

Luna pen a assignment



**ASSIGN
BUSTER**

A Puzzling Request Erika Graeper absently twirled the Luna in her fingers. It was not as massive as the Mont Blanc's Meister? The most expensive Pelicans, but the Luna had a comfortable heft and balance. It was handsome, as well. The pen's midnight blue barrel was accented by a gold clip, and an elegant crescent moon was inlaid at the top of the cap. Erika smiled to herself, as the Luna tripped memories of both pleasure and small embarrassment. It had been given to her by her grandmother a dozen years ago when she had been about to start university.

Erika had promptly used the pen to write a thank you note on crisp white stationery and had solemnly said that it would be a great help in her studies. Once at school, however, she had reverted to ball point pens and mechanical pencils. Since then, the Luna had been tucked, unused, in the back of a desk drawer. The gift certainly would still have been forgotten had not an odd letter happened to come to her desk at DGG the first month she started to work for that company. Judging by the notes that had been scribbled on it, the letter had gone past three other people before being forwarded to her.

Her immediate boss, Wilhelm Mann, had scribbled a cryptic instruction that said in its entirety: " Please respond??" Luna out of production for years. " Mann was out of the office and was unavailable to provide more information, so Erika had turned to the letter itself. It was from Cecil Armstrong, president of Queensland Office Supply, Ltd. , in Brisbane, Australia, and was addressed to Herr Heinrich Dumart, president of Luna, in Frankfurt, Germany. Armstrong's letter complained of difficulties in obtaining Luna pens for the retailers with whom he dealt. " Small order," Erika thought to herself, " since Lunas aren't made any more. But as she read further, she became

perplexed. Armstrong had written: "our representative, Mr. Alven Feng, assures me that manufacturing is being stepped up to meet increased demand, but his deliveries often are late and are insufficient to satisfy my customers' needs." Erika checked back to see the date of the letter??

January 12, 2002. It had probably taken less than a week to arrive from Australia, but another three months had passed as the letter had bounced from one office at DGG to another until it found its way to Erika.

Nevertheless, Armstrong was writing as if the Luna were still being made.

It seemed unlikely, but perhaps her boss had been wrong about the pen being out of production. Professors Kathleen McGinn and Michael Wheeler prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright 1995 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means??" electronic, mechanical, photocopying, recording, or otherwise??" without the permission of Harvard Business School. 396-156 Armstrong's letter went on to praise the pen and to encourage the Luna company to take full advantage of its growing market. "I do not know the nature of your relationship with Mr. Feng, but if he does not have exclusive rights to represent you in this part of the world, I would very much like to pursue that possibility for

Australia. ” Armstrong had attached a copy of a letter he had written a year earlier, likewise asking about distribution rights. Attached, as well, was a letter dated November 5, 2001, from Alven Feng to Cecil Armstrong. He promised new pens would be delivered shortly, but stated that while Luna was striving to meet increased demand, it did not want to compromise quality to do so. Fengs letterhead identified him as “ Managing Director” of Global Service Company, Taipei, Republic of China. Erika recalled that meant Taiwan, not mainland China, but never had heard of Fengs company.

Please respond,” Erika’s boss had directed her. But how was she to reply to a request from someone halfway around the world regarding a product that was no longer made? Erika Graeper Erika’s only knowledge of the Luna pen came from the fact that her grandmother happened to have given her one long ago. Erika had been trained in electrical engineering, had worked for a German audio speaker manufacturer for three years, then earned her MBA from the University of Texas, Austin, in 1999. Her decision to attend professional school in the United States surprised her friends and family, but

Erika had wanted to see more of the world. She chose Texas specifically because of the university’s ambitious partnership with private corporations to spawn new computer technology. As she had hoped, business school expanded her interests beyond engineering; somewhat to her surprise, she became particularly fascinated with marketing. Upon graduation, Erika went to work for Dell Computer right in Austin, Texas. Dell had grown enormously in just a few years, by assembling quality products and selling many of them through technical product centers on university campuses throughout the United States.

Erika enjoyed her two years at Dell, but with the changes at the company she felt the job was not giving her the kind of experience she had hoped for. While on a brief vacation to her family's home outside of Frankfurt, she happened to hear of an interesting position that had opened up at DGG, a fast-growing distributor of computer peripherals and related supplies. DGG had started as a small greeting card company, the Deutsche Grusskarte Gesellschaft, but through a series of acquisitions and mergers, it moved into stationery and, then, office products.

