

Office Depot—operate stores of 16,000 to 20,000 square feet (i.e., large stores compared to the usual office supply stores) and let customers wheel through high-stacked shelves to supermarket-like checkout counters. These chains stress convenience, wide selection, and much lower prices than the typical office supply retailers. They buy directly from manufacturers, such as AAA, bypassing wholesalers like Business Center. It is likely that the growing pressure from these chains is causing Business Center to renew its proposal to buy a file line with its own name. For example, Staples offers its own dealer brand of files and many other types of products.

None of Stasia's other accounts is nearly as effective in retailing as Business Center, which has developed a good reputation in every major city in the country. Business Center's profits have been the highest in the industry. Further, its brands are almost as well-known as those of some key producers—and its expansion plans are aggressive. And now, these plans are being pressured by the fast-growing superstores, which are already knocking out many local stationers.

Stasia is sure that AAA's brands are well entrenched in the market, despite the fact that most available money has been devoted to new-product development rather than promotion of existing brands. But Stasia is concerned that if Business Center brands its own file folders, it will sell them at a discount and may even bring the whole market price level down. Across all the lines of file folders, Stasia is averaging a 35 percent gross margin, but the commonly used file folders sought by Business Center are

averaging only a 20 percent gross margin. And cutting this margin further does not look very attractive to Stasia.

Stasia is not sure whether Business Center will continue to sell AAA's FILEX brand of folders along with Business Center's own file folders if Business Center is able to find a source of supply. Business Center's history has been to sell its own brand and a major brand side by side, especially if the major brand offers high quality and has strong brand recognition.

Stasia is having a really hard time deciding what to do about the existing branding policy. AAA has excess capacity and could easily handle the Business Center business. And she fears that if she turns down this business, Business Center will just go elsewhere and its own brand will cut into AAA's existing sales at Business Center stores. Further, what makes Business Center's offer especially attractive is that AAA's variable manufacturing costs would be quite low in relation to any price charged to Business Center—that is, there are substantial economies of scale, so the extra business could be very profitable—if Stasia doesn't consider the possible impact on the FILEX line. This Business Center business will be easy to get, but it will require a major change in policy, which Stasia will have to sell to Ramon Torres, AAA's president. This may not be easy. Ramon is primarily interested in developing new and better products so the company can avoid the "commodity end of the business."

Evaluate AAA's current strategy. What should Stasia Acosta do about Business Center's offer? Explain.

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Cases

14. Showtime Media

Bob Merita, manager of Showtime Media, is looking for ways to increase profits. But he's turning cautious after the poor results of his last effort during the previous Christmas season. Showtime Media is located along a busy cross-town street about two miles from the downtown of a metropolitan area of 1 million and near a large university. It sells a wide variety of products used for its different types of multimedia presentations. Its lines include high-quality video and digital cameras, color scanners for use with computers, flat-panel monitors, teleprompters and projection equipment, including video-beam overhead projectors, and electronic projectors that produce large-screen versions of computer output. Most of the sales of this specialized equipment are made to area school boards for classroom use, to industry for use in research and sales, and to the university for use in research and instruction.

Showtime Media also offers a good selection of production-quality video media, specialized supplies (such as the large-format acetates used with backlit signs), video and audio editing equipment, and a specialized video editing service. Instead of just duplicating videos on a mass production basis, Showtime Media gives each video editing job individual attention—to add an audio track or incorporate computer graphics as requested by a customer. This service is really appreciated by local firms that need help producing high-quality DVDs—for example, for training or sales applications.

To encourage the school and industrial trade, Showtime Media offers a graphics consultation service. If a customer wants to create a video or computerized presentation, professional advice is readily available. In support of this free service, Showtime Media carries a full line of computer software for multimedia presentations and graphics work. Showtime Media has four full-time store clerks and two outside sales reps. The sales reps call on business firms, attend

trade shows, make presentations for schools, and help both current and potential customers in their use and choice of multimedia materials. Most purchases are delivered by the sales reps or the store's delivery truck. Many repeat orders come in by phone or mail, but e-mail and electronic file exchange have become common.

The people who make most of the over-the-counter purchases are (1) serious amateurs and (2) some professionals who prepare videos or computerized presentation materials on a fee basis. Showtime Media gives price discounts of up to 25 percent off the suggested retail price to customers who buy more than \$2,000 worth of goods per year. Most regular customers qualify for the discount.

In recent years, many amateur photo buffs have purchased digital cameras to capture family pictures. Frequently, the buyer is a computer user who wants to use the computer as a digital darkroom—and the cameras now available make this easy. Showtime Media has not previously offered the lower-priced and lower-quality digital models such buyers commonly want. But Bob knew that lots of such digital cameras were bought and felt that there ought to be a good opportunity to expand sales during the Christmas gift-giving season. Therefore, he planned a special pre-Christmas sale of two of the most popular brands of digital cameras and discounted the prices to competitive discount store levels—about \$129 for one and \$189 for the other. To promote the sale, he posted large signs in the store windows, gave the sale a lot of space on the home page of Showtime's website, and ran ads in a Christmas gift-suggestion edition of the local newspaper. This edition appeared each Wednesday during the four weeks before Christmas. At these prices and with this promotion, Bob hoped to sell at least 100 cameras. However, when the Christmas returns were in, total sales were five cameras. Bob was extremely disappointed with these

results—especially because trade experts suggested that sales of digital cameras in those price and quality ranges were up 300 percent over last year—during the Christmas selling season.

