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STICKY RESOURCES: SUSTAINED COMPETITIVE ADVANTAGE IN SUB-SAHARAN AFRICA

Scott B. Droege, University of South Carolina Aiken
Kinfu Adisu

INSTRUCTORS' NOTES

CASE DESCRIPTION

The primary subject matter of this case is the relationship between the "stickiness" of firms' resources and their ability to sustain a competitive advantage. Resource stickiness refers to the degree to which resources are immobile, a key component of the resource-based view of the firm. The difficulty level of the case is four making it appropriate for senior-level undergraduate students. Approximately one hour of class time is needed for class discussion. Student preparation time prior to case discussion is approximately two hours.

CASE SYNOPSIS

This case focuses on Chinese language fluency as a resource in Sub-Saharan African firms having economic ties to China. The resource-based view (RBV) of the firm suggests that "sticky" resources—resources that are relatively immobile and difficult to transfer from one firm to another—may be sources of sustained competitive advantage. Three fictitious firms stake out strategic positions in the Sub-Saharan African market for English and Chinese language training. The case uses these firms to focus attention on the question: Is Chinese language fluency among employees in Sub-Saharan African firms a potential source of sustained competitive advantage? The wider context of the case explores how firms can utilize the RBV to sustain a competitive advantage. Students gain practice using the VRINE framework—value, rarity, inimitability, nonsubstitutability, and exploitability.

RECOMMENDATIONS FOR TEACHING APPROACHES

This teaching note begins with an overview of the main issues students should focus on. Following this are 10 questions and potential answers to help professors walk students through the case. Questions are in multiple-choice format to provide professors with quick access to possible choices students might suggest. A full rationale is included for correct answers following each question.

The abstract of this case asks: Is Chinese language fluency among employees in Sub-Saharan African firms a potential source of sustained competitive advantage? The answer is "no" because language fluency is not relatively immobile. Students are likely to conclude that language fluency in the right combination, especially given its tacitness, may be a potential source of competitive advantage. The following provides the rationale professors can explain for why this is not so.

Language fluency "sticks" to employees possessing the fluency. Such fluency can be "purchased" on the market by other firms which offer higher pay, better benefits, and/or improved working conditions. Therefore, language fluency is easily moved from one firm to another; it is relatively mobile and available to the highest bidder (firms with the best pay, benefits, and working conditions).

While moving from question to question, the "big picture" themes to emphasize to students regarding the "sticky resource" part of the resource-based view of the firm (RBV) are:

> *(1) Relative immobility of resources is required for sustaining a competitive advantage* (Barney, 1991).
>
> *(2) Resource combinations, rather than individual resources, are typically more useful for sustaining a competitive advantage* (Galunic and Rodan, 1998).
>
> *(3) Resource combinations are more likely to assist a firm in sustaining a competitive advantage when at least one of the resources in the combination is intangible* (Peteraf, 1993; Newbert, 2007) *making the source of competitive advantage difficult for competitors to identify; e.g., causally ambiguous* (Reed and DeFillippi, 1990; King, 2007).

Students may suggest that language fluency in the right combination is a potential source of competitive advantage. This gives professors an excellent opportunity to illustrate that resource intangibility, even in specific combinations required by the firm, is not always a potential source of competitive advantage. Lacking relative immobility, resource combinations may be valuable but not necessarily rare, two key criteria of competitive advantage sustainability (Barney, 1991).

The logic is that resources that are readily mobile provide only a temporary competitive advantage. The fact that a resource or resource combination is intangible does not ensure competitive advantage sustainability. Lacking rarity due to mobility, intangible resource combinations are as subject to the laws of open market supply and demand just as any tangible resource. As a firm gains a competitive advantage using a readily transferable resource, that same resource can be purchased by competitors negating the original firm's temporary competitive advantage. In other words, competitive advantage gained by one firm will vanish as soon as other firms buy the same resource.

A summary statement instructors can communicate to students is:

> *Given that (1) language fluency is not relatively immobile despite being largely intangible and (2) relative immobility of resources is required for sustaining a competitive advantage, (3) Chinese language fluency in Sub-Saharan African firms is **not** a potential source of sustained competitive advantage.*

OVERVIEW OF CASE QUESTIONS

Professors can use the following case questions to guide students toward this summary statement. The initial questions build the foundation while the last two questions directly assess whether students can step back from the details to see the wider RBV application. The question order is intended to assist professors make the point that "stickiness," or relative immobility, of resources is a prerequisite for a sustainable competitive advantage.

Language "sticks" to the individual with language ability but not the firm itself. Therefore, firms hiring bilingual or multilingual employees may benefit from employees' language abilities but only if those employees remain with the firm. Competitors making a better offer in terms of pay and benefits can steal away these employees. Thus, firms that require multiple languages to work with trade partners or customers may gain only a transient competitive advantage. Competitors can thus "buy" language fluency.

CASE QUESTIONS AND ANSWERS

1. Which one of the following statements is correct?

A. Anyone with enough money can pay to quickly learn a language.
B. Language fluency is mostly tangible.
C. Language fluency is mostly intangible.
D. There is likely a low demand for English language instruction in Sub-Saharan Africa because 14 of the 48 Sub-Saharan African countries already have English as an official language.
E. There is likely little demand for Chinese language instruction because no Sub-Saharan African country has Chinese as an official language.

Answer: C

Rationale: This question's purpose is to establish that language fluency is intangible. Students might argue that language is tangible because it can be recorded, transcribed, and put in textbooks. However, fluency is the *use* of language which is different from books, recordings, and other items.

NOTE: The following questions help establish a key aspect of the RBV; that is, resource combinations are typically more valuable than individual resource. The questions do so by applying what students have read in the case to a similar but slightly different situation. Questions return the focus on case specifics after this.

2. The most common language in Brazil is Portuguese although Spanish is the most common language in other South American nations. English, the most common international business language, is also spoken in Brazil and in surrounding South American nations.

Assume a firm in Brazil wants to hire employees who are fluent in English, Portuguese, and Spanish. This would allow the firm's employees to communicate with customers within Brazil as well as with customers in countries sharing a Brazilian border.

Which of the following is/are true regarding employees who are fluent in this specific combination of languages? These employees are __________ due to their language fluency,

A. valuable to the Brazilian firm.
B. probably rare compared to the global population.
C. not possible for other potential employees to imitate.
D. All the above.
E. None of the above.

Answer: D

Rationale: This is another easy question for students but gives professors another opportunity to reinforce a key RBV point. Firms seeking to sustain a resource-based competitive advantage need resource combination that are rare, valuable, inimitable, nonsubstitutable, and for which the firm is organized to capture the value it creates (exploitable). Of these, choice A addresses resource value, B addresses rarity, and C addresses inimitability.

3. Assume the Brazilian firm in the previous two questions has hired enough employees to meet its current needs. These employees are all fluent in the English-Portuguese-Spanish language combination the firm requires. Which of the following is true of this firm after hiring these employees? This language combination is _____ the firm:

A. owned by
B. controlled by
C. available to
D. All of the above.
E. None of the above.

Answer: C

Rationale: Students may find these answers similar. This a subtlety of the RBV: in some situations, firms need only certain resources *available* to consider that resource as part of its resource stocks although resource access alone is insufficient for competitive advantage sustainability.

An example of a leased warehouse may be helpful here. Although the firm *controls* the warehouse (choice B) and the warehouse is clearly *available* to the firm (choice C), it does not *own* the warehouse (choice A). In this case, the correct answers would be both B and C.

Now consider the situation in the question. Clearly, the firm does not *own* its employees, but does it control them? In one sense, yes. Employers generally *control* what actions employees take while on the job; it is conceivable that this would include what languages employees speak when communicating with customers. But that control is limited; the firm does not control whether the employee accepts a better offer from one of the firm's competitors. Employees can effectively "sell" their English-Portuguese-Spanish language combination to the highest bidder. Therefore, the most correct choice is C; the firm has availability to the employee's language combination only while the employee is working at the firm.

Such shades of meaning may help students think more critically about the RBV. And, if they're currently employed, it may help them think about their employer's resources in a new way.

4. The Brazilian firm, by hiring employees who have the required language fluency, has access to the language combination it needs. From the firm's point of view, this access is:

A. immobile (sticky).
B. likely to be different (heterogeneous) relative to competitors.
C. a potential source of sustained competitive advantage relative to competitors.
D. All the above.
E. None of the above.

Answer: E

Rationale: This question allows instructors to introduce one of the RBV's assumption—resources are heterogeneously distributed among firms. If all firms have the same resources, then they all have the same potential to arrange them in the specific combinations that yield a sustainable competitive advantage (see Note 2 below for a brief explanation of the RBV assumption of resource heterogeneity and relative immobility).

However, here we must take a step back. If all firms have the same resources and the same ability to arrange them in the advantageously combinations, then all firms' performance would likely be similar—there would be no such thing as one firm having a competitive advantage over another firm (see Note 3 for more on this issue). The solution to this seeming dilemma lies in the RBV's assumption of resource heterogeneity once again providing the instructor the opportunity to help students delve deeper into the complexities of competitive advantage sustainability.

Rather than selecting choice E as the correct answer, students are likely to select choice D, all the above. But based on the RBV assumption of heterogeneity of resource distribution among firms, the English-Portuguese-Spanish language combination is unlikely to be sticky (choice A), different (choice B), or a source of competitive advantage (choice C).

At this point, students may wonder why they had to read a case about China and Africa since they've been working through questions about Brazil. Not to worry—China and Africa are on the way and this is that last question about Brazil. The point of these questions was to move away from simply regurgitating facts included in the case and think instead about the broader implications of the RBV. If students can fully appreciate the RBV's nuances, they are in a much better position to see its usefulness in helping firms understand how to sustain a competitive advantage.

5. Among which pair of firms is competition likely to be most intense?
A. Sub-Sahara ESL and Target ESL
B. Target ESL and China Link
C. China Link and Sub-Sahara ESL
D. Target ESL and China Link
E. Competition is unlikely to be intense among all these firms.

Answer: E

Rationale: Each firm has a different target market. Professors can use this to illustrate strategic groups—competition *within* strategic groups is more intense than competition *between* strategic groups. This question sets up the competitive landscape conditions for the following questions.

6. Target ESL executives believe they are missing an opportunity by focusing solely on industry-specific vocabulary and grammar. Most of its employees are native English speakers making expansion to general English courses feasible. Target ESL would need only develop a basic ESL curriculum, train its current teachers in the new curriculum, and advertise its new services. How will CSL Link likely react to Target ESL's expansion efforts? CSL Link will most likely:

A. try to attract Sub-Sahara ESL's customers.
B. expand into industry-specific English courses.
C. try to attract Target ESL's customers.
D. Both B and C are likely.
E. None of the above are likely.

Answer: E

Rationale: This is an easy question that students will likely answer correctly. Its purpose is to show that focusing on core competencies is a practical way to think about resource-based advantages. CSL Link is protected from competition among ESL providers due to its heterogeneous competency in Chinese language instruction.

7. CSL Link has consistently maintained its focus on teaching Chinese and considers this its core competency. This focus has not limited the firm in terms of potential customers; the size of its target market has increased over time as increasing numbers of Sub-Saharan nations develop economic ties with China. CSL Link has:

A. limited competitive threats by positioning itself as a niche service provider.
B. used its core competency to gradually expand into the ESL market.
C. continued relying on its core competency of Chinese language training in nations with economic links to China.
D. A and C are both correct.
E. All the above.

Answer: D

Rationale: Students will likely find this an easy question. The case indicates that the firm is neither currently nor in the future planning to offer languages other than Chinese.

The next two questions assess whether students have gained a better understanding of how to apply the RBV in firms seeking to sustain a competitive advantage. Instructors may wish to remind students of the summary statements from the beginning of the teaching note prior to explaining the remaining questions. The summary statements are:

(1) Relative immobility of resources is required for sustaining a competitive advantage.

(2) Resource combinations, rather than individual resources, are typically more useful for sustaining a competitive advantage.

(3) Resource combinations are more likely to assist a firm in sustaining a competitive advantage when at least one of the resources in the combination is intangible making the source of competitive advantage difficult for competitors to identify; e.g., causally ambiguous.

8. A firm cannot expect to sustain a competitive advantage unless __________.

A. its resources have little value so that their cost is low.
B. its resources are commonly available so that a firm has access to them.
C. its resources are easy to copy so that a firm can remain competitive by imitating other firms that have a competitive advantage.
D. its resources are relatively immobile to prevent competitors from acquiring the same resources.
E. All are correct.

Answer: D

Rationale: Choices A, B, and C are the opposite of the central message of the RBV. The RBV suggests that, to sustain a competitive advantage, a firm must have resources that are valuable, rare, inimitable, and nonsubstitutable. (As a reminder, resource combinations must also be exploitable, relatively immobile, and heterogeneous)

9. Which one of the following is most correct concerning Sub-Sahara ESL, Target ESL, and CSL Link? _____ is most likely to have a sustainable competitive advantage.

A. Sub-Sahara ESL
B. Target ESL
C. CSL Link
D. All are likely to have a sustainable competitive advantage.
E. None are likely to have a sustainable competitive advantage.

Answer: C

Rationale: CSL Link has carved out a market niche that is difficult to penetrate. Due to the sheer number of native English speakers relative to native Chinese speakers, potential competitors would have a hard time finding teachers. With its focus on Chinese, CSL Link has a somewhat protected market. It occupies a different strategic group than the basic and intermediate English training offered by Sub-Sahara ESL and the industry-specific vocabular and grammar offered by Target ESL.