When it expanded beyond Germany, the name was formally trimmed to its bare initials. Admirers of its fat earnings statements (net earnings averaged 15% of revenue over the past five years) sometimes still refer to DGG as "Die Goldene Gans" the golden goose. DGG's annual revenues in the previous year, over 1,650 million (US\$590 million), resulted in net earnings of 199 million (US\$90 million). Erika interviewed with many people at DGG, and was specifically hired by Wilhelm Mann, who had been impressed with the depth of her technical and business experience.

In her new position, Erika was to work with several of the company's Asian suppliers who produced printer cartridges, diskettes, and other products on to which DGG put its label. While not really a marketing position, the assignment would certainly broaden her perspective. Mann had said, apparently seriously, "One reason we are hiring you is your experience with dealing with non-European cultures." Erika was not about to contradict him, but she doubted that her experience in Austin, Texas, with country music, barbecue, and Shiner beer would have much relevance to doing business in Singapore or Hong Kong.

Still, she had confidence in her personal ability to adapt to different customs and be alert to possible misunderstandings. Nothing in all of her background, however, had given her even an inkling about the business of fountain pens.

Luna Eclipse? Erika discussed the Luna Pen puzzle with three of her new colleagues before finding someone who could explain why a letter to Heinrich Dumart should be forwarded to her at DGG. Her company had been growing quickly and many of its employees had come on board just recently.

Few knew more than she did about DGG's past, but Dieter Bauer had been there for many years and was able to provide some history. Luna was a small company that had been owned and operated by the Dumart family for almost 60 years, Bauer had explained. Annual revenues in the 10 years between 1978 and 1988 were approximately \$11 million (11 million). In the 1980s, when the then-senior Dumart was approaching retirement age, he sold the firm's stock to a larger stationery company, though he stayed on to manage the pen business.

Three years later, in turn, DGG acquired that stationery company as a vehicle for manufacturing and marketing copy and printer paper. Luna was not central to the deal, and DGG had made some efforts to spin it off. With the death of Herr Dumart several months earlier, and Luna showing annual losses, there was little interest. "Luna is in corporate Valhalla now," Bauer said. When Erika did not seem to understand his reference, he explained that Luna was now in whatever afterlife companies experience when they die. "We tore down the little factory where the pens were made on the other side of the city maybe five or six years ago."

There's a warehouse there now. If Luna Pen exists today, it's just on paper. " Erika nodded with a slight smile. Bauer was from Bonn and seemed very formal, but perhaps his word play was intentional. But why did this matter end up on my desk? " she asked. " Oh, that's easy," he replied, "you're our new expert on the mysterious Orient. " Now Erika felt comfortable enough to respond, " Maybe no one else new wanted to be bothered with the problem. " " That may be true," Bauer agreed, " and as the newest person here, you can't bump it to someone else. " That reality gave Erika little comfort.

Erika was tempted at first to write Cecil Armstrong and simply tell him that Luna had gone out of business years ago, but she remained puzzled by the fact that he was somehow still getting supplies from Alven Feng of Global Service. Erika did not want to get deeply distracted by this small transaction, as she was about to leave for her first trip to Asia. Out of courtesy she wrote Armstrong, acknowledging his letter and apologized for the delayed response. She explained that Luna had been acquired by DGG and that she had " only recently assumed some responsibilities" in its regard.

She thanked him for his kind words about the product and promised to contact him again after she had a chance to look into things. Luna Rising? One week later Erika was in Malaysia, having just finished an exhausting round of meetings with several of DGG's suppliers there. With other meetings to prepare for in Hong Kong and Seoul, and flight delays out of the Kuala Lumpur airport, the Luna puzzle was the furthest thing from Erika's mind when she happened to spot a handsome indigo pen in the display at the duty-free shop. " Please show it to me," she asked the clerk. The dark blue box had LUNA written on it in discreet gold letters.