Evaluate what Showtime Media is doing and what happened with the special promotion. What should Bob Merita do to increase sales and profits?

15. The Buckeye Group

Theresa Campana, owner of The Buckeye Group, is deciding whether to take on a new line. She is very concerned because, although she wants more lines, she feels that something is wrong with her latest candidate.

Theresa graduated from a large Midwestern university in 2006 with a B.S. in business. She worked selling cell phones for a year. Then Theresa decided to go into business for herself and formed The Buckeye Group. Looking for opportunities, Theresa placed several ads in her local newspaper in Columbus, Ohio, announcing that she was interested in becoming a sales representative in the area. She was quite pleased to receive a number of responses. Eventually, she became the sales representative in the Columbus area for three local computer software producers: Accto Company, which produces accounting-related software; Saleco, Inc., a producer of sales management software; and Invo, Inc., a producer of inventory control software. All of these companies were relatively small and were represented in other areas by other sales representatives like Theresa. The companies often sent her leads when customers from her area expressed interest at a trade show or through the company's website.

Theresa's main job was to call on possible customers. Once she made a sale, she would fax the signed license agreement to the respective producer, who would then UPS the programs directly to the customer or, more often, provide a key code for a website download. The producer would bill the customer, and Theresa would receive a commission varying from 5 to 10 percent of the dollar value of the sale. Theresa was expected to pay her own expenses. And the producers would handle any user questions, either by using 800 numbers for out-of-town calls or by e-mail queries to a technical support group.

Theresa called on anyone in the Columbus area who might use the products she sold. At first, her job was relatively easy, and sales came quickly because she had little competition. Many national companies offer similar products, but at that time they were not well represented in the Columbus area. Most small businesses needed someone to demonstrate what the software could do.

In 2008, Theresa sold \$250,000 worth of Accto software, earning a 10 percent commission; \$100,000 worth of Saleco software, also earning a 10 percent commission; and \$200,000 worth of Invo software, earning a 7 percent commission. She was encouraged with her progress and looked forward to expanding sales in the future. She was especially optimistic because she had achieved these sales volumes without overtaxing herself. In fact,

she felt she was operating at about 60 percent of her capacity and could easily take on new lines. So she began looking for other products she could sell in the Columbus area.

A local software company has recently approached Theresa about selling its newly developed software, which is basically a network security product. It is designed to secretly track all of the keystrokes and mouse clicks of each employee as he or she uses the computer—so that an employer can identify inappropriate uses of its computers or confidential data. Theresa isn't too enthusiastic about this offer because the commission is only 2 percent on potential annual sales of about \$150,000—and she also doesn't like the idea of selling a product that might undermine the privacy of employees who are not doing anything wrong.

Now Theresa is faced with another decision. The owner of the MetalCoat Company, also in Columbus, has made what looks like an attractive offer. She called on MetalCoat to see if the firm might be interested in buying her accounting software. The owner didn't want the software, but he was very impressed with Theresa. After two long discussions, he asked if she would like to help MetalCoat solve its current problem. MetalCoat is having trouble with marketing, and the owner would like Theresa to take over the whole marketing effort.

MetalCoat produces solvents used to make coatings for metal products. It sells mainly to industrial customers in the mid-Ohio area and faces many competitors selling essentially the same products and charging the same low prices.

MetalCoat is a small manufacturer. Last year's sales were \$500,000. It could handle at least four times this sales volume with ease and is willing to expand to increase sales—its main objective in the short run. MetalCoat's owner is offering Theresa a 12 percent commission on all sales if she will take charge of its pricing, advertising, and sales efforts. Theresa is flattered by the offer, but she is a little worried because it is a different type of product and she would have to learn a lot about it. The job also might require a great deal more traveling than she is doing now. For one thing, she would have to call on new potential customers in mid-Ohio, and she might have to travel up to 200 miles around Columbus to expand the solvent business. Further, she realizes that she is being asked to do more than just sell. But she did have marketing courses in college and thinks the new opportunity might be challenging.

Evaluate Theresa Campana's current strategy and how the proposed solvent line fits in with what she is doing now. What should she do? Why?

16. J&J Lumber Supply

Jimmy Olson, owner of J&J Lumber Supply, feels his business is threatened by a tough new competitor. And now Jimmy must decide quickly about an offer that may save his business.

Jimmy has been a sales rep for lumber mills for about 20 years. He started selling in a clothing store but gave it up after two years to work in a lumberyard because the future looked much better in