NOTES

Note 1: RBV Acronyms—Criteria for Sustaining Competitive Advantage

In addition to value and rarity, other key criteria needed for sustainability of competitive advantage include nonsubstitutability, inimitability, and exploitability. An early RBV formulation (Barney, 1991) included value, rarity, inimitability, and nonsubstitutability. Nonsubstitutability was later changed to "organized" to refer to organizational arrangements required by firms to exploit the value of a resource or resource combination or "bundle." This has commonly been referred to as "organized to capture value" resulting in the VRIO framework. Yet another formulation added nonsubstitutability back into the framework to more explicitly render "organized to capture value" as exploitability resulting in the VRINE framework. This case uses the terminology of the VRINE framework.

NOTE 2: RBV Assumptions

Validity of the RBV of the firm rests the two assumptions of resource heterogeneity and immobility. Resource heterogeneity is the assumption that resources vary across firms. This is important because if all firms have the same resources, a resource-based advantage makes little sense. It is precisely these resource differences that allow for the possibility of differential firm performance resulting from resources and resource combinations.

Resource immobility is the assumption that resources cannot be transferred from one firm to another. If resources can be readily transferred from firm to firm, then competitive advantage is, at best. Sustainability requires that a firm's source of competitive advantage "sticks" to the firm; easily transferred resources will likely be transferred to the firm with the highest bid.

NOTE 3: Limits to Sustainability

Clearly, sustainability has limits. The average length of time firms can maintain a sustainable competitive advantage has become shorter since World War II due, in part, to hyper-competition (D'Aveni, 1994). Although the length of time a firm can be expected to sustain a competitive advantage has certainly contracted (Stalk Jr. and Hout, 2003), this may not be as grim as McGrath's (2013) view that firms should not expect a sustained competitive advantage in her provocatively-titled book, "The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business." Such dire warnings of sustainability impermanence are no reason for top-level executives to take a fatalist posture. These executives are certainly not paid very large salaries to simply match industry performance.

MERGER OPPORTUNITIES AMONG CLUB SHOPPING STORES

Terrance Jalbert, University of Hawaii Hilo

CASE DESCRIPTION

The primary subject matter of this case concerns mergers and divestures in the club shopping retail space. The case has a difficulty level of four to seven corresponding to upper level undergraduate students to Ph.D. students. The case is designed to be taught in one to two class hours and is expected to require approximately six hours of outside preparation by students. The case is suitable for an individual or group assignment.

CASE SYNOPSIS

The club shopping concept has made significant inroads, both in U.S. and International markets, since the 1970's. This case requires students to examine the prospect for mergers and divestures among club shopping stores. The case considers four club stores, and one similar non-club store. Case information provides a discussion of each store's history, management issues and related financial information. Students must analyze the data and provide specific recommendations. Students may seek external information to refine their recommendations.

INSTRUCTORS' NOTES

RECOMMENDATIONS FOR TEACHING

The following questions are recommended to facilitate the analysis and discussion of the case materials.

QUESTION 1: Do you anticipate antitrust limitations associated with potential mergers of these firms?
QUESTION 2: Do you envision corporate cultural issues with any potential mergers?
QUESTION 3: Do product and service mix differences propose a challenge to any potential mergers?
QUESTION 4: Evaluate potential geographic synergies of potential mergers.
QUESTION 5: Evaluate financial issues associated with the potential Mergers.
QUESTION 6: Should Walmart spin off Sam's Club?
QUESTION 7: Provide a final recommendation.

SOLUTIONS TO SUGGESTED QUESTIONS

QUESTION 1: Do you anticipate antitrust limitations associated with potential mergers of these firms?

SOLUTION 1: Students may identify potential concerns including the following: Clearly some potential mergers would result in U.S. Department of Justice scrutiny. Any combination of Walmart, Sam's Club, Costco or BJ's Wholesale would face evaluation with potential denial by the U.S. Justice Department. However, Walmart previously made an offer to buy BJ's Wholesale suggesting that Walmart executives believed the merger would receive Justice Department approval. Perhaps Walmart could reduce or eliminate antitrust issues by spinning off the Sam's Club operation into a stand-alone company.

Some merger combinations might face scrutiny outside the U.S. For example, Walmart currently owns 247 stores in Costa Rica, a nation of only 5 million people. In the absence of PriceSmart, Walmart would have a near monopoly on food distribution in Costa Rica. For this reason, any merger between PriceSmart and Walmart would certainly face evaluation by Costa Rica regulators. Walmart also possesses a heavy ownership density in Guatemala. Similar issues could occur in other countries which might limit some merger opportunities.

Even if regulators allow some mergers, they may lack desirability from a social responsibility standpoint. This condition would occur if the mergers, while legal, substantially reduced competition or otherwise result in socially undesirable effects. This could occur if Walmart merged with Costco, BJ's Wholesale or PriceSmart. Similarly, a Coscto merger with BJ's Wholesale would reduce competition. Corporate responsibility obligations may cause the firms to back away from these arrangements.

QUESTION 2: Do you envision corporate cultural issues with any potential mergers?

SOLUTION 2: An assortment of corporate culture issues can occur in any merger. Among others, students might identify the following issues: PriceSmart and Costco previously merged and split after a single year. This short combination suggests some cultural problems occurred in the company. Moreover, the current majority owners of PriceSmart departed Costco after the previous merger failed. For this reason, a PriceSmart and Costco merger may not pass a cultural compatibility test.

It appears the Price family possesses a specific vision of how club stores should operate and prefer to personally manage firms. Twice previously they have been involved in shared management arrangements. Both cases ended with the Price family leaving the firm. From these experiences the Price family may have reservations about a business arrangement where they do not hold controlling interest. Moreover, a PriceSmart merger with anyone other than Cost-U-Less would require additional equity thereby diluting the Price family ownership stake. This limitation could be overcome if the Price family inserted additional equity into the company. It is unclear how much external wealth the Price family has that could be invested into the operation.

A further issue complicating any Costco and PriceSmart combination could exist if the 1993 split between Coscto and the Price family involved non-compete agreements. This type of agreement could legally limit Costco from entering certain markets. If non-compete agreements exist, the only avenue for Costco to enter Central American markets would involve a merger or outright purchase of PriceSmart.

Language differences could hamper some potential mergers. PriceSmart operates in Spanish speaking countries and BJ's Wholesale operates exclusively in the United States. A merger between these two firms would result in some language issues. The extent that these issues could be overcome is unclear.

Club membership fees may complicate any merger with Cost-U-Less. While the four largest firms operate with a club membership, Cost-U-Less does not. Changing to a membership fee approach may pose challenges for Cost-U-Less.

Finally, any merger involving PriceSmart, Cost-U-Less and possibly BJ's Wholesale would necessarily involve a friendly merger. The Price family owns a majority stake in Pricesmart and could derail any merger attempt. Cost-U-Less is wholly owned by the North West company who may not elect to sell their interest in the company. While BJ's wholesale is going public, it is not clear how much equity interest the current owners intend to retain. If current owners maintain a majority stake in the firm, a hostile takeover is precluded. For these reasons, Walmart and Costco constitute the only candidates for a potential hostile takeover.

QUESTION 3: Do product and service mix differences propose a challenge to any potential mergers?

SOLUTION 3: The product mixes, while generally similar, differ some across stores. The number of products offered at each store differs substantially. BJ's Wholesale offers about 7,200 products, compared to PriceSmart's 2,500 products. Cost-U-Less offers still fewer products. Complicating this consideration is that Walmart, Costco, BJ's Wholesale and PriceSmart each offer one or several name brand products. Clearly, some product mix adjustments would be necessary in any potential merger combination. The extent to which these product differences would preclude mergers is unclear.

Students might address other issues such as Costco only accepting Visa cards, BJ's being the only store to accept manufacturer coupons and opportunities for PriceSmart to offer more services such as an automobile purchasing program in Latin America where a substantial opportunity appears to exist.

QUESTION 4: Evaluate potential geographic synergies of potential mergers.

SOLUTION 4: Students might identify assorted geographic synergies associated with potential mergers. PriceSmart is the only club store operating in Central America and is solidly entrenched in these markets. Geographically, PriceSmart offers the potential for a major expansion into Latin America by one of the three big operators, Costco, Sam's or BJ's Wholesale.

Similarly, Cost-U-Less operates as the only club type of store in markets it serves. Moreover, it has noted the potential to expand to an additional 90 markets. This potential for expansion suggests potential desirability as a merger candidate despite its current small size. For this reason, Cost-U-Less makes an interesting avenue for expansion for any club store. Given its smaller store footprint, Cost-U-Less might function as an express version of a major club operation.

Sam's Club and Costco operate to a certain extent in the same markets. Thus geographically, a merger of these stores provides limited impact on footprint expansion. Similarly, BJ's wholesale operates only on the east coast of the U.S. where Walmart and Costco also operate.

QUESTION 5: Evaluate financial issues associated with the potential Mergers.

SOLUTION 5: Students should provide a variety of financial analysis that may include the following: Students might note the ability of one firm to take over another depends upon firm size. Cost-U-Less is the smallest operation. It holds only $54 million of assets. PriceSmart, though also comparatively small, has $1.18 billion in assets and BJ's Wholesale has $3.3 billion in assets. Costco and Walmart are much larger with $36 and $204 billion in assets respectively. Sam's club accounts for about $14 billion of Walmart's assets. From a size standpoint it is financially feasible for Costco or Walmart to take over any of the other competitors. From a financial standpoint, PriceSmart or BJ's Wholesale could easily purchase Cost-U-Less. A merger between PriceSmart and BJ's wholesale, would require additional investment from the Price family to complete the merger while retaining a majority stake in the firm.

An examination of gross profit margin indicates that Walmart produces the highest gross profit margin at just under 25%. As Walmart includes a variety of store types, the profit margin attributable to Sam's Club is not clear. Cost-U-Less reported an 18.8 percent profit margin in 2006. PriceSmart's and Costco's gross profit margin in 2017 was 14.5 percent and 11.3 percent respectively. Gross profit margin data for BJ's Wholesale were not available. The comparatively higher profit margin for Cost-U-Less increases its desirability as a merger candidate.

BJ's Wholesale carries the heaviest debt load. The firm reports total liabilities of $4.3 billion with more than $2.5 billion in long term debt. With assets of only $3.3 billion, the company has a negative equity balance of just over $1 billion. Costco also has a heavy debt load with liabilities of $25 billion against assets of $36 billion implying a debt to equity ratio of 2.27 times. PriceSmart carries far less debt with $468 million in liabilities and $709 million in equity implying a debt to equity ratio of just 0.66. Cost-U-Less reports equal liability and equity amounts resulting in a debt-to-equity ratio of 1.0. Walmart reports $123 billion in liabilities against $204 billion in assets. These figures imply a debt to equity ratio of 1.52. From a debt standpoint, PriceSmart presents the best quality balance sheet, placing it in a strong position to expand should it choose. Further, PriceSmart achieves the highest price to earnings ratio. A notable financial outlier is that Costco reports a price to book ratio of 7.95, nearly double that of Walmart or PriceSmart. Table 7 provides selected figures that students might utilize in their analysis.

Table 7
SELECTED CALCULATIONS

	Walmart*	Costco*	BJ's Wholesale**	PriceSmart**	Cost-U-Less**
Total Revenues	500,343	126,170	12,754,589	$2,996,628	222,022
Number of Stores	11,121	741	221	39	11
Annual Sales per Store	44.9908	170.2699	57,713	$76,836.6	20,183.8
Average SF per Store	136,000	145,000	113,000	75,000	31,000
Annual sales per Square Foot	330.81	1,174.3	$510.7	1,024.5	$651.09
Market Capitalization	249,200	86,000	N/A	$2,500,000	N/A
Mkt Cap per store	22,408,057	116,059,379	N/A	$64,102,564	N/A
Mkt Cap per Square Foot	164.77	$800.41	N/A	$854.70	N/A
Total Assets	204,522	36,347	3,261,266	1,177,514	54,035
Debt to Equity	1.52	2.27	-4.3	0.66	1.0
Price to Earnings Ratio	27.7	30.2	N/A	36.3	N/A
Price to Book Ratio	3.2	7.95	N/A	3.54	N/A
Price to Sales Ratio	0.64	0.54	N/A	0.81	N/A

** Figures in millions except number of stores, average square footage per store, market capitalization per store and market capitalization per square foot. ** Figures in thousands except number of stores, average square footage per store, market capitalization per store and market capitalization per square foot. Data from BJ's Wholesale (2018), Cost-U-Less (2007), Costco Wholesale Corporation (2017), PriceSmart (2018) and WalMart (2018). CNN Money (2018a, 2018b and 2018c).*

QUESTION 6: Should Walmart spin off Sam's Club?

SOLUTION 6: Students will express a divergence of opinions on this point. Sam's Club constitutes an integral part of Walmart. The goal of any spin-off should be to unlock value from the enterprise. Indeed, there exists reason to believe that spinning off Sam's Club might increase shareholder wealth. Market capitalization per square foot of Coscto and PriceSmart ($800.41 and $854.70 respectively) are substantially higher than for Walmart ($164.77).

Consider a Sam's Club market valuation of $800 per square foot. Each Sam's club utilizes about 136,000 square feet. At this valuation, Sam's Club value equals approximately $65 billion, a substantial premium over the $31 billion valuation estimate for Sam's Club noted by analysts. Sam's Club represents approximately 5 percent of all Walmart stores, 12 percent of sales and 10 percent of operating income. However, $65 billion represents more than 26 percent of current Walmart capitalization. With these figures, students may express some surprise that Sam's club elected to close stores rather than spinning the operation off. Moreover, as separate enterprises, both Sam's club and Walmart may be in a better position to merge with other stores with fewer U.S. Justice Department limitations. These potential mergers could further enhance shareholder value.

QUESTION 7: Provide a final recommendation.

SOLUTION 7: Students might provide various recommendations and include discussion of the following issues: Sam's club has announced store closings, suggesting that Walmart lacks interest in expanding this element of their business. Further, it seems unlikely that Sam's club would take on additional stores. For this reason, students may eliminate a Sam's Club merger from further consideration.