Inside, there was a set of directions for filling the pen and a warranty which identified 3 Global Service of Taipei as the repair facility. Erika carefully looked at the pen itself. To her eye, it seemed identical to the one her grandmother had given her. There on the golden nib was the familiar word, Luna. The clerk mistook Erika's scrutiny for dissatisfaction and perhaps inferring too much from the fine quality of her suit, said, " I think you would like better this special edition Hemingway by Mont Blanc. " The clerk offered the impressive red pen almost as if it were a religious artifact, but Erika barely gave it a glance. No, no. I'm sorry. I want the Luna," she said. The look of disappointment on the clerks face was obvious. The Luna was priced at ?,-47 (US\$42), while the Hemingway was ten times as much, but it was clear that Erika knew what she wanted. It was clear to Erika, as well, that she had just solved the mystery of the fountain pens: she was buying a counterfeit. Mr. Feng??" or somebody behind him??" had neatly stepped into the vacuum that had been left when DGG tore down the Luna factory. Erika felt a flash of exhilaration and indignation. How dare someone appropriate her company's good name and property! Then she laughed at herself. I've barely worked for DGG a month," she thought. " How quickly one develops loyalties. Perhaps instead I should ask how we overlooked the potential value of the Luna brand name. According to Armstrongs letter, the pen enjoyed some popularity in Australia, and here it was in faraway Malaysia, too. Erika's flight was called and she was on the plane to Hong Kong before she realized that she should have asked the clerk where the shop got the pens, though the warranty slip suggested that Global Service was a likely answer. When she finished her appointments in the city, she went on an exploration of local stationery stores.

The first two had heard of Luna, but did not stock them, but a third shop had a good supply. Here the price was equivalent to ?, -59 IJS\$54), but after only a moment's hesitation, Erika bought an identical twin of the fountain pen she had purchased in Kuala Lumpur two days earlier. It, too, carried a warranty from Global Service. Erika took care to obtain a detailed receipt. For good measure, she also bought a bottle of Luna brand ink. In Seoul, the last stop of her trip, she set out on a similar expedition, though this time without success. One older shopkeeper remembered the Luna quite well. " Oh, yes.

Made in Germany. Not so expensive. But you can't get them any more. "

Apparently Feng had yet to tap the Korean market. DGG'S options On her return to Frankfurt, Erika wrote a detailed memo to Wilhelm Mann summarizing the results of her scheduled meetings. She added a short postscript stating, " I've come across some interesting information on the Luna matter you referred to me. " Two days later she met with Mann who was quite impressed with her general report. After the scheduled topics had been covered, Erika reached into her handbag. " I picked up a couple of souvenirs that you might like to see.

This one is from Malaysia," she noted as she slid a small blue box across his desk, " and here is its twin from Hong Kong. Mann opened the first one in puzzlement, then the second. When he spotted the Luna name, a smile of recognition broke over his face. " So it's a fine little company we have, Luna. No factory, no workers, no inventory, but somehow we still produce fountain pens. And, look, now we are making ink, too! " 4 Erika showed Mann the correspondence with Cecil Armstrong in Brisbane. Her letter in response had only been intended to buy a little time.

Some mysteries had been resolved, but a lot of questions remained unanswered, not the least of which was the identity of Alven Feng and Global Service. Before investing any serious effort, Mann suggested that they review DGG's options. "Let's just say we confirm that Global Service has made a tidy little business selling counterfeit Lunas. What should we do about it?" if anything?" Erika had anticipated the question and imagined several alternatives. "My first reaction," she admitted, "was to bring a lawsuit for violating our trademark, though I expect that might be expensive and time-consuming.

Of course, we always could use the threat of a suit as bargaining leverage." "Check with Gunther Schmidt in our legal department," Mann interrupted. "We need to know where we stand in that regard." "Also, we'd need to think about what such a suit would get us," Erika continued. "I suppose we might collect royalty damages, but putting Global out of business doesn't really help us in any way?" unless we want to get back into fountain pens." "I can't see doing that," Mann mused. "It's just too far removed from our core business.

We didn't make anything of Luna when we had it and the big accounts we serve today buy printer ribbons by the truck load. They're not asking for fountain pens. Am I wrong?" Erika did not feel she knew Mann well enough to challenge such a statement directly. Moreover, she suspected that he was probably right on this issue. Still she told him about some quick research she had done on the fountain pen market. Most of the sources she was able to find through LEXIS/NEXIS described the burgeoning market in the United States, though clearly fountain pens were reappearing everywhere.

