A case study of the harrison company

Please read the following case, case-related questions, financial statements (Attachment 1), and store location map (Attachment 2). Harrison Company is in the retail industry. You will have to make and explicitly document several general and question-specific assumptions. These assumptions are needed, since you will have incomplete information, as is often true in the business world. For example, your assumptions about how deep the effects of the current/past recession will be and when it will end will be extremely important to document and should be provided in the executive summary. It will affect the credibility of your proposed strategy. (Technically, the recession seems to have ended although many effects remain.)

You have all the information that there is and you must make specific decisions. Do not include in any answer the statement that your company will conduct additional research to make an informed decision.

You should first read the case and all of the questions. Each of the questions relates to an MBA learning goal. Because learning goal # 1 is integrative and deals with strategy, it is placed as the last question. Thus, you should prepare written answers for learning goal questions #2 through #5 before answering question #1. Once you have completed all of the questions, you should write an executive summary and place it at the beginning of your report.

Each learning goal relates to a rubric with the same number. Include a heading for each of your answers to make it easier for assessment. For example type: “ Rubric question 2” and then your answer for question #2. Although the case questions address a variety of separate business concepts, your essay should be written in an integrative style. This integration should support your strategy, based upon your analysis.

You are the new president of Harrison Company, taking over in the late spring of the current year and tasked with improving the performance of the company. Several actions that should not be part of your strategy include: your resignation, the sale of the business, mergers/acquisitions, filing for bankruptcy, or any other action that would prevent you from running the company, as is, over the next five-year strategic planning period.

Your report should be no more than ten pages typed, Times New Roman 12 font, and single spaced. No identifying title is needed on page 1, but do title the executive summary. Include page numbers in the footer on the right side. Include " Harrison Case MM/YYYY" and your name in the header of each page. You may also provide up to three additional appendices (pages) of charts, graphs, or other supporting materials. Any references should be footnoted in the body of the text, if needed. This will require a very concise write-up, since draft documents often exceed ten pages. Carefully address the major points and yet show relevant supporting documentation.

The questions may be assessed across student papers. That is, question #2 might be assessed for all students without the assessor reading the other parts of the case report. Thus, you should avoid referencing other parts of your report, wherever possible. Repeating a " few" pieces of information in different sections is preferred.

Grading Criteria for the Harrison Company Case – Each of the follow items will have the same grading weight:

Rubric Question 1 – Implications of Integrated Business Processes (Located at the end of the case report)

Rubric Question 2 – Ethically and Socially Responsible Decisions

Rubric Question 3 – Synthesizing/Analyzing Marketing Information

Rubric Question 3 – Synthesizing/Analyzing Finance Information

Rubric Question 3 – Synthesizing/Analyzing Logistics and Operations Information

Rubric Question 4 – Identifying Industry and Global Trends

Rubric Question 5 – Leadership

Rubric Question 5 – Group Dynamics

A clear description and justification of your strategy should build upon all of your analyses

Grammar, spelling, writing style, and the clarity of the report will be assessed

learning goals are identified (by number) at the end of each case question. Below is a list of the learning goals for your information. You will not need them directly for this assignment.

Learning Goal #1: Each student will be skilled in recognizing (dealing with) the implications of integrated business processes in managing the enterprise.

Learning Goal #2: Each student will be ethical, socially responsible, and just when making business decisions.

Learning Goal #3: Each student will be capable of synthesizing/analyzing information to make sound business decisions.

Learning Goal #4: Each student will be a gatekeeper, trained to scan the global environment of business, identify current trends in the industry, and disseminate information throughout the firm.

Learning Goal #5: Each student will be a leader and/or manager who understands group dynamics and is capable of influencing others to achieve organizational goals.

The Harrison Company Case

General Information

The Harrison Company, a public company headquartered in State College, PA is facing a time of crisis. (See Attachment 1 for financial statements.) The company is a mid-sized regional retailer. It has 80 stores in seven states, primarily in the Northeast. It also owns two equally-sized distribution centers, one in Pennsylvania and one in Massachusetts. All of its stores are in rural areas and generate exactly $600, 000 per store in sales per year (to simplify the case). As shown in the attached financial statements, sales and profits have been dropping over the last three-year period. You have been brought in as president to move the company in a new and better direction. The previous president has just retired at age 70, is no longer on the board of directors, and has broken all contacts within the company.

Although your predecessor did not see the need to employ an explicit strategy for running the business, competition from retail chains, such as Wal-Mart and Dollar General, has become more intense. In the past, your company has been somewhat shielded from competition by its stores' rural locations. Now there is a Wal-Mart store within 10 miles, on average, of each of your stores. Your eight home office employees have not developed advanced business skills. For example, your marketing manager does not prepare either store or company-level sales forecasts.