PriceSmart could purchase BJ's Wholesale. BJ's Wholesale is likely over-valued at the $4 billion price the current owners have asked for the firm. At a lower price, BJ's Wholesale could be an interesting purchase for PriceSmart. Students should only recommend this purchase if the Price family can maintain controlling interest in the overall firm. While possible, there are some issues associated with a PriceSmart and BJ's merger. BJ's operates in a highly competitive market, with Coscto and Sam's club operating extensively in the same geographic areas. PriceSmart has traditionally avoided these competitive environments and failed when they tried to enter a similarly competitive market in Mexico. PriceSmart may be better served by expanding further into South America. They have expertise in Latin America, would face far less competition and experience a growing population.

Cost-U-Less provides an interesting path for expansion for any of the club stores. While substantially smaller than the club stores, expansions and store relocations might increase the average size of Cost-U-Less stores to better fit in a club store environment.

The advantage to Costco of a PriceSmart or Cost-U-Less merger is debatable. PriceSmart and Cost-U-Less currently sell Costco brand products. Students may argue that rather than merge with or purchase the smaller stores, a better approach might involve Costco continuing and expanding upon their relationship as a supplier to those stores.

Finally, internet purchasing may eliminate the need for additional retail space in this sector as has occurred in many other sectors. As noted earlier some closed Sam's Club stores will be converted to internet fulfillment centers. Perhaps rather than looking to expand their physical footprint, the firms should work to expand their internet operations

LAURENS STREET CAFÉ

Robert Leach, University of South Carolina Aiken
Paul Newsom, University of South Carolina Aiken

CASE DESCRIPTION

The primary subject matter of this case is business start-up valuation. Secondary issues include uncertainty and sensitivity analysis. This case has a difficulty level of four, senior or five, graduate level. This case is designed to be taught in 3.75 to 5.00 class hours and is expected to require 6-8 hours out outside preparation by students.

CASE SYNPOSIS

This case illustrates the challenges facing two entrepreneurs. David Spencer and Thomas Media are two finance professionals who were going through the process of determining if they should start a coffee café. They hired Matson Consulting, a business consultation firm, to perform a feasibility study. The job of analyzing the data and compiling the feasibility study was assigned to Joan Walker, a junior analyst at Matson Consulting. The study should be based on traditional capital budgeting methods and techniques. This case shows that: (1) starting a coffee café isn't so simple, (2) determining project value is subjective and sensitive to assumptions and input estimates, and (3) starting a business requires a lot of work.

TEACHING NOTE

The main goal of this case is to have students develop financial models that determine value implications of the coffee shop on shareholder wealth. To help students achieve this goal, we provide questions for students to answer under the section *SUGGESTED QUESTIONS FOR STUDENTS*.

This case is based on a business idea presented to students in our Business Finance course after covering capital budgeting. Business Finance at the University of South Carolina Aiken (USC Aiken) is the one finance course all business majors are required to take before graduating. This case is a condensed, abridged version of actual events. For example, this case lists a few business meetings, when, in fact, we met many more times to refine our business idea, assumptions, estimates, and financial model. We retained the services of Joan Walker of Matson Consulting (www.matsonconsult.com) to help us with our feasibility study. Joan is an alumnus of USC Aiken who was involved in performing feasibility studies.

TEACHING APPROACH

We present this case over 3-4 one hour and fifteen minute class sessions. For the first class session, we have students read the case before coming to class, answer some of the questions under the section Suggested Questions for Students (see below), and hand-in a one page summary. The one page summary requirement is to make sure students read the case before coming to class. We spend the first class session discussing the case. During this class session students are encouraged to bring computers to class so they can start creating financial models.

For the second class session some students, usually three to four, present their preliminary results to the class. The primary purpose of these presentations is for students to learn from each other. Many presentations are incomplete and contain incorrect results. Importantly, students learn what not to do by seeing their classmates make mistakes. All students have the opportunity to make improvements to their model before submitting their final results.

For the third class period, all students are responsible for submitting their final results, and select students present their results. Their solution includes answers to the Suggested Questions for Students. Finally, if we notice that students are struggling with the process of designing their financial models, we may extend the case to include an additional class period.

It is important for instructors to realize that with this type of case, financial models will vary. Our rubric is as follows: (1) fifty percent on effort (Did the student attempt to build a complete model?), (2) fifty percent on quality of answer (How good is the model and the interpretation of results?).

APPROPRIATE COURSES

At USC Aiken we teach 400 level courses in intermediate finance and advanced financial management. These are common courses in many finance curriculums. These courses use cases to illustrate financial concepts and theory. We have used various textbooks in these courses over the years. Currently we use Corporate Finance by Ross, Westerfield, Jaffe, and Jordan (2019) for both of these courses. In the recent past, we have used Principles of Finance by Besley and Brigham (2009), and Case Studies in Finance by Bruner, Eades, and Schill (2010) for advanced financial management. We use cases like this to supplement the textbooks.

Next, this case is appropriate for an undergraduate strategic management course. In many business programs, strategic management is a 400 level capstone, case-based course that is a study of the strategic management process and of the formulation and application of functionally integrated business policy by top management with an emphasis on decision making and changing conditions. Typically, strategic management is supposed to bring together the various business disciplines (e.g., finance, accounting, marketing, management, economics, and analytics) so that students better understand the “big picture” before graduating. This case has elements of many business disciplines and therefore would be appropriate for a strategic management course.

Third, this case is appropriate for an undergraduate entrepreneurship course or curriculum. Many entrepreneurship courses require students to perform a feasibility study or develop a business plan. Projecting financial statements are essential elements of a feasibility study or business plan. This case requires students to develop pro forma financial statements, and therefore would be appropriate for an entrepreneurship course.

Uniquely, at USC Aiken, we teach a 400 level course on capital budgeting that covers three main topics in depth and they are: (1) capital budgeting, (2) cost of capital, and (3) financial statement analysis. The current textbook for this course is Corporate Finance by Ross, Westerfield, Jaffe, and Jordan (2019). Previously we used Corporate Finance: A Practical Approach by Clayman, Fridson, and Troughton (2008). The entire course is centered on an individual student project where students must come up with a business idea, perform a feasibility study, and present their idea to potential investors. Potential investors comes from the Small Business Development Center (SBDC) that USC Aiken supports, local bankers, or VentureSouth-Aiken, an Aiken, SC based angel investor group that invests equity capital in early stage start-up companies. Paul Newsom is a managing director of VentureSouth-Aiken (https://venturesouth.vc/aiken/). Students with value enhancing projects are encouraged to continue working on their business idea and eventually seek financing through the Small Business Administration (www.sba.gov) or local banks. We use cases like this to illustrate the process that entrepreneurs go through to evaluate their business idea.

Finally, at the MBA level, this case is appropriate for an introductory corporate finance course. USC Aiken launched an online MBA program in 2018. This case illustrates how students can apply finance theory and concepts. Cases like this stimulate student involvement through online *discussions* on learning management systems like Blackboard.

THEORY AND LITERATURE

A fundamental assumption underlying finance theory is that the overriding goal of a company is to create value for stockholders. To determine the expected value of a project, entrepreneurs use valuation techniques that help them make an informed, but risky, decision. Bierman and Smidt (1993), Levy and Sarnat (1994), and Seitz and Ellison (1999) provide an in-depth treatment of capital budgeting valuation techniques whereas Kim, Crick, and Kim (1986); Mukherjee (1987); Mukherjee (1988); Ross (1986); Runyan (1983); and Weaver, Peters, Cason, and Daleiden (1989) discuss methods actually used in practice. This case study focuses on the incremental after-tax operating cash flow method to valuation estimation, not economic profit, economic income, claims valuation, or residual income. For a review of the latter methods see Clayman, Fridson, and Troughton (2008).

SUGGESTED QUESTIONS FOR STUDENTS

Below are some suggested questions and problems for students:

1. Discuss potential conflicts of interest between (1) Joan Walker and (2) David Spencer and Thomas Media. In your discussion provide possible remedies to these potential conflicts of interest.
2. Discuss the ethical and legal considerations surrounding the market research performed by David and Thomas.
3. Prepare a financial model that computes the discounted cash flows of Lauren’s Street Café.
    a. Compute and discuss the expected initial investment.
    b. Develop a monthly depreciation schedule based on 7-year MACRS for the fixed capital items that are to be depreciated.
    c. Compute and discuss the time t=1 expensing of certain items in the following categories: (1) preliminary investment, (2) coffee equipment, (3) other equipment, (4) furniture, (5) fixtures, (6) supplies, and (7) other.
    d. Compute and discuss the monthly operating cash flows (OCF). Ignore the impact of an operating loss that creates a tax loss carry forward and deferred tax asset on OCF.
    e. Compute and discuss the terminal after-tax nonoperating cash flows for working capital items.
    f. Compute and discuss the terminal after-tax nonoperating cash flows for fixed capital items.

  g. Compute and discuss the after-tax weighted average cost of capital.
  h. Compute and discuss the following capital budgeting measures: net present value, internal rate of return, modified internal rate of return, payback, discounted payback, and profitability index.
4. Draw a conclusion based on your capital budgeting measures. Discuss your conclusion.
5. Make a recommendation.
6. Discuss ways to improve the business idea.

ANSWERS TO SUGGESTED QUESTIONS FOR STUDENTS

Detailed answers to computation problems are contained in the Excel workbook file to this case. Contact Paul Newsom at pauln@usca.edu for a copy of this workbook.

1. A potential conflict of interest arises from the sunk cost nature of Joan's work. After performing the feasibility study, Joan is aware that her future payoff is dependent on her recommendation to David and Thomas. If her analysis shows the project is expected to be value destroying, and she therefore recommends rejecting it, her payoff is zero. It is zero because David and Thomas will forego the project. However, if her analysis shows that the project is expected to be value enhancing, and she therefore recommends accepting it, her payoff is the max of (1) zero or (2) stock price minus the exercise price. In this case, since Joan will be rewarded with equity shares for her efforts the exercise price is zero. So, Joan's value for one share of stock when the project is expected to be value enhancing is max [Stock Price minus 0, 0]. In the latter case Joan has the possibility of a positive payoff and in the former case she does not. Being aware of these two outcomes may bias Joan's analysis, decision, and recommendation towards acceptance and away from rejection. David and Thomas need to be aware of this potential bias and protect themselves from it. One way David and Thomas can protect themselves against this potential conflict is to have Joan invest some of her own funds in the business if she recommends acceptance. For example, they could negotiate to sell shares of stock in the business to Joan at a discounted price, rather than the current arrangement discussed in the case.
2. The case clearly shows that David and Thomas asked to remove the cash register tape and were given authorization to do so. However, it is unclear if the employee (e.g., manager) had the authority to make this decision. It is highly unlikely that this action is illegal and although some may consider it unethical, market research is common practice. In addition, even though the employee (e.g., manager) may not care if David and Thomas receive this information, the opinion of The New Moon owner might differ. More importantly, employees are agents of the owner and are supposed to receive compensation for their work that benefits the owner. In this case, it is unclear how the employee's action can be construed to benefit the owner. Finally, it is also clear that David and Thomas were forthright in their action and did not attempt in any way to hide it from anyone.
3. The estimate cash flows are given below.
  a. The expected initial investment is read directly from table 15 in the case. Discussion of these investments is also contained in the case.

Table 15
This table shows the expected initial investment by subtotals.

Investment Category	Subtotal
Preliminary Investment:	$6,560
Fixed Capital Investment:	
Coffee equipment:	$19,174
Other Equipment:	$11,530
Furniture:	$11,805
Fixtures:	$1,750
Working Capital Investment:	
Cash:	$10,000
Perishable Inventory:	$1,369
Nonperishable Inventory:	$1,060
Supplies:	$500
Other (Prepaid Expenses):	$7,250
Total expected initial investment	$70,998

b. The answer to problem number two is contained in the Excel workbook file to this case. Go to the worksheet tab *7 yr Depreciation Schedules*. This worksheet contains yearly and monthly depreciation expenses for all assets that are being depreciated. The depreciation schedule takes up too much space to include in the teaching notes document.

c. The table below shows a summary of the noncash expense for certain items that are being expensed immediately to the income statement in the first month, not placed on the balance sheet and depreciated. In this case, fixed capital items with a purchase price less than $100 are being expensed to the income statement, not depreciated on the balance sheet. This is a matter of convenience. Most firms find it too time consuming to depreciate all investments in fixed capital, therefore they tend to expense certain, low cost items. Recall that the cash outflow for these items occurs when they are purchased at time t=0, therefore, the expense on the income statement at time t=1 is a noncash expense. Next, it is a generally accepted accounting practice for firms to expense supplies to the income statement. Thus, the entire investment in supplies is expensed to the income statement in the first month. Finally, items in the *other* category are placed on the balance sheet, but not depreciated. These items are prepaid expenses and are categorized as an asset.