Annual sales in America had bottomed out at 6.4 million units in 1978 after the onslaught, first, of ball point pens, then felt tips. But the trend reversed itself in the 1980s, notably with the sales of luxury writing instruments. In 1990, 25.5 million fountain pens were sold in the United States. Germany's own Mont Blanc apparently had half of the American high-end market, Erika added. Overall sales continued to grow, more than doubling since 1990. "So Luna got out?" not in?" on the ground floor?" Mann asked. "It would seem so, yes," Erika said. Luna would probably be in a niche with Osmiroid, Platignum, and some of the lower-priced Parkers. I don't have any sense of production costs, but it certainly looks as if these companies are doing very well. Even if it's not the right business for us, Luna may well be valuable to someone else." Mann thought for a moment, then neatly arranged the Luna boxes side by side on his desk. Even if DGG could find someone else to manufacture the pens, he speculated, he still worried that his company was poorly positioned to promote and distribute them. Let me check that option with some other people here, but I don't think we want to be in the fountain pen business." With the hour growing late, the two of them quickly sketched some options. First, DGG could bring suit against Feng and Global to recover damages for past trademark violations. Second, it could negotiate some sort of settlement with Feng in respect to prior royalties and the right to future use of the Luna name, either through some sort of on-going licensing arrangement or an outright sale. Third, of course, DGG might find some other enterprise that would be interested in buying Luna's goodwill. Would you be willing to handle this?" Mann asked Erika was delighted at the prospect of having a project that was entirely her own, though Mann cautioned her not to get too deeply entangled. "We have much bigger

things on our agenda. Anything you can get out of this will be a windfall. ”

DGG’s Legal Position Within the week, Mann confirmed that his superiors did not want to resurrect its ountain pen activities, though DGG would be glad to get whatever value was represented by the Luna name. In the meantime, Erika had also received a written legal opinion from Gunther Schmidt.

He had found the old Luna files and confirmed that the Luna name had been duly registered internationally, though he cautioned that this might have more significance in Europe and North America than in certain Asian countries. Countries that once were notorious for counterfeiting, he noted however, were now starting to crack down??” in order to become better trading partners??” but there still were some differences from place to place. In particular, he added, there might be a question of whether the Luna name had been “ abandoned,” and thus could be appropriated by another company.

Although DGG had never formally dissolved the Luna firm, the reality was that it had been out of business for several years. There were practical problems of greater concern, he added. First, in a typical trademark violation case, the complaining party measures its damages in terms of lost market share and tarnished reputation. As DGG had voluntarily left the market, could it really be said to have lost anything? There was still the possibility that some sort of punitive damages might be won.

Second, prosecuting such a suit would be expensive, Schmidt warned. It would be necessary to hire local counsel, perhaps in each of the countries in which the Lunas were being illegally sold. The advocates would want to be

paid up front, while any award??” and subsequent collection??” of damages could take years. And should DGG not prevail in court, it might be liable to pay the legal costs of the winning parties. On the other hand, Schmidt acknowledged that the threat of litigation might be the only way of bringing Feng to the bargaining table.

Erika was not surprised by the tone of Schmidt’s memo, though it deepened her realization that she was not in the strongest bargaining position, either with Global or with other potential buyers who might be worried about the legitimacy of the Luna name. Schmidt had offered no support for an aggressive legal campaign to vindicate DGG’s rights, nor could Erika herself recommend such action, at least not at the outset. The situation seemed to call for some negotiated solution. To that end, Erika got authorization from Mann to hire an investigator in Taipei to learn more about Global Service and Alven Feng.

It took several weeks to find someone in Taipei to prepare a report, and then another two before the information was on Erika’s desk. She learned that Global Service was a legitimate company founded in the late 1950s in Taipei by the Feng family. It was still privately held, so financial information was not available, but knowledgeable observers estimated that its trade activities were in excess of \$23.2 million (US\$21 million) annually. Profit figures were even harder to obtain, but the investigator suggested that the usual return for this type of firm was between 8% and 13% of revenues.

Global had done some limited manufacturing over the years, but typically acted as the middleman, distributing other companies’ products. At the

outset, Global had opportunistically traded in small goods to America; in the 1970s, for example, it was very active in the export of toys made in Taiwan and elsewhere. It was now out of that business entirely; with growing prosperity in the Pacific Rim, it had turned east to do its business. One of its more lucrative activities was said to be the Asian distributorship of Luna pens, which it both manufactured and distributed.

Without 6 providing an exact figure, the investigator estimated that Luna pens and other Luna brand products accounted for approximately one-quarter of Global's sales. Alven Feng, the report concluded, was the 58-year-old managing director of Global and eldest son of its founder. Other family members were involved in the business, including a brother based in Malaysia, but Alven Feng was said to rule the enterprise with an iron hand. A recent newspaper article on the company, which included a photograph of Feng receiving a community service award, was attached.

The copy was not good and Erika could only make out the image of a serious looking man, a bit stout, wearing glasses. The translation of the article itself provided a laudatory account of Feng's public service and speculated that Global, with large cash reserves, was poised for a major expansion.