As you look at the company situation, there does not appear to be an obvious choice between a low-cost strategy (such as that followed by Wal-Mart) and a differentiation strategy (such as that followed by Nordstrom). Next year's plans, which you can alter, call for the purchase or construction of eight new stores, as well as the renovation of the Pennsylvania distribution center. Planned new store locations include three stores in West Virginia, two stores in Rhode Island, two in Vermont, and one in New York. The board wants to know if you agree with this specific action plan. There have been no store openings, closings, or changes to the distribution centers last year or this year.

There are several immediate concerns that face you upon taking over as president. One of your store managers, who has recently been fired, has gone to the press with accusations that your company has been buying very inexpensive clothing from a Honduran company whose employees face slave-like conditions. He claims that the main reason for his being fired was that he insisted on raising this issue with top management. There seems to be no documentation within the company related to this issue.

As with many of your competitors, you find that the company is actively discouraging the entry of unions into your company. Although this seems to be taking place primarily by store managers, it would seem reasonable that company headquarter personnel are directing this effort. This resistance, bordering on being illegal, seems to be driven by the company’s culture.

Harrison Company has traditionally supported a local charity near the company headquarters, which is the favorite charity of the previous president. Over the past several years, substantial contributions have been approximately $1, 000, 000 a year. The company has also supported a wide variety of other community endeavors in the general locale of some of the stores, such as sponsoring little league baseball teams. The total support for these other organizations has been roughly $25, 000 per year in total. You wonder if these donations can be maintained, given the company’s current financial condition. If cutbacks are necessary, how much should they be and how should they be phased in?

Locations and Logistics

Locations and Logistics

When you examine the company’s store locations and distribution network, you find that that there are 16 stores in Massachusetts, 12 in Connecticut, 10 in Maine, 10 in Vermont, 10 in New York (four of those in Western New York), eight in Pennsylvania (six of those in Western Pennsylvania), four in New Hampshire, four in Rhode Island, three in West Virginia, two in western Maryland, and one in New Brunswick, Canada. (See Attachment 2 for a map of distribution centers and store locations.) All stores are the same size and carry the same merchandise. Your company owns all of its own trucks (nine) and makes all deliveries directly from the distribution centers to the stores. Distribution (including trucking) expenses have been steady at 8% of cost of goods sold, except for the last 10 months. During these months, distribution expenses have been approximately 9% of the cost of goods sold, due primarily to a spike in fuel costs.

Fifteen percent of the stores account for 20% of annual profits. The Pennsylvania distribution center serves the 10 stores in New York, the eight stores in Pennsylvania, the three in West Virginia and the two in western Maryland. Depending upon specific needs, the Pennsylvania distribution also serves the 10 stores in Vermont and/or seven stores in western Massachusetts. As can be seen from the map, both distribution centers serve some stores that are more than 250 miles away. A constraint of this case is that no drop-shipments directly to the stores are allowed.

Merchandise orders from the stores are received on a daily basis and trucks make deliveries to the stores once a week. This is done weekly in order to fill up each truck (partially-full trucks are discouraged). Because of different store merchandise needs, trucks are not permanently assigned to selected stores. Distribution centers receive merchandise from suppliers on one side of the center, place them in inventory, and ship from the other side of the center. Inventory is stored with the large size items closest to the bays for shipping to the stores. Shipments from individual suppliers are received once every two to four weeks. You accept no partial contract deliveries from suppliers. Emergency quick-delivery contracts are frequently made when multiple stores report stock-outs. No inter-store transfers are made. Forty percent of your suppliers are located in eastern Canada, 40% from developing countries, and the balance from the United States, east of the Mississippi River. You have approximately 500 suppliers.

Marketing and Store Characteristics

Your marketing people have described their strategy as a push strategy with heavy advertising to create customer demand. Seventy-five percent of your sales occur during the summer vacation months (June through August) and the Christmas holiday season (late November and December). Advertising consists of 50% local television spots and 25% sponsorship of local events, such as concerts, which attract a significant number of tourists. The remaining 25% of marketing cost relates to discount coupons placed in motels, restaurants, and other locations such as nearby ski resorts. Due to deteriorating financial conditions, normal store maintenance has been significantly reduced. The company has recently developed an on-line store which accounts for 0. 05% of sales.