Noncash	Preliminary Investment:	$1,060
Noncash	Coffee equipment:	$254
Noncash	Other Equipment:	$476
Noncash	Furniture:	$180
Noncash	Fixtures:	$0
Noncash	Supplies:	$500
Noncash	Other (Prepaid Expenses):	$0
Total:		$2,469

d. A detailed answer to problem number four is contained in the Excel workbook file to this case. Go to the worksheet tab *Operating Cash Flows (monthly)*. The OCF are contained in row 44 of the worksheet. We use the following formula to compute operating cash flows: OCF=EBIT*(1-tax rate) plus noncash expenses. The OCF for month=1 is $2,036.44, for month =2-12 is $1,048.68, for month=13 is $1,191.80, for month=14-24 is $1,227.80, for month 25 is $1,061.53, for month 26-33 is $1,097.53, for month 34-35 is $1,997.53 and for month 36 is $2,147.53.

e. A detailed answer to problem number five is contained in the Excel workbook file to this case. Go to the worksheet tab *Initial Investment* and the answer is contained in cell k180; it is equal to $5,530. Most textbook capital budgeting problems assume 100 percent recovery of the initial investment in working capital. In this case, Joan has made a more conservative estimate of 50 percent recovery of most working capital items. However, she does expect to recover 100 percent of the $2,500 security deposit. The spreadsheet allows the user to change the percent recovery. For example, if you think 50 percent is too small, then you could increase it to 70 percent.

f. Joan estimated that the expected market value of fixed capital assets that are being depreciated where recoup investment equals 1 is equal to their net book value at the end of the project. The net book value of fixed capital assets is contained in the Excel workbook file to this case. Go to the worksheet tab *7 yr Depreciation Schedules* and the answer is contained in cell p123; it is equal to $18,303.84. A detailed answer to problem number six is contained in column P of the worksheet. Some items have a terminal value equal to $0.00 because their entire cost is either expensed to the income statement immediately or we estimate that we will not be able to recoup our investment in the item (recoup investment=0). The accumulated depreciation at the end of year 3 for items that are being depreciated is 56 percent. Thus, the expected market value of these items is assumed to be 44 percent of their initial investment. If you feel that this is not conservative enough and that the $18,303.84 figure is too large, then one way to reduce this figure is to change the MACRS class. For example, you could place all assets in the 5 year MACRS class where depreciation rates for years 1, 2, and 3 are 20 percent, 32 percent, and 19 percent, respectively. The 5 year MACRS class produces a higher accumulated depreciation of 69 percent, and thus a lower net book value. If you think the original estimate is too conservative, then you can place assets in the 10 year MACRS class.

g. The weighted average cost of capital of 8.45 percent is computed based on a capital structure consisting of 50 percent debt and 50 percent equity. The before tax cost of debt is 6.5 percent. We use the own-bond-yield-plus-risk-premium approach to compute the cost of equity. The risk premium is 6.5 percent.

$$WACC = w_{debt} \times k_{debt} \times (1 - tax\ rate) + w_{equity} \times k_{equity}$$
$$WACC = 0.5_{debt} \times 6.5_{debt} \times (1 - 0.4) + 0.5_{equity} \times (6.5\% + 6.5\%)_{equity}$$
$$WACC = 1.95\% + 6.5\% = 8.45\%$$

h. A detailed answer to problem number eight is contained in the Excel workbook file for this case. Go to the *Operating Cash Flows (monthly)* worksheet and scroll down to b52:b57. Excel has functions that computes the net present value, internal rate of return, and modified internal rate of return. However, it does not compute the payback, discounted payback, and profitability index directly. The computations for these methods are contained in cells b66:al83 of the worksheet.

Capital Budgeting Methods:	
Payback (in months)	**35.19**
Discounted payback (in months)	**35.62**
Net Present Value (NPV in dollars)	**$7,966.14**
Internal Rate of Return (IRR in %)	**14.29%**
Modified Internal Rate of Return (MIRR in %)	**12.02%**
Profitability Index (PI)	**1.11**

4. Based on the results from the capital budgeting methods Joan concludes that the coffee shop project is expected to create shareholder value. The net present value is positive, the internal rate of return and modified internal rate of return are greater than the cost of capital, and the profitability index is greater than one. In addition, the payback and discounted payback methods show that it will take about 35 months to recoup the expected initial investment. Her conclusion is sensitive to the expected initial investment, estimated sales, operating margins, and terminal year cash flows. She feels confident in her estimates for the expected initial investment, operating margins, and terminal year cash flows, and less confident in the estimated sales. Although she believes that her estimates are conservative, there is absolutely no assurance that anyone will ever buy a single cup of coffee from our café!
5. Joan should recommend that Paul and Robert pursue the next step in the process of starting their own business. First, she should recommend that they develop a business plan based on this feasibility study. Second, she should recommend that they use the business plan to help secure external capital. Specifically, Paul and Robert need a loan of approximately $35,000 and equity financing of approximately $35,000. Since Paul and Robert have no funds available, they will have to sell a portion of the business to outside equity holders. Third, Paul and Robert need to improve their estimate of income taxes has on operating cash flows. Currently they are using a 40.0 percent flat tax and this is high for firms with the level of EBIT they are showing. For example, U.S. Corporate tax rates change over time. This is a simple change in the financial model.
6. First, perform a sensitivity and scenarios analysis of this feasibility study. Second, investigate the impact of leasing the equipment will have on the project. Third, investigate the impact of buying used equipment will have on the project.

EPILOGUE

This case is based on a business idea we presented to students in our Business Finance courses. We retained Joan Walker from Matson Consulting to help us with our feasibility study and business plan. It was determined that the project was expected to be value enhancing and we are considering sources of financing. For example, we may present our results to Laura Disano, Business Consultant, at the USC Aiken SBDC in the future, and apply for financing through traditional sources or the Small Business Administration (www.sba.gov). If we can secure financing and find the time to operate the business, we could start operating soon. Our biggest constraint is time.

We continue to make changes to our feasibility study and business plan. First, we are exploring better ways to incorporate how changes in sales affects our cost structure and how we can reduce our initial investment. Second, we may end up leasing many of the fixed capital items or purchasing used fixed capital items. Kaldi (www.kaldi.com) and EspressoSoutheast (www.espressosoutheast.com) are two coffee shop equipment suppliers on the east coast of the United States that continue to help with capital investment choices. We continue to negotiate with all suppliers in search of lower prices, better quality, or both. Third, we are incorporating the cost of credit card sales into our projections. The cost of credit sales is approximately $0.25 per transaction plus 2.0 percent of sales. Currently, we are estimating 60 percent credit and 40 percent cash sales.

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DIVIDEND DISCOUNT VS. FREE CASH FLOW VALUATION: AN ANALYSIS OF MATTEL INCORPORATED

James Stotler, North Carolina Central University

CASE DESCRIPTION

The purpose of this analysis is to value the equity of Mattel, Inc. (NYSE:MAT) and place a buy or sell recommendation as an independent analyst. The data are examined to determine whether or not the company's stock is valued above or below the market price in order for investors to make a buy or sell decision. The industry environment will be assessed using Porter's five-force model of competitive strategy and the DuPont identity. Valuation techniques employed include the capital asset pricing model, the dividend-discount model (DDM), the free cash flow model (FCF) and the P/E valuation approach.

CASE SYNOPSIS

Two alternative valuation approaches will be considered and a buy or sell recommendation for Mattel, Inc. stock will be determined. Mattel is one of three major toy makers in the United States along with Hasbro and Lego. The competitive environment of Mattel will be assessed using the DuPont identity and Porter's five force model of competitive strategy as well as determining an estimate of the value of Mattel stock using various valuation approaches. In the case of Mattel, a dividend has historically been paid but was recently discontinued so the most appropriate valuation approach under these circumstances will be evaluated.

INSTRUCTOR NOTES

TOPICS FOR DISCUSSION

These topics for discussion mirror "The Challenge" presented. As an equity analyst your task is to estimate the value of Mattel and recommend profitable strategies which could be used based on the value estimate. Your analysis should include the following:

1. Evaluate the prospects for Mattel on each of the variables in Porter's "5-Forces Model".
2. Analyze the ROE, Profit Margin and ROA using the DuPont identity.
3. Calculate the expected return for MAT stock.
4. Evaluate the value for MAT stock using the constant growth model.
5. Determine the value estimate using the Price/Earnings valuation approach.
6. Find the value estimate for Mattel using the two-stage Dividend Discount Model.

7. List the investment options you as an equity analyst could consider and then indicate (based on the analysis listed above) which of those options you would recommend, and why.

1. ***Evaluate the prospects for Mattel on each of the variables in Porter's "5-Forces Model".***

Threat of entry by new competitors

New competitors entering the toy and game industry can put pressure on Mattel since it brings innovation and new approaches to product development and marketing. This can occur through a lower pricing strategy, cost reduction and new value propositions for customers. Mattel should manage these challenges and build effective barriers to guard against the possibility of new competitors entering the market.

Some of the ways Mattel can address the issue of potential new entrants is by developing innovative new products and services. New products not only bring new customers but also give previous customers a reason to continue buying Mattel products.

Building capacity and investing in research and development can also help. Potential new entrants are less likely to enter a dynamic industry where established companies like Mattel are defining the standards. New entrants are typically attracted to a market when they see a window of extraordinary profits that they can exploit. By continuously developing innovative new products and services Mattel can help to discourage other competitors from entering the industry.

Threat of substitute goods

Mattel faces a large potential threat from substitutes due to their product oriented versus service oriented approach. Most of their products have very little technological integration for the user. Since their primary market is young children this can represent a serious threat from technology-based substitutes since young children are replacing traditional toys with technology-based entertainment.

Understanding the core need or interest of the customer is very important. In the case of Mattel the end user may not be the buying customer since many of their toys are purchased by adults for children. In this sense they must appeal to the core need or interest of the adult but also have play value for the child.

The threat of substitute goods can be managed by increasing switching costs as well. In the case of Mattel this could probably be best accomplished by increasing efforts to establish brand loyalty so that customers don't see another competitive brand as a suitable substitute. This is challenging and further complicated by the fact that counterfeit production of toys is common in some countries.

Bargaining power of buyers

A large customer base will help to keep the bargaining power of buyers low. A small customer base will allow buyers to have greater bargaining power. In the case of Mattel the customers to which they sell are generally large retailers such as Target and Walmart in the U.S. market. ToysRUs was their largest customer until their recent bankruptcy. As outlets such as

Amazon gain an increasing percentage of the retail market for Mattel's products the bargaining power of buyers could increase.

Continuously innovating and introducing new products is another way to reduce the bargaining power of buyers since buyers tend to seek discounts and offers on established products. Mattel does not have a strong flow of innovative products but they often have themed toys for which they must obtain a licensing agreement. Obtaining an increasing number of exclusive licensing agreements from popular and prominent brands could help to reduce the bargaining power of buyers.

Bargaining power of suppliers

Most suppliers in this industry buy their raw materials from numerous suppliers. Suppliers with a dominant position in the industry can raise their prices and decrease the margins for Mattel. Powerful suppliers use their negotiating power to extract higher prices from customers like Mattel. This supplier bargaining power can be kept to a minimum by building efficient supply chains with multiple suppliers.

Another way to reduce supplier bargaining power is to experiment with new product designs using different materials so that Mattel can shift from one raw material to another if prices increase. Another approach is to develop a relationship with a supplier whose business depends on Mattel as a customer. Either approach will help to shift bargaining power from the supplier to Mattel.

Rivalry among existing competitors

Intense rivalry in an industry has the effect of driving down prices and lowering the overall profitability of the industry. Rivalry in the toy and game industry is very intense and this negatively impacts Mattel's profitability. The intensity of the rivalry can be reduced by building a sustainable differentiation. For Mattel this often involves exclusive brand licensing agreements with popular brands. These brands might be for things such as sports teams, movies, food and candy. The search for new licenses must be ongoing to capitalize on the latest popular branding.

Another approach to dealing with competitive rivalry is to build scale to create a better competitive position. Mattel has a significant scale in the toy and game industry but is not currently the largest firm in the industry. Expansion through acquisition or new product lines might be a reasonable strategy for Mattel.

2. Analyze the ROE, Profit Margin, and ROA using the Dupont identity

DuPont measure of ROE:

ROE = Profit Margin X Asset Turnover X Equity Multiplier

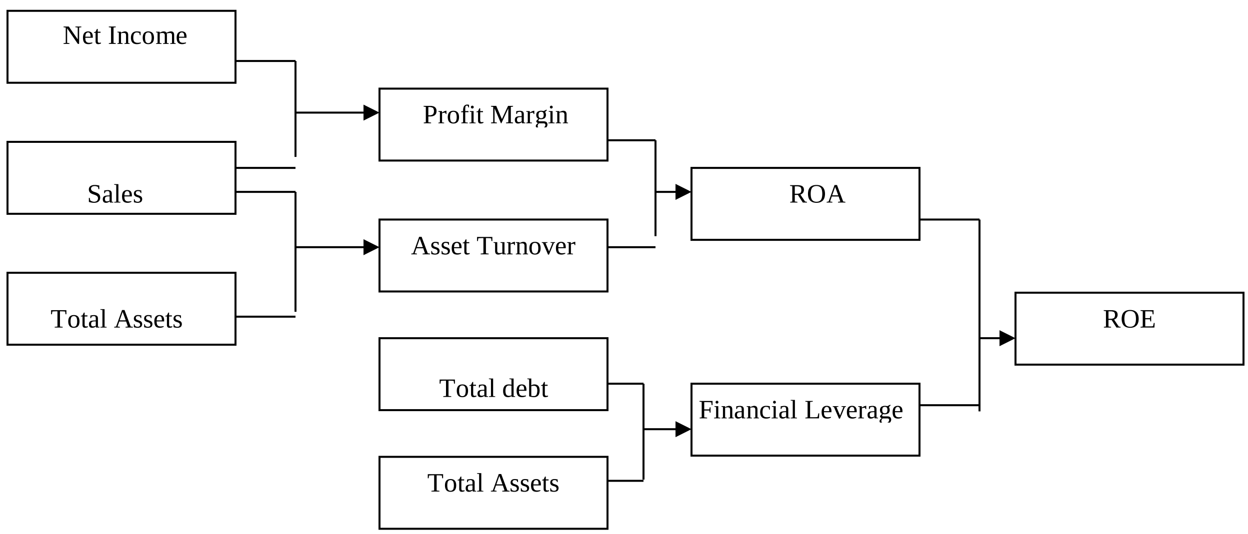
ROA = Profit Margin X Asset Turnover

2017 ROE = -.92 2016 ROE = .13

2017 ROA = -.186 2016 ROA = .049

The difference between ROA and ROE indicates a substantial use of debt by Mattel, Inc. Leverage has the effect of magnifying the ROE above or below the ROE. In 2016 the positive ROA of .049 was magnified to .13 by the use of debt. However in 2017 a negative ROA of -.186 was magnified to an ROE loss equal to -.92 by the use of debt.

