it as a simple case to be covered in less than thirty minutes whereas business law professors may want to delve into the nuances and spend at least an hour on the case.

CASE SYNOPSIS

When humor is effectively used the lessons learned often last much longer than otherwise. This case uses the line made famous by former President Nixon to convey that being found not guilty in one court cannot be used to infer to another court that the defendant is innocent. We can visualize the plaintiff screaming, "But I am innocent. They found me not guilty. I am not a drug dealer. How can you convict me of not pay taxes on drugs I did not sell?" The tax court did in fact convict the plaintiff on tax conspiracy charges even though the criminal court had not convicted him of drug conspiracy charges. The conviction was upheld on appeal.

INTRODUCTION

This case examines the requirements, or lack thereof, to inform jurors of the outcome of other proceedings. In particular, a citizen (Jones) was charged with drug conspiracy as well as tax conspiracy for not reporting income on his drug trade. His acquittal of the drug conspiracy charges was not conveyed to the jury in the tax conspiracy trial and such failure to convey this information is the primary grounds for his appeal of his tax conspiracy conviction. In essence, he claims that the message "I am not a crook" was proven by one court but not conveyed to the second jury. He

contends that the second jury found him guilty of drug conspiracy, and thus tax conspiracy, even though he had already be found innocent of drug conspiracy.

FACTS

The government first tried Jones on drug conspiracy charges, and lost that case. During the tax conspiracy case, however, additional evidence was introduced that Jones was a drug dealer and did, in fact, profit from the sale and distribution of marijuana . The additional evidence was largely in the form of additional witnesses who did not testify during the previous trial. These witnesses testified to their direct knowledge of Jones's activities due to their own involvement in the distribution of marijuana. The government was able to persuade these witnesses to testify at the tax conspiracy trial even though it had been unable to persuade them to testify at the drug conspiracy trial.

Jones freely admits that he did not file a tax return during the years covered in the tax conspiracy charge, but he denies that there was any failure to report earnings from drug trafficking. Jones further contends that failure to file is not in and of itself evidence of a tax conspiracy. The essence of his theory is that the jury was convinced that Jones was a drug dealer and convicted him on that charge more so than on the tax conspiracy charge.

Jones appealed his tax conspiracy conviction on several grounds, but we will deal only with those related to jury instructions. The relevant instructions state:

I want to make it very clear to you that you cannot consider that this defendant is or was in the past guilty of a drug conspiracy offense, that is, the subject of another court of the superseding indictment and about which you have heard some testimony….

> ….
>
> Anything that happened with respect to that charge including the disposition of wholly irrelevant to the disposition of the charge of participation by this defendant in a tax conspiracy….
>
> ….
>
> You must treat the defendant as not guilty of any offense of drug conspiracy throughout your deliberations….
>
> ….
>
> Accordingly, you may use any evidence that you have heard about drug trafficking in this case as you see fit to find the facts of the case as that evidence is relevant to the issues generated by all the evidence and the instructions in this tax conspiracy case, as long as you do not treat the defendant as guilty of participating in a conspiracy with intent to distribute marijuana.

Jones contends that the care taken to instruct the jury to consider him not guilty of drug conspiracy charges indirectly inferred that he was guilty. He contends that failing to specifically tell the jury that he was acquitted allowed them to infer that he had been found guilty. He contends that he was found guilty of not paying taxes on ill-gotten profits from drug trafficking even though he had been cleared of the drug trafficking charges.

BASIS OF APPEAL

While Jones freely admits that he did not file a tax return during the years covered in the tax conspiracy charge, he contends that failure to file a tax return is not in and of itself evidence of a tax conspiracy. The primary focus of his appeal, however, is that by failing to inform the jury in the tax conspiracy trial that he had been acquitted in the drug conspiracy case the jury was left with the impression that he had been found guilty. Jones contends that the care taken to instruct the jury to consider him not guilty of drug conspiracy charges indirectly implied that he was guilty. He contends that failing to specifically tell the jury that he was acquitted allowed them to infer that he had been found guilty. He contends that he was found guilty of not paying taxes on ill-gotten profits from drug trafficking though he had been cleared of the drug trafficking charges.

In essence, Jones claims that the message “I am not a drug dealer” was proven by one court but not conveyed to the second jury. He contends that the second jury in effect found his guilty of drug conspiracy, and thus tax conspiracy, even though he had already been found innocent of drug conspiracy. His basic question is, "How can I be convicted of profiting from drugs I did not sell? The first trial proved I was innocent of dealing drugs."

QUESTIONS FOR APPEAL

Given that Jones was found not guilty in the drug conspiracy case, did the tax conspiracy trial judge err in allowing evidence about the drug conspiracy to be introduced in the tax conspiracy trial? Even if the trial judge did not err, should the government be allowed to introduce additional evidence of a drug conspiracy after Jones has been found not guilty in the drug conspiracy trial?

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