Preparing to Negotiate Erika needed to make another trip to Southeast Asia on other important business. At some point, it would be necessary to deal with Mr. Feng and Global Service and now seemed to be as good a time as any. But how should I start the discussions? " she thought to herself. From her days in Texas, she remembered the American saying, " shoot first, ask questions later. " Maybe she should have Schmidt retain a Taiwanese lawyer to file a trademark suit, even if she didn't plan to prosecute it fully. She was

confident that she could win Schmidt's and Mann's support for this strategy, particularly if it seemed like the only realistic way of getting Feng's attention. Or perhaps she should not start so aggressively. She drafted several different letters for comparison.

One summarized the Luna situation as she understood it and threatened legal action if Global did not pay damages for past infractions. Another version was more conciliatory in tone and hinted at a possible joint venture. Still another said nothing about Luna Pen, but suggested that in light of DGG's growing Asian presence, she wished to discuss a possible relationship with Global to handle computer products. Erika thought fleetingly about whether there was any way or advantage in having Alven Feng come to her, so she would be operating on familiar territory.

Perhaps that might happen at some stage, but she decided that there was more to be learned about Global from being on site. Back when she had been interviewed for her new position at DGG, Wilhelm Mann had flattered her ability to deal with people from their cultures and she had not demurred. Her recent trip to Asia on other business had been merely introductory; ideas were explored, but no firm agreements were negotiated. This time Erika would likely have to make a deal with Feng and any others who might be involved.

She was not comfortable with the fact that she knew little about him, and even less about how he bargained. In her apartment, Erika had cartons of books that she still hadn't unpacked from her time in the United States. Among them were some negotiation texts and books on working in

unfamiliar cultures. She had greatly enjoyed browsing in the bookstores of Austin. With the best of intentions Erika had picked up things that she meant to read but too rarely had the chance to open. Now it was time to do some research.

One book included a collection of short “ dialogues,” many of which demonstrated how easily people from different countries could talk past one another and not even know it. Erika scanned the 1 Craig Storti, Cross Cultural Dialogues: 74 Brief Encounters with Cultural Differences (Yarmouth, Maine: Intercultural Press, 1994). 7 pages quickly for conversations with the Chinese. One particularly telling example ad a westerner insistent on getting down to the “ basics” of the detail at hand while her Chinese counterpart wanted to talk at length about the history of both companies.

Another book on differences in body language warned that when the Chinese “ suck air in quickly and audibly around the teeth,” it is a sign that you should modify your request “ rather than risk having your Chinese counterpart face the highly embarrassing (for them) situation of having to say ‘ no. “ 2 Silence, she read, could be a sign of polite contemplation, but direct eye contact was uncommon. Were such rules of behavior and communication always accurate, Erika wondered? She recalled that when she was in Austin, various well-meaning classmates had remarked on how much more friendly and outgoing she seemed than most Germans. Well, the people from the north are more formal,” she had usually explained, “ but I’m from Munich and we’re much more outgoing. ” Reflecting on her own experience, she wondered if people were wrong when they stereotyped all Germans, what could she confidently expect to know about anyone else Just

from their nationality? Erika read further and found a few useful observations. Nevertheless, her research left her less confident than when she began. How should she initiate a meeting with Alven Feng? Should she be aggressive or conciliatory?

Would her being female have any bearing on the negotiation? Erika's schedule called for her to be in Taipei in exactly one week. For a brief moment, she regretted ever having opened up the Luna question. A simple bureaucratic reply to Mr. Armstrong would have ended the matter and spared her all this uncertainty. She quickly regained her resolve, however, remembering Mann's comment that anything she won from Alven Feng and his Global Service would be a pure windfall. Still, this would be the first deal she had made for DGG and he wanted to make a good impression.

Erika centered several sheets of unlined paper on her desk, removed the cap from the pen her grandmother had given her, and began to sketch her negotiation strategy. ² Roger E. Axtell, *Gestures: The DO's and TABOOS of Body Language Around the World* (New York: John Wiley & Sons, 1991). ⁸

Assignment This background material brings Erika Graeper to the point where she had to make some key decisions. Going forward, this case asks you to step into her shoes and deal with the issues as they develop. Before reading the last page of this case, please take several minutes to outline a negotiation strategy.

If you were in Erika's position, for example, what steps might give you the best chance of achieving your goals? What further information might you need before contacting Feng; and how might you realistically obtain it? After

outlining your strategy, please read the scenario on the next page and tentatively choose one of the options which is offered. In our next class session, we will discuss the possible advantages and drawbacks of various options. You will then learn what Erika herself did in this situation and what transpired next. 9 LUNA SITUATION 1