Dupont Analysis



3. Calculate the expected return for Mattel stock.

The Capital Asset Pricing Model (CAPM) will be used to calculate the expected return for Mattel stock. The formula for the CAPM model is as follows:

$$\mathbf{R_E = R_F + \beta * (R_M - R_F)}$$

R_E - Expected return on a security (MAT)

R_F - Risk-free rate (long term government bond yields)

β - Beta of MAT: This is a measure of systematic risk. The beta measures the correlation of a stocks total return with the market return.

R_M - Expected return on the market (The S&P 500 used as a proxy)

The expected return for MAT:
R = .04 + .91 (.12-.04) = .1128

4. Estimate the value for MAT stock using the constant growth model.

The Constant Growth Model can be used here. It allows the students to determine the value estimate for stock by using the discount rate and finding the growth rate. The formula for the stock value is:

$$\frac{\mathbf{Div_1}}{\mathbf{(r - g)}}$$

D_1 – the expected dividend to be paid in the next period
r – the discount rate also termed as the expected return
g – the growth rate

Analysts' consensus growth rate expectations range from 2 to 4 percent.
It is assumed that this growth rate will continue in the future for valuation purposes. However, in reality the growth rate may actually be higher or lower than the one estimated.

By using a 3 percent projected growth rate for the future, the stock's value is calculated as:

$$\mathbf{Po = \frac{\$.93(1.03)}{(.12-.03)} = \$10.64}$$

5. Determine the value estimate using a Price/Earnings valuation approach.

The value of the stock will now be estimated using the Price/Earnings approach. The earnings per share and the price earnings ratio is needed. The formula is as follows:

EPS * P/E = Stock Value
$.93 * 15.2 = $14.13

6. Find the value estimate for MAT using the two-stage Dividend Discount Model.

Value where r = .12

g1↓g2→	.03	.05	.08
.01	2.03	2.52	4.11
.03	2.28	2.78	4.45
.05	2.52	3.04	4.79

Value where r = .10

g1↓ g2→	.03	.05	.08
.01	2.97	3.88	8.66
.03	3.25	4.20	9.24
.05	3.52	4.53	9.81

7. List the investment options you as an equity analyst could consider and then indicate (based on the analysis listed above) which of those options you would recommend, and why.

The price quote for a share of Mattel given in the case is approximately $15. Given the valuation methods exhibited in this case the stock seems to be overvalued at $15. The stock should be given a sell recommendation based on the results of the sensitivity analysis using the discounted cash flow model. Even based on the lowest required return estimate and the highest g_1 and g_2 the estimated intrinsic value does not exceed the price. The P/E model also supports this recommendation based on its value estimate of $14.13.

Possible profitable strategies include:
Sell MAT short at current price
Buy MAT put options with strike above 9.81

Positions to avoid:
Buy MAT at current price
Buy MAT call options

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

Neal F. Thomson, Columbus State University
Tobias M. Huning, University of North Florida

CASE DESCRIPTION

The primary subject matter of this case is sex discrimination, which is protected under title seven of the Civil Rights act of 1964. Historically speaking, sex equality is a somewhat recent phenomenon as it was established by the CRA of 1964; long after the industrial revolution. Until then, women faced discrimination in their private lives as well as their professional lives. Women were considered inferior and were therefore prevented from holding offices and pursuing various professions. Women were also prevented from rising to higher positions within their employing organizations. Hence, this case aims to educate about Sex discrimination by outlining real world examples based on potential violations of the CRA of 1964. This case has a difficulty level of three intended for an upper division undergraduate course. This case is designed to be taught in one class hour, and is expected to require two to three hours of outside preparation by students. Upon completion of this case assignment, students should be able to recognize and evaluate the circumstances which establish a discrimination case. Furthermore, students should learn to evaluate the potential harm and risks to the organization. Last students should be able to create company policy and manuals that aim to prevent such discrimination cases.

CASE SYNOPSIS

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

INSTRUCTORS' NOTE

RECOMMENDATIONS FOR TEACHING APPROACHES

For smaller class sections an interactive class discussion is suitable where the whole class participates in the analysis of the case and the generation of solutions. The instructor guides the class through a discussion of each question at the end of the case. Students are asked to create solutions and recommendations for the management of the situation.

We recommend breaking up larger sections into groups of 4-6 students. Each group individually analyzes and discusses the case and prepares answers to each question which then will be shared with the class. As an added benefit this method serves to identify and/or select leaders for the presentation of their recommendations. The group leaders present their recommendations and then debate their respective positions.

ANSWERS TO DISCUSSION QUESTIONS

Case 1:

Question 1: Is there a prima facie case of discrimination? Yes. There were 3100 delivery drivers and 6 of them were females. This was not representative of the referent population. This is further clarified by the same skewedness not present in the over-the-road drivers population. Additional evidence of discrimination is provided by comments expressed by the supervisory staff of the company. In particular the comments expressing that women are more likely to be injured and that a girl should not have this position. Lastly, the differential treatment after an injury had occurred indicates that intentional discrimination had occurred.

Question 2: Do you think the employee has a winnable case of sex discrimination?

It appears that the evidence provided by concentration statistics and the managerial behavior are sufficient to establish a strong case against Old Dominion Freight Line.

Western District of Virginia Court ruled by summary dismissal, which was later overturned by the Fourth District Court. The district court followed the McDonnell Douglas burden-shifting analysis for the plaintiff's sex discrimination claim. The court assumed, without deciding, that the plaintiff had made a prima facie case of discrimination. The court also determined that Old Dominion had satisfied its burden of production by articulating a legitimate, non-discriminatory reason for the plaintiff's termination. Specifically, the plaintiff was terminated for failing the PAT. The court found insufficient evidence of pretext by the employer such that the plaintiff could carry her ultimate burden of persuasion before a jury. Accordingly, the district court granted summary judgment to Old Dominion.

On appeal, Old Dominion argued that the plaintiff had been terminated in accordance with its sex-neutral policy regarding PATs for employees. Old Dominion asserted that it required an injured employee to take the PAT in a situation where he or she received a less than full release to return to work by the treating physician. The Fourth Circuit acknowledged that, as stated, this was a neutral and legitimate business policy. However, the court carefully examined the application of this policy. For example, no formal or written policy existed. In addition, many Old Dominion employees had never heard of any such informal policy. The court also carefully analyzed the plaintiff's evidence that the policy was inconsistently applied. Two male employees with seemingly more serious injuries than the plaintiff were permitted to return to work without taking the PAT. The first employee underwent a hernia operation and was released to return to work at light duty after six months. The second employee sustained a shoulder injury and was required to undergo a functional capacity evaluation but not a PAT. The functional capacity evaluation specifically tested the employee's shoulder strength and mobility following his injury. In contrast, the plaintiff was out of work for only about three months and required to undergo a PAT before returning to work despite a full duty release from her doctor.

Overall, this illustrates the intentional discriminatory behavior by Old Dominion Freight Line.

Question 3: What could the company have done to eliminate sex discrimination problems if there are any? The organization should have provided its management with anti-discrimination training, which would likely have resulted in Old Dominion adopting the appropriate measures and policies to avoid such situations. In addition, a functioning HR department should have monitored not only the organization's compliance with non-discriminatory hiring practices, specifically the maintenance of the organization's adherence to the $4/5^{th}$ rule in selection (The instructor should discuss the appropriate application of the $4/5^{th}$ rule at this point). Further, HR should have managed the return of an injured employee and ensured consistent and fair application of company policy when reinstating the injured employee. This also means that a formal written policy should have existed requiring a PAT and that all employees requesting reinstatement after injury be required to perform the PAT. Inconsistent application of company policy represents a significant risk of litigation.

Case 2:

Question 1: Is there a prima facie case of discrimination? Yes, at least if you use a layman's version of "prima facie" (On the face) discrimination, there were two guards involved, one a Hispanic female, and the other a while male. The Hispanic female was fired, and the white male was given a one day suspension and a reprimand. However, to meet the legal definition, of prima facie, it must appear, on the face that the REASON for the outcome was discrimination.

Question 2: Do you think the employee has a winnable case of sex discrimination? In order to win this case, the employee has to prove the prima facie case to the legal definition. The county said, in their closing arguments, which Martinez whole argument amounted to "a male was not fired and she was." And that they had no proof beyond that to indicate that the alternate, non-discriminatory reason given by the county was not the true reason. Potter County won this case in a jury trial, and Martinez lawyer indicated they would not appeal.

Question 3: What could the company have done to eliminate sex discrimination problems if there are any? Potter County alleged that Ms. Martinez' overall performance prior to the escape was "marginal (Gamm, 2010). Well documented written records of all past occurrences, and accurate, detailed performance evaluations help make this type of case more easily defensible. In this case, the sufficiency of the records was never tested, because the Plaintiff failed to make the prima facie case. Also, it is always a good plan for any management personnel to keep a diary of daily events, documenting any rule violations, performance deficiencies or other problems when they occur. Lastly, providing employees with training regarding discrimination, and discrimination law, is a good way to minimize problems of this sort.

Case 3:

Question 1: Could either party (Oakstone or Philbrook) establish a prima facie case of sex discrimination? A *prima facie* case of sex discrimination requires the following: (1) membership in a protected group; (2) qualification for the job in question; (3) an adverse employment action; and, (4) the position remained open or was filled by a person with similar qualifications. In this case, Mr. Oakstone has clearly demonstrated the first three criteria: (1) he is male; (2) he is qualified for the expediter position; and, (3) he has been denied training. He has also alleged that females who were junior to him have been given the expediter work he has been denied, citing specific examples. These allegations, viewed in a light most favorable to Mr. Oakstone, sustain his burden of demonstrating a *prima facie* case on this issue.

Question 2: Did sexual harassment occur? There is no substantiated claim of harassment. Philbrook claimed Oakstone harassed her and an investigation showed this was not the case. Oakstone never accused Philbrook of harassment.

Question 3: What, if anything, could the company have done prior to prevent this situation? Document prior history etc. Prevention. Progressive discipline.

Question 4: What, if anything, could the company have done to manage the situation better?

Management failed to intervene in the presence of emotional instability issues which continued over time and multiple occurrences involving several people.

Additional discussion issue: In the discussion of this particular case, students may be interested in what they could do if they are wrongly accused as happened to Mr. Oakstone in this case. Options could include internally working with HR, with the goal of getting Ms. Philbrook reprimanded or fired for the act of defamation against Mr. Oakstone. Additionally, Mr. Oakstone could pursue legal charges of slander or libel against Ms. Philbrook, for both her oral and written statements against Mr. Oakstone. These would be civil proceedings, in which Mr. Oakstone, or his legal representation, would ask the court to award monetary damages for the loss of income and damage to his professional reputation. They may also seek what is called “punitive damages” which can exceed actual damages and are intended to punish the defamer for the actions. Since Mr. Oakstone also lost his job and demoted to a lower post, he can file charges against his employer under Title VII of the Civil Rights Act.

The rubric below may be used to grade the case analysis, whether done in class or in a written format. The instructor may choose to distribute the rubric to students prior to solving the case.

Criterion	Exceeds Expectations	Meets expectations	Does not meet expectations
Identification of prima facie claim	Clearly articulates whether the case presents sufficient cause to support the prima facie case and identifies the specific reasons correctly.	Correctly identifies whether or not the situation meets the standard for a prima facie case, but may have some details wrong or unclear.	Incorrectly identifies whether the prima facie case is met.
Analysis of discrimination claim	Correctly identifies whether the case would be found to be discriminatory in court, and identifies the correct reasons or defenses that would cause that finding.	Correctly identifies whether the case would be found discriminatory, but may have incomplete analysis of reasons or some wrong details.	Incorrectly identifies the likely outcome of the issue in court.
Recommendations	Makes clear and appropriate recommendations as to what the company could have or should do differently to correct any problem.	Makes recommendations that are generally appropriate for the company to apply, but may not be fully articulated or detailed.	Fails to make recommendations or makes inappropriate suggestions for change.

A CHAIRMAN'S DILEMMA: SELECTNG A POST -ACQUISITION HEADQUARTERS

JoAnne O. Martinez, Pace University
Julia Eisenberg, Pace University
Alan Eisner, Pace University

CASE DESCRIPTION

The primary subject matter of this case concerns strategic management. Secondary issues examined include: Top Management Team (TMT), corporate strategy, geographical dispersion, mergers and acquisitions, organizational design, organizational change, and Resource Based View (RBV). The case has a difficulty level appropriate for advanced undergraduate and all graduate levels. The case is designed to be taught in one class hour and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

The case focuses on analyzing EatUp, which was a privately held, business to business (B2B), high margin, craft food producer with two sites. After 20 years of private ownership it was cash strapped and in need of capital improvements. It was sold to EQFunds, a private equity firm whose goal was to increase value and to sell the company in about 5 years for a profit.
At the time of sale to EQFunds, EatUp had five Top Management Team (TMT) members, only two of which remained after the change in ownership. EQFunds immediately appointed five new TMT members including a Chairman. None of them lived near either of EatUp's sites. The new Chairman was faced with increasing the value of the company with a geographically dispersed TMT and an existing headquarters (HQ) site that was physically unattractive and of inadequate size to house the infrastructure required for the new growth strategy. His goal of increasing the value of the company necessitated larger office space for the required staff and a convenient location for the TMT to meet. He made an executive decision to search for a new HQ. The Chairman undertook a search for a new HQ, with five possible locations considered. He also pondered his alternatives to get the five remote TMT members to work from the same HQ. Where should the Chairman place the new HQ? How does the Chairman accommodate and manage his remote TMT to create the most synergy and value?