Store designs are quaint and are modeled on a rural local corner store theme. Each store is 2, 800 square feet in total area. The industry average is $400 sales/per square foot per year. Approximately 20% of each store’s total floor space is devoted to a back-room area for inventory storage and an employee break area. Harrison calculates its sales per square feet using front end space only (not the inventory area). Fifty percent of the merchandise could be categorized as a combination of country style and new age high-end products. Employees dress “ country-style” or “ hippie-style” to support this atmosphere. This half of the store’s merchandise includes such things as candles, paintings, incense, jewelry, music CDs, and country-style furniture (e. g., oak rocking chairs, bed headboards, and cabinets). Premium pricing for this merchandise is the norm. The other 50% of store merchandise consists of consumer non-durables (convenience items), targeted primarily to the local community. These items are moderately priced and include a wide range of items from soap to cookies to laundry detergent to clothes. These items must be sold at competitive prices. All products are marketed as high-quality items. Country/new age items are claimed to be produced by small “ home” or local producers despite the fact that they are produced in moderate volumes by small producers from a variety of places and shipped exclusively from the two distribution centers. Merchandise production identifiers, such as “ made in China” are covered over where possible. Most of the stores are located in the downtown area of the small rural towns.

Each store currently operates from 9: 00 AM to 7: 00 PM, Monday through Saturday. Stores are closed on Thanksgiving, Christmas day, and New Year’s Day.

Finance and Store Operations

Your finance people have provided you with only basic financial information as shown as Attachment 1. You are on a calendar year and the last year’s financial statements, the most recent, have been issued in April of this year. The financial needs to support your company’s current operations and the implementation of your new strategy must be assessed. Unfortunately your financial people do not have the skills to prepare these and other important analyses. For example, you would like to see an assessment of the profitability and efficiency of company operations. There will most likely be other financial information that you will need to effectively manage the company. Inventory turns might be just one of many pieces of useful information. There is much to do.

Currently the company is paying suppliers on more than a sixty-day average, despite the fact that suppliers have contracted for a thirty-day payment. Even on late payments your company is still taking supplier prompt payment discounts. Your suppliers have little control over this situation because they are relatively small compared with your company. In fact, the delay in payments has recently caused one very small supplier to go out of business. The company continues to put pricing pressure on suppliers. None of your long-term debt repayments were due in the last three years or are due within the next two years.

Attachment 1 shows a line item called “ Operating Expenses.” These are expenses related to operating the stores, such as payroll or electricity. The separate line item called “ General and Administrative” reflects similar expenses, but only for the company headquarters. Notice that this detail is available only for Harrison Company. Information for the largest competitor and the industry average capture this information only at a summary level called “ Operating, General, Selling, & Administration” (as shown in Attachment 1).

Store managers receive salaries of $35, 000 including benefits. Your eight home office employees average $70, 000 per year including benefits. Your salary is $150, 000 per year including benefits. The previous president made $200, 000. Annual salaries are for a base of 2, 000 hours worked. The warehouses operate less than five days per week. Each store is staffed at 6, 500 hours per year including store managers’ base work-load. No overtime is paid to salaried employees. Part-time workers are heavily relied upon, most making the minimum wage.

Industry and General Conditions

The recession has significantly affected your industry in the last eight months. Some of the low-cost companies, such as Wal-Mart, have actually seen revenues increase an average of 7% per month over the prior year’s same monthly sales. Boutique and high-end stores have held steady. The industry as a whole (USA) is down 4% from the prior year’s comparable monthly sales. Consumers have become more price-sensitive, although some retailers have maintained customer loyalty.

You have received an industry and general economic forecast from a trusted consulting firm. The following information has been included in their report:

Consultant’s Report – Current Industry Position

The industry is experiencing significant consolidation and many companies are facing financial pressures. This current trend may be particularly significant since consolidation began to increase before the recession. Normal consolidation results in highly leveraged positions, since debt is a major source of acquisitions. Consolidation has taken place as companies strive to achieve economies of scale and expand geographic coverage. Several of the larger companies are in the process of developing a global presence in their placement of stores. The large majority of companies in the industry rely on merchandise from developing countries, due to price benefits from low labor costs. The union movement in the USA is strengthening, but only slightly.

Consultant's Forecast – Three Year Projection

Diesel fuel costs will increase steadily to about $4. 80 per gallon in three years, and then drop by about 10%. Heating and electrical costs will continue to rise steadily at about 15% per year. Inflation, which had been fairly insignificant for many years, will increase to about 9% within three years. Unemployment will peak at 11% in two years and decrease very slowly after that. Despite inflationary pressures, the Fed will maintain a relatively low Fed Fund Rate of 2-4% starting this year. This will be an attempt to support the economy and to help it to expand. This will also most likely affect exchange rates. The recession will continue to be more severe and the government more proactive in the United States than in other countries. Many economists are uncertain about inflation and unemployment relationships because of the massive amount of money that has been spent by the federal government on stimulus packages.

Your reaction to the report

As with most consultant reports, this report provides only a starting point for strategic development. You are struggling to determine what to believe and how it would affect not only operations, but more importantly the strategy that you are developing. One of your biggest challenges is to determine what aspects of the report to communicate and to whom. On the one hand, many people do not have the expertise to make much use of this information. Yet, withholding information may have a negative effect on morale.

Company Culture and Internal Considerations

During your interview with the seven member board of