INSTRUCTOR'S NOTES

CASE OBJECTIVES AND USE

This case is based on a firsthand experience of one of the TMT members and is primarily intended for use in courses that focus on business strategy with particular focus on organizational design, resource allocation and executive leadership. It can be used to illustrate how strategic choices about the location of the HQ have far-reaching consequences throughout the firm, from affecting cost basis and profitability, to influencing several different stakeholders. Due to the short nature of the case, we recommend that it be used for a one-hour class. Since there are multiple issues weighing in on this case, it may be helpful to distribute the case and discussion questions to the students ahead of the class to facilitate their understanding. It may also be helpful to share some of the articles provided in our references section that reinforce relevant concepts (Edmondson, Roberto, Watkins, 2003; Grant, 1991; Wernerfelt, 1984).

To facilitate discussions, this case demonstrates the importance of analyzing multiple constraints associated with managing a large geographically distributed organization.

1. Post-acquisition, EatUp's Chairman must strategically balance costs and benefits for each alternate HQ location and alternative methods of achieving TMT face-to-face interaction. His decision-making criterion are in the case: Tables 1, 2, 3, 4 and 5.

2. Students get the opportunity to analyze factors negatively affecting *competitive advantage* related to levels of TMT collaboration that depend on organizational structure. Organizational design is an important consideration for strategy execution (Powell, 1992; Nielson, Gil, Martin, & Powers, 2009) and it was prioritized by the Chairman of EatUp, highlighted by the importance he placed on selecting the new HQ location.

3. The creation of a centralized HQ location to facilitate collaboration is one of Chairman's priorities for multiple reasons such as:

A. To access each other's expertise and facilitate knowledge sharing, the company needs to create an environment where TMT can collaborate face-to-face, at least part of the time. Given the multiple challenges associated with collaborating across distance and time in geographically distributed settings (Gilson, Maynard, Jones Young, Vartiainen, & Hakonen, 2015), it is crucial that the Chairman can find a way for the TMT members to effectively work together in the new HQ.

B. The *Resource Based View* (Barney, 1991; Wernerfelt, 1984) is exemplified by the need to balance the important firm resources such as the location of its facilities to enable effective TMT collaboration, in turn increasing their ability to set a clear vision for the company, creating value by setting strategic plans.

In sum, this case provides students an opportunity to act as the Chairman of EatUp and thus focus on learning goals to *identify, analyze, evaluate, as well as prioritize* the company's resources as part of the organizational design in making a decision about the optimal HQ location and how to accommodate the geographically remote TMT. Multiple constraints associated with the Chairman's decision add a level of complexity that reflects the multifaceted nature of decision making in today's organizations.

Intended courses and levels

The issues examined in this case make it a good fit for advanced undergraduate or graduate level strategy courses. The case provides a unique insider's view into the complex and often messy real world of what companies deal with post-acquisition, having to deal with multiple constraints associated with choosing a new HQ location.

Teaching Suggestions

This short case is best presented as part of discussion that exemplifies what some companies go through after an acquisition. The case can be presented both as part of a "flip the classroom" approach, where it is assigned as homework so that the students can discuss their solutions in small groups once in class and come up with the best combined solution to be presented to the rest of the class. Alternatively, due to the short length of the case, it can even be assigned to students to be read during class time and then discussed in small groups but covering fewer discussion questions.

We recommend the "flipped classroom" approach and utilizing the case for a one hour in class case discussion, using the discussion questions we have included. As mentioned in the Case Objectives and Use section above, students may benefit from getting additional background knowledge about TMT, RBV, and strategy development, by reading some of the articles provided in our references section and in particular: Edmondson, Roberto, Watkins, 2003; Grant, 1991; Wernerfelt, 1984.

Regardless of the way the students read and prep for the case discussion (i.e. in class or at home), we find that one of the best ways to use the case is to separate the students into small groups and have them role play the geographically dispersed TMT. The students can think through issues that are likely to arise as they try to make a difference in their organization while being constrained by the organizational dispersion, affecting their ability to collaborate on an effective strategic direction.

To facilitate students' study, instructors can guide them using the "Discussion Questions." These suggested questions are aimed at creating a structured approach to the discussion of the case and to facilitate students' *analysis* and application of the *learning goals* to the theories and concepts from class covered in this case. We believe the EatUp case provides an opportunity for the students to analyze the extent to which an acquisition changes organizational strategic priorities in response to changes in the internal and external environment, requiring analysis and re-evaluation of the status quo.

LEARNING OBJECTIVES

Our major aim for this case is to help students develop key skills associated with organizational management of contemporary organizations by exposing them to a real problem faced by a company's new Chairman after acquisition. First, we present an opportunity for students to develop competency-based recommendations that they could defend based on concepts they are learning as part of their coursework, facilitating their critical thinking and analysis skills. Second, we present students with an opportunity to see how class-based concepts can be transferrable to an organizational environment so that they will be able to continue applying these concepts to future situations they face. The unique TMT member's "insider's view" associated with this case can help students get a better understanding of some of the multifaceted issues faced by organizational leaders.

Learning objectives:

Analyzing key inputs and factors influencing Chairman's decision about the new HQ location. Specifically, by taking on the role of the Chairman, students have an opportunity to analyze the various constraints and resources and **make a decision** that will have far-reaching consequences for the TMT and company's performance.

Evaluating alternative locations for the HQ and their respective constraints, weighing pros and cons of each one.

Creating value through choosing a strategic location for the new HQ as well as by facilitating collaboration and cross-functional leadership among the TMT members.

Applying theory and practice-based knowledge from coursework to support the decision about the new HQ location focusing on considerations such as considering various organizational designs to accommodate the remote TMT to work together face-to-face without relocation and to help maximize their synergies and value they bring to the firm.

LINKAGE TO CONCEPTS AND THEORIES

This case may be used in conjunction with and to reinforce the following theories.

Organizational design – functional organizational structure

EatUp has a functional structure, where major functions are grouped, allowing them to concentrate on their areas of expertise but at the expense of experiencing difficulties associated with coordination and integration (Ford, Randolph, 1992). Functional structure is typical for EatUp type of business, characterized by closely related products that are made in high volumes. As expected, there is some vertical integration given the growth the firm experienced over the last decade. This type of structure provides them with the necessary level of centralization and control over primary bus1ess focused activities. The Chairman strongly believes in the importance of frequent face-to-face exchanges among the TMT members, as part of their functional structure because the decision making is centralized at the top of the organization, across the functional areas. The strategy of EatUp relies on TMT's ability to share knowledge and cross-functional expertise. However, differences in approaches across the cross-functional TMTs may potentially lead to isolated and bounded organizational units separated not just by functional but also by geographical boundaries. In such settings, TMT may experience higher levels of disagreements (Schein, 1996), highlighting the priority of choosing a unified central HQ for the TMT to work from.

Resource based theory (RBV)

By applying the RBV theory (Barney, 1991; Wernerfelt, 1984) to EatUp, students can examine firm resources such as location of its facilities and offices, TMT expertise and core competency, and TMT members' knowledge sharing. In particular, knowledge sharing has been connected to value creation (Prahalad and Hamel, 1990) and strategy (Grant, 1991). Applying theory to EatUp's case, students could act as the Chairman and identify, analyze and evaluate EatUp's resources post-acquisition, rank them in order of priority and suggest the priority rank of the HQ location.

Strategy

Grant highlighted the importance of linking strategy of an organization to its resources (Grant, 1991). TMT members who collaborate by working closely together can be more effective in formulating a successful competitive strategy. In evaluating the HQ location alternatives, the students should focus on figuring out which organizational design and its associated location would most likely contribute to TMT members' ability to increase EatUp's competitive advantage. This approach reflects Chairman's priorities and will be most important in influencing his decision about the new HQ.

Top management team (TMT)

Although 4 of the 5 new TMT members including the Chairman knew each other from previous business relationships, they had not worked together remotely. Thus, all the issues that commonly plague virtual team members, are likely to cause problems for EatUp's TMT in terms of diminished quality to communication and collaboration, among other issues. These problems may be particularly salient for a newly formed TMT composed of new as well as heritage company's members. For example, it has been suggested that since it is not really feasible for TMT members to process large amounts of information about various aspects of their company, they rely on knowledge about each other's actions (Rico, R., Sánchez-Manzanares, M., Gil, F., and Gibson, C., 2008). However, such knowledge may be very difficult to acquire in dispersed settings. These factors would influence the effectiveness of the TMT (Cohen & Bailey, 1997). Examining the constraints related to not having an optimal HQ, further exacerbated by TMT who could not effectively collaborate due to their geographical dispersion is an opportunity for students to focus on analysis of alternatives to create *value* by acting as the Chairman in choosing the new HQ location.

DISCUSSION QUESTIONS

Note to instructor: *Below is a list of general discussion questions suggested for the class. Depending on the level of the class, questions may be assigned, to the class or to groups. Additional readings or exercises enhance group finding may be provided. Some of the questions are general in nature while other are specific to TMT groups and value creation.*

1. What type of organizational structure did EatUp have pre-acquisition and post-acquisition?

2. What are the advantages & disadvantages of EatUp's functional organizational structure and what influence did it have on the Chairman's HQ decision?

3. Given EatUp's functional organizational structure, how do the Chairman and the TMT create value and competitive advantage?

4. What could be the potential negative effects of a remote TMT?

5. Identify the resources Chairman Growth had to achieve his strategy of exponential growth and sale of the company in 5 years.

6. What is the most important strategic competitive advantage a new HQ location would provide EatUp?

7. Assess the importance of an HQ environment (physical surroundings, location, etc.) as a company resource for internal and external stakeholders.

8. What factors will influence the importance of locating HQ in an area with a strong industry presence?

9. Put yourself in the chairman's shoes. Having considered all influencing factors, which location should the Chairman choose for the HQ?

10. If the existing HQ could house the TMT as well as supporting staff, what other priorities would the Chairman have?

DISCUSSION QUESTIONS WITH ANSWERS

1. What type of organizational structure did EatUp have pre-acquisition and post-acquisition?

EatUp had a functional organizational structure pre-acquisition as described in EatUp's organization chart in Figure 1 in the case where the major functions of EatUp are grouped. A functional structure is typical of firms such as EatUp where there is high volume, related products.

The new Chairman maintained the functional organization of EatUp. However, he replaced most of the TMT members suggesting the organizational structure was right for EatUp but most of the TMT were not acceptable.

Figure1 in the case describes the structure of EatUp and the TMT. Management and Strategy textbooks describe different types of organizational structure (example: Dess et al, 2010, chapter 10).

2. What are the advantages & disadvantages of EatUp's functional organizational structure and what influence did it have on the Chairman's HQ decision?

Major advantages of the functional structure include centralization of decision making, cross-functional perspectives, and centralization and control over an organization's primary business activities. Centralization of functional leadership provides the most efficient use of executive time in terms of managerial interactions and supervision of each function. Centralization of functions allows for cross-functional perspectives rather than narrow, siloed perspectives. There is control over each function in a specific department enabling coordination of the specialists within the function. Additionally, training and development of specialized talent within each function is facilitated.

The major disadvantage of the functional organization is the possibility of each function becoming isolated and siloed thereby, hindering communication with other functions. Each function may also develop its own culture and vernacular resulting in different meanings for the same words. Siloed functions may act in the short-term interest of the function as opposed to the best interests of the organization as a whole. Additionally, conflicts may consume too much executive time since they tend to gain attention in a centralized environment. Difficulty in achieving standard performance criterion may also be difficult in a centralized functional organization due to the numerous specific functions housed there.

Chairman Growth was a firm believer in the advantages of the functional structure – specifically, cross-functionality, creating value. The Introduction of the case states, "The new Chairman strongly believed that telecommuting was not an option for executive personnel whom he considered his greatest resource for value creation." He strongly believed in the importance of frequent face-to-face exchanges among the TMT members, as part of their functional structure because the decision making is centralized at the top of the organization, across the functional areas. Thus, his decision making regarding the HQ took into consideration the location that would maximize the TMT's time together face-to-face. The case states, "The Chairman could now decide where the HQ should be located and how to maximize collaboration of the largely remote TMT" in the Priorities section.

3. Given EatUp's functional organizational structure, how do the Chairman and the TMT create value and competitive advantage?

Aligning company strategy to company resources creates competitive advantage (Grant, 1991). The Chairman was convinced that TMT cross-functional interaction created value.

Specifically, value creation occurred when TMT members meet regularly in-person and interact in-person regularly in an open environment. Prahalad and Hamel (1980) suggest that value is created by knowledge sharing. Each TMT member had a voice in what the organization should and should not do. Important actions were fully discussed at face-to-face TMT meetings where each had his/her individual perspective that created a full vision of the intended action and how to maximize the opportunity. Thus, the Chairman aligned the company's strategy to create value with its resources of the TMT and location. The "Introduction" contains insight into the Chairman's beliefs: "The new Chairman strongly believed that telecommuting was not an option for executive personnel."

4. What could be the potential negative effects of a remote TMT?

Knowledge sharing, coordination of expertise, integration of control, communication and collaboration, could all suffer as a result of a geographically dispersed or remote TMT team. In addition, TMT members rely on information about each other's actions to gain knowledge (Rico, R., Sánchez-Manzanares, M., Gil, F., and Gibson, C., 2008). Such knowledge can create value (Prahalad and Hamel, 1990). This may be very difficult in a dispersed setting affecting the TMT effectiveness (Cohen & Bailey, 1997) and process (Edmundson, 2003). Lack of face-to-face interaction can also create leadership challenges (Gilson, Maynard, Jones Young, Vartiainen, & Hakonen, 2015; Hoch & Kozlowski, 2014; Johns & Gratton, 2013) particularly for teams focused on complex tasks, such as a TMT. These issues may be particularly exacerbated for heritage TMT members.

TMT members working remotely do not have the advantages of opportunistic cross-functional interactions on site, at lunch, etc. and at scheduled meetings. Remote interactions are more transactional and lack the synergies created face-to-face. The Chairman considered TMT members an executive resource whose primary function in this case was to create value, not merely managerial transactions. Thus, working remotely they were not creating sufficient value and thus were an underutilized resource in the mind of the Chairman. The TMT itself agreed with the Chairman's beliefs. The last paragraph on page 4 of the case discusses the Chairman's reasons for face-to-face collaboration. "First, important cross-functional TMT interactions were not as robust or as frequent as he wanted or as he had experienced in the previous venture. Working remotely, interactions were somewhat cross-functional but the TMT seemed to be spending too much time on task-oriented transactions. The company was improving rapidly but Mr. Growth, as well as the new TMT members, realized it could be exponential if the team was working physically together. All recognized the value they were creating, while far above any competitive standards, was not as high as they knew they were capable of in a face-to-face environment."

5. Identify the resources Chairman Growth had to achieve his strategy of exponential growth and sale of the company in 5 years.

Strategic management literature discusses firm resources several ways. One perspective suggests three classifications: organizational, physical/financial, and human. Another perspective suggests differentiating tangible from intangible resources as well as from organizational capabilities to combine these resources using organizational processes as part of a strategy to attain a sustainable competitive advantage (Barney, 1991; Barney, Wright & Ketchen Jr., 2001; Grant, 1991; Sirmon, Hitt, & Ireland, 2007; Newbert, 2007). Using the first definition, organizational resources can be EatUp's functional structure; its plants and locations would be its physical resources, its ownership's financial strength would be its financial resources and its TMT would be its major human resource. Utilizing the second discussion, tangible resources would include the physical plants and its financial strength while the TMT and attractive HQ location would be intangible resources.

6. What is the most important strategic competitive advantage a new HQ location would provide EatUp?

Having a physical location for the TMT to meet and interact face-to-face is the largest competitive advantage. Such face-to-face collaboration results in knowledge creation that creates value (Prahalad and Hamel, 1990).

The first paragraph on page 5 of the case describes TMT results, "All recognized the value they were creating, while far above any competitive standards, was not as high as they knew they were capable of in a face-to-face environment."

The RBV considers resources to be valuable, inimitable, rare and non-substitutable (Barney, 1991). Resources should be linked to a firm's strategy to create competitive advantage (Grant, 1991). It is a given that the Chairman views his TMT as a value creating resource. Thus, a new HQ location's greatest contribution would be to facilitate TMT collaboration to create value.

7. Assess the importance of an HQ environment (physical surroundings, location, etc.) as a company resource for internal and external stakeholders.

An HQ location may have tangible as well as intangible resources for the company. A physically attractive and comfortable office environment provides tangible resources to the company in attracting and maintaining talent, an internal resource: Location in an industry rich area that is appealing to internal and external stakeholders as a place to work and meet can be successful if not exceeded by that offered by competitors. An HQ environment and location are often very important to internal stakeholders such as employees and investors as well as potential employees. Location appeal can be an intangible resource that often determines the extent of visits from external stakeholders such as customers, vendors, agents, etc. Refer to the information in Table 2 in the case to review the criterion for the HQ location and determine which could be considered tangible versus intangible resources.

8. What factors will influence the importance of locating HQ in an area with a strong industry presence?

Chairman Growth felt the right location would serve as a company resource and give EatUp a competitive advantage. It can be critical to having access to a local workforce that is in the industry and is industry savvy. This gives an organization more industry specific talent as well as insights into the industry and competitive practices.

The first paragraph on page 6 states "Particular attention was given to the NY Metro area and a major city in Florida where EatUp's industry had a strong presence" and "South with a strong presence in the Southern Florida city with a wealth of industry personnel." Thus, TMT convenience and industry presence were top of mind in Chairman Growth's thoughts about the new HQ location.

Barney (1991) discusses the importance of value creating resources while Grant (1991) discusses the importance of aligning a company's strategy with its resources. EatUp's strategy to create exceptional value and to sell the company in 5 years required aligning all resources to this strategy. Thus, locating in an industry rich environment would help create such alignment.

9. Put yourself in the Chairman's shoes. Having considered all influencing factors, which location should the Chairman choose for the HQ?

The Chairman should choose the location that would best position the company to achieve its strategic plan for an exit strategy within the 5-year goal with maximum value creation. He is convinced this involves having his proven TMT team meet face-to-face. The Chairman should choose the alternative that fits his priorities and achieves his goals of face-to-face TMT interaction at an acceptable cost while not requiring the TMT to relocate.

Although this case is somewhat messy, the order of decision making was addressing influencing factors below:

1. Decide on HQ location criterion and their importance
2.Identify possible locations
3. Look at costs to be sure they were acceptable for the expected value creation
4.Look at tax situation from a company and personal point of view for finalist sites. Students should research personal and corporate tax rates for the alternative locations.
5. Identify any other added plusses (or minuses) for the finalist sites

The Chairman summed-up his thoughts regarding the alternative sites as they fit his criterion in Table 5 in the case.

It was apparent that only three sites met the priority location criterion. Now, students acting as the Chairman can decide which of the three sites was optimal.

Students can be asked to review the below on-going costs in Table IN1 of the three alternative sites. (One-time costs of moving and furnishing would not be considered since they would be a one-time expense only.) Please note the Chairman decided the residence option versus hotels would be utilized at whatever new HQ site was selected. This was due to his aim to minimize costs of hotels. On-going costs are summarized below.

Table IN1 SELECTING A POST ACQUISITION HEADQUARTERS On-going Costs			
On-going Cost Category	**NYC (Manhattan))**	**NY Metro (Tri-State Area of NY-NJ - CT)**	**Major Southern FL City**
TMT residence option	$ 174,000	$ 162,000	$ 352,000
Annual Rent For 10K Sq. ft.	$ 500,000	$ 400,000	$ 370,000
Related Costs at 5% of rent	$ 25,000	$ 20,000	$ 18,500
TOTAL	$ 699,000	$ 582,000	$ 740,500

Having evaluated the on-going costs, the Chairman decided they were not significantly different for EatUp

In his decision-making process, the chairman then looked at the following factors regarding taxation and any other beneficial characteristics of the finalist sites:

- NYC and NY Metro had the most onerous corporate and personal income taxes (students should research corporate and personal income tax rates)
- FL had low corporate and no personal income tax, so FL was attractive taxwise
- The major Southern FL city also had large industry presence whereas NYC and NY Metro area did not

FL's low corporate and no personal income tax coupled with the strong industry presence, made the major city in Southern FL the Chairman's HQ choice.

The above describes how the Chairman made his decision and the financial information he utilized. It shows what his priorities were. He put the location criterion and apparently the convenience of his TMT ahead of tax issues, which were only addressed after finalist sites were identified. Students can discuss if they would have done the same or if the TMT in-person interactions would be their primary concern for value creation.

10. If the existing HQ could house the TMT as well as supporting staff, what other priorities would the Chairman have?

The Chairman's immediate priority would most likely be getting the remote TMT face-to-face. His next priority might be improving the HQ physical attractiveness and then upgrading and adding to the support staff. Refer to Table 2 from the case for the Chairman's key criterion and determine which would not be present if the existing location could serve as the HQ.

THEORECTICAL LINKAGES FOR THE DISCUSSION QUESTIONS

Table IN2 provides a summary for each of the discussion questions, linking them to particular theories and concepts, listing additional suggested readings, specifying learning goals and including a reference to the case where relevant information is included.

Table IN2
SELECTING A POST-ACQUISITION HEADQUARTERS
Theoretical linkages and associated readings

General Discussion Questions	Strategic Theory or Model	Exercises & Additional Suggested Readings	Associated Learning Goals	Case Reference
1. What type of organizational structure did EatUp have pre-acquisition and post-acquisition?	Organizational structure	Have students determine EatUp's structure before and after the acquisition and determine if it changed. Fredrickson, 1986	Analyze: students analyze EatUp's organizational structure	Reference Figure 1 of the case, the organization chart.
2. What are the advantages & disadvantages of EatUp's functional organizational structure and what influence did it have on the Chairman's HQ decision?	Organizational structure	Have students identify the advantages & disadvantages of a functional structure and apply them to the Chairman's decision-making process. Ford & Randolph, 1992; Schein, 1996	Advantages & disadvantages of functional structure and how structure can influence an organization	Refer to the case Introduction.
Given EatUp's functional organizational structure, how do the Chairman and the TMT create value and competitive advantage?	TMT Team theory	Discuss creating value by TMT collaborative interactions. Grant, 1991 Prahalad & Hamel, 1990	Apply theory: Students should demonstrate their understanding of the importance of a unified firm strategy resulting from TMT members having face-to-face discussions, working closely together and reaching consensus	The Introduction contains insight into the Chairman's beliefs. The first paragraph on page 5 of the case contains insights into face-to-face opportunistic value creation for discussion.
4. What could be the potential negative effects of a remote TMT?	TMT team theory Virtual team theory	Students may be asked to identify negative effects of geographically dispersed TMT teams. Rico et al., 2008 Cohen & Bailey, 1997 Prahalad and Hamel, 1990 Edmundson, 2003	Apply theory/ Analyze: Students need to understand TMT teams	In the case, the section "TMT Collaboration" under Post-Purchase discusses the Chairman's reasons for face-to-face collaboration.

		Johns & Gratton, 2013 Hoch & Kozlowski, 2014 Gilson, Maynard, Young, Vartiainen & Hakonen, 2015		
5. Identify the tangible and intangible resources Chairman Growth had to achieve his strategy of exponential growth and sale of the company in 5 years.	Resource based view of competitive advantage; Tangible vs. Intangible Resources	Students classify resources: tangible and intangible; students can also classify resources as organizational, physical/financial, and human Barney, Wright, & Ketchen Jr., 2001	Students analyze the type of resources EatUp had and which were the most important for the strategic goal	The case contains available resources for classification.
6. What is the most important strategic competitive advantage a new HQ location would provide EatUp?	Resource based view of competitive advantage	Students may be asked to identify key EatUp advantages provided by a new HQ Barney, 1991, Firm resources & sustained competitive advantage; Grant, 1991, Resource-based theory of competitive advantage; Prahalad & Hamel, 1990	Apply theory / Analyze: Students need to be able to understand various resources as sources of competitive advantage for EatUp	First paragraph on page 5 of the case describes TMT results.
7. Assess the importance of an HQ environment (physical surroundings, location, etc.) as a company resource for internal and external stakeholders.	Resource based view of competitive advantage	Students differentiate between HQ's tangible and intangible resources, what an HQ means to internal stakeholders such as employees versus what it represents to external stakeholders such as customers, vendors, agents, etc. Barney, Wright, & Ketchen Jr., 2001	Analyze: Students should assess the tangible and intangible value a well selected HQ location will bring (e.g., centrally located for easy access by various stakeholders)	Table 2 of the case contains criterion for a new HQ location. Students could role-play internal and external stakeholders and express respective points of view.
8. What factors will influence the importance of locating HQ in an area with a strong food industry presence?	Resource based view of competitive advantage	Have students identify resources specifically available where food industry has presence. Barney, 1991 Grant, 1991	Applying theory: using resource-based view, students should be able to identify reasons why finding an optimal location will be important for the firm's strategic direction	Refer to first paragraph on page 6 of the case.

9.Put yourself in the Chairman's shoes. Having considered all influencing factors, which location should the Chairman choose for the HQ?	Resource based view of competitive advantage	Students may be asked to identify factors supporting each alternative in light of providing EatUp the maximum competitive advantage	Analyze, Evaluate, Create Value, and Apply Theory: Students should discuss the Chairman's decision-making process and his priorities.	Tables 1,2,3 and 4 of the case contain the information the Chairman utilized for making his decision.
10. If the existing HQ could house the TMT as well as supporting staff, what other priorities would the Chairman have?	Internal resources & capabilities, resource-based view of the firm	Students may be asked to identify available resources assuming the existing HQ would remain HQ	Apply theory / Analyze: Students need to be able to understand the various sources of competitive advantage or disadvantage for EatUp for the resources discussed in this case	Refer to Table 2 of the case and discuss if the Chairman's priorities would change.

RESEARCH METHODOLOGY

One of the case authors has access to the Chairman of the company and the data involved in this case. The case is based on extensive first-hand experience with the decision described here. With the permission of the Chairman, the case could be used only if the name of the company and its employees were not disclosed. The issues surrounding the management of the company after the acquisition present a unique opportunity for students to have a close-up view into the often-hidden set of issue that are frequently experienced by companies.

EPILOGUE

What did the Chairman do?

EatUp decided to establish its new HQ in the major Southern Florida city that met all of the criterion in the case's Table 2 and had industry presence. It was also one of the lowest costs for corporate taxes and had no state personal income tax. The five remote TMT were provided with apartments within walking distance of the HQ site and were expected to be present at HQ three full days per week unless traveling on company business elsewhere. The two heritage TMT members remained at the Western site and travelled to the new HQ as needed. The new HQ was built out in an open office system where all employees including the TMT sat together. New employees were hired to fill all HQ positions.

In the two fiscal years following the HQ move, the TMT met in-person weekly in formal as well as informal meetings. The collaboration resulted in Earnings before interest, tax, depreciation and amortization (EBITDA) being increased by 50% each year. The Chairman considered this performance successful and attributed it to the TMT creating value by acting cross functionally not only in formal meetings but in informal communication in-person.

APPENDIX

I. Additional Activities

A. The students can explore the Cost of Business as well as Organizational Design angle. Specifically, students can be asked to compare the respective tax cost basis across the multiple location alternatives outlined in Table 3 of the case. Students can look up personal income and corporate tax information on the web (Example: Google search "maximum personal income tax by state" As well as "company tax rates by states". Sample website: http://www.tax-rates.org/ Income tax by state: http://www.tax-rates.org/taxtables/income-tax-by-state Look up "Income Taxes" – personal tax rates; "Corporate Taxes" – taxes EatUp would need to pay to have its HQ in a particular state.

B. The students may be asked to come up with a plan for how the Chairman, having made his decision about the new HQ location, should present it to the TMT to get them onboard his plan.

C. For more advanced classes of students, consider the devil's advocate perspective - what if the all of the new TMT does not relocate to one central HQ location? In what conditions would that be a more lucrative alternative? Virtual teams are associated with increased ability of team members to have social capital and wider networks, due to their embeddedness in a greater variety of environmental contexts (Maznevski & Athanassiou, 2003). By uniting everyone in one location, this benefit will be lost.

Popular textbooks that this case can be used with include:

Strategy:

- Wheelan and Hunger's *Strategic Management and Business Policy*
- David's *Strategic Management: Concepts*
- Hitt, Ireland and Hoskisson's *Strategic Management: Competitiveness and Globalization*
- Dess, Lumpkin, Eisner, McNamara's *Strategic Management: Creating Competitive Advantages*
- Grant's *Contemporary Strategy Analysis: Concepts, Techniques, Applications*, the chapter regarding industry analysis, and chapters on resources, capabilities and organizational structural decisions.

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ENTREPRENEURSHIP EXPERIENTIAL EDUCATION TEACHING CASE: THE $20 BUSINESS EXERCISE TEACHING NOTE

Ron Duggins - University of Central Arkansas
Dan Fisher - University of Central Arkansas

CASE DESCRIPTION

The best way to learn entrepreneurship and innovation is to do entrepreneurship and innovation. The subject matter of this case concerns experiential education methods in teaching entrepreneurship. It provides students real world experience in a very brief time in many aspects of the startup process. It is not intended to provide a complete entrepreneurial experience, but rather "throws the learner into the pool" to force them to swim. The exercise has a difficulty level of one (freshman) through six (second year graduate) and is best used with students who are beginning to learn about entrepreneurship. The exercise has been effectively used in classes such as New Product Development, New Venture Creation, and Fundamentals of Entrepreneurship. It is also applicable to high school entrepreneurship camps and/or classes. The exercise occurs over a 4 to 5 week period and the work is generally done outside of class. The amount of time for the students varies greatly depending on the size of the student teams (if there is a team) and the level of commitment on the part of the students.

CASE SYNOPSIS

Scott Berkun, in his book, The Myths Of Innovation, says "However, it's often not until people try their own hands at innovation or entrepreneurship that they see past the romance and recognize the challenges for what they are." This statement represents the heart of the $20 Business Assignment. One of the challenges of teaching entrepreneurship is moving the students from a point of learners and knowers to that of doers. It is our conviction that the best way to learn entrepreneurship and innovation is to do entrepreneurship and innovation. This case involves throwing the students into the pool of entrepreneurship to in order to bring a bit of reality and hands on experience to entrepreneurship classes. It quickly moves the students to action and accelerates entrepreneurial learning. The goals of this exercise are as follows:

- *Highlight the importance of problems and opportunities*
- *Force students to make their ideas tangible.*
- *Market quickly and cheaply.*
- *Use constraints to promote creativity and resourcefulness.*
- *Make the lean startup process real.*
- *Separate ideas about entrepreneurship from the reality of entrepreneurship.*
- *Develop presentation and pitching skills.*
- *For students to gain insights about themselves.*

This is a fun and fast-paced activity that is challenging yet not "life or death" in terms of startup failure. It requires the students to reach within and utilize their resources and resourcefulness. Students become highly engaged and internalize the lessons about entrepreneurship from four weeks of active learning. The exercise ends with a pitch of the $20 Business where classmates ask questions and provide feedback. The $20 business activity can also be integrated into other opportunities by preparing students to participate in local 60-second pitch competitions, enter their $20 business ideas into project competitions within schools of business, or modifying the exercise to include use of a makerspace if available.

STUDENT FEEDBACK DATA ON CASE ASSIGNMENT

In order to judge the effectiveness of this experiential exercise, we have begun to collect data from the students on the learning outcomes and insights gained during the exercise. The data is gathered through an online survey utilizing open-ended narrative questions.

The data below is from forty-nine students in a New Product Development and Fundamentals of Entrepreneurship class. The student classification ranged from sophomore to senior students. Thirty-one of the forty-nine students had not studied entrepreneurship before the class in which they did the $20 Business exercise.

When asked about their beliefs about whether or not it was possible to start a business in four weeks 10% said they did not believe it was possible with 90% expressing optimism that it was possible. Of those who said it was not possible the three most common reasons were:

1. Not enough time to get started
2. Needed a detailed plan first
3. Did not know where to start

When asked about what they believed were the most important steps prior to starting the exercise, 24% said it was identifying the problem or business idea. An equal number of students expressed that marketing related steps (22%) and product/prototype development (22%) were the most important steps. Market research and funding were both listed as most important by around 10% respectively.

Additionally, the survey asked about the biggest insights about entrepreneurship gained during the exercise. As one might expect there were a wide range of insights among the students but three areas received 10% to 31% of the student's comments. These were insights into the importance of understanding your market/customer (31%), "just getting started" and prototyping early (20%), and learning from mistakes (10%).

With such a short time frame, we were curious as to where students started the process. The responses fell into the following four broad categories. It is interesting to note that around 67% of the students did not start by talking to customers but rather dove into their product or marketing activities.

1. Worked on product first (39%)
2. Worked on marketing issues first (28%)
3. Sought feedback from experts and/or customers (26%)
4. Worked on team development (2%)

Students were asked about their toughest challenges. This question also had a wide variety of answers, but there were some categories that had at least 10% of students respond around common themes. These were

- Time management (21%)
- Issues related to courage and uncertainty (21%)
- Challenges related to the product/service (17%)
- Customer acceptance/relations issues (15%)
- Marketing. (11%)

In one month's time 75% of the students indicated they made a profit from their company. In this sample of students 20% indicated they did not make a profit while 5% said they broke even.

When asked about what surprised them most during the exercise the majority of students (61%) gave answers related to customer actions and perceptions. This included surprise that customers actually bought from them, but also included how some customer were wary of their product or service. Around 16% said their biggest surprise was that the process was easier than they initially believed it would be.

In terms of the major takeaways from the assignment, the highest number of students pointed to issues of confidence (35%). The most common answer was similar to the statement, "I'm capable of more than I thought!" Another common theme was the role of passion in the process (12%).

When considering the effectiveness of the $20 Business Exercise as a meaningful experiential exercise for entrepreneurship the feedback indicates the stated goals are being directly and indirectly met.

- Highlight the importance of problems and opportunities – Many students pointed out that understanding the problem and talking to customers early was important to success or they indicated that they did not do this enough.
- Force students to make their ideas tangible – The time constraint pushed the students to take action on their idea. One student indicated that they had been thinking about their product idea for five years, but until doing this assignment had not taken any real action.
- Market quickly and cheaply – The time constraint here give the student no option but to do this quickly and the $20 investment creates a bootstrapping environment to be creative with budget advertising.
- Use constraints to promote creativity and resourcefulness – This is a foundational approach to the activity in order to be successful. The statements and presentations of the students clearly show a level of creativity in business ideas as well as making things happen.
- Make the lean startup process real – Many students indicated through their comments and presentations that early testing, prototyping, and customer discovery were important in the process.
- Separate ideas about entrepreneurship from the reality of entrepreneurship – In working with novice entrepreneurs it is important to move them beyond thinking to action and many of the comments indicate that they have a more realistic understanding in terms of customer behavior, time commitment, and level of passion then they did before the exercise.

- Develop presentation and pitching skills – Practically this exercise allows the students to develop and practice these skills and there were many comments in the student feedback related to needing to become better in this area
- For students to gain insights about themselves – The student feedback clearly shows that this exercise give the students a forum for self-reflection, not only in relation their approach to entrepreneurship, but to their wider self as well.

With this feedback and in evaluating the student's projects and presentations we as professors now have targeted areas for discussion and learning in terms of course content. For example, knowing that around two-thirds of the students did not start with customer discovery, but rather with digging into their idea of a solution allows us to address the "what might have been" scenarios with the students. This exercise has become a favorite among our students and the incoming students often comment about looking forward to doing this assignment. We hope that you might find it beneficial and iterate the process for a meaningful experiential exercise with your students. Some meaningful quotes from students about the effectiveness of the program are below:

"I have had this idea for about five years. I have never actually asked anyone what they thought about it or if it could work. I now know my idea could possibly work if I wanted."

"I learned that I just needed to be confident. I didn't think that I could start a business now or possibly ever, but through this process I had to be confident in myself and just get up and get something done. And I did it, I made a profit."

"I learned that my level of passion toward a certain activity seems to determine the level of effort I put forward. When it comes to working on cars, motorcycles, etc. I am very passionate and put forth any and all effort and time needed to get those things running and ready to sell. But, when it came to the tournaments, seeing the lack of interest after the first tournament really put me down and made it difficult for me to continue working. More unsuccessful attempts were made to draw in interest and my excitement faded."

"Through this assignment I learned that by just putting myself out there and trying something outside of my comfort zone, it really helped boost my confidence in coming up with ideas and implementing them. It also taught me that sometimes you don't need to plan every aspect of some things, if you just start doing it you'll get results a lot faster."

"I learned that with determination and a good time management I was able to make more money than expected. There are a lot of opportunities outside that need to be exploited."

"That I have to look at problems a different way, there are always new ways to I improve on what is already out there."

"I learned that I am capable of a lot more than I thought. The most important thing I have gained from this assignment…is to TAKE ACTION! Get off your butt and do something about it."

"I can do anything I put my mind too. I've lived most of my 39 years of life being made to believe that I wasn't responsible in the work it would take to be successful. People I was around didn't question my thoughts, they encouraged my insecurities. This assignment helped me establish new confidence with the eagerness to excel at anything I put a thought too. You helped establish a clear line of accountability, and I own every step of this process. This is the beginning of what the world can expect out of me."

TEACHING NOTE

In this Experiential Teaching Exercise the student will start a business with only $20 to discover, build, and market an idea in around one month's time. The students are required to identify a problem/opportunity, create a solution, and market and sell the product/service within a four-week timeframe. The students only have a budget of $20 in which to carry out these activities. The expressed objective to the students is to "start a business with only $20 to discover, build, and market an idea in around one month's time."

Importance of Constraints

This exercise intentionally introduces what appear to be very challenging constraints into the entrepreneurship process. These constraints push the students to utilize their own resources and resourcefulness in order to overcome these constrains. The constraints also push the students to take quick action. We advise deploying this assignment during the final 4 to 6 weeks of class depending on your own situation. For an accelerated class or a high school class/camp adjustments may be required.

Recommended Timeframe: 4 weeks

In a traditional 16-week course, we recommend giving the students four weeks to work on their $20 businesses. You can utilize the regular final week of the semester or finals week for student presentations depending on the size of the class. Four weeks provides a sense of urgency to work on the project. Research into the responses of students who have done this exercise indicate that around 25% initially do not believe or are unsure that four weeks is enough time. Post exercise analysis indicates that a common surprise is that it was possible to accomplish the assignment.

Capital: $20

The students invest no more than $20 total to get their idea off the ground. If they work on teams the budget remains $20 total, not $20 per person. The $20 budget shows the students that money is often not the barrier that many assume it to be in the startup phase. The small budget also causes the students to tap into their creativity and bootstrapping ability to make things happen. Students can reinvest any profits they make back into the company, but the guidelines state that they can invest no more than $20 to start.

Teams or Individuals?

The activity can be organized around teams of entrepreneurs or with single students. For bigger classes it is recommended to use teams otherwise you may end up with a very large number of projects that practically cannot be presented at the end of the semester. Utilizing teams also introduces the aspects of teamwork that certainly benefits the students. Teams also allow the professor to build the competency of team development into their classes. Students who do the assignment as individuals gain insights into the time required in a startup as well as the importance of managing time.

Pitch Practice

This exercise pairs well with lessons and content about presenting and pitching. In responding to questionnaires about this exercise, many students indicate that one of their major takeaways was their need to enhance their presenting and pitching skills. Additionally, by including the formal pitch as a requirement you as the professor build this competency into your class. There is flexibility how you organize the pitch. You may provide a very structured template for the students to use or give basic guidelines and allow for their creativity. It is recommended to set a strict time limit for the pitch so that the students practice organizing and presenting startup related content.

Written Assignment (Optimal)

Based upon your own situation you can determine if the students should write a formal document about their businesses. Included in this teaching note is and example of a possible written assignments associated with this project. Additional requirements might be a Business Model Canvas or Lean Canvas or another type of written report based upon the need of your class or program. Example: Students will individually write a Startup Whitepaper. It is a formal document, not a printout of the final presentation. The Startup Whitepaper will utilize data that will be in the presentation, but it is written in paragraph and narrative form, not in bullet points. Imagine if one were unable to attend a student's presentation, think about what kind of information would need to be in this document so that others can have a clear understanding of the $20 Business and the student's process and insights. Provide information on the following sections.

- Business idea and why you chose it
- A detail of your product/service
- Customer focus
- Your marketing strategy
- A discussion of the economics of the business with basic financials included
- Your major challenges
- Your 3 biggest insights about entrepreneurship
- Your biggest insight about you

Technical Rules

Based upon your situation you may have additional technical or legal rules you need to highlight. The following two issues have come up in previous uses of this exercise and are suggested as formal requirements due to legal and risk issues.

- Your business cannot involve alcohol
- If you sell food you must abide by local/state Cottage Food/Health Department laws (if applicable)

Assessment

Based upon your situation you may assign assessment requirements as necessary. Assessment should not be based upon whether or not students turned a profit, but rather on what they learned along the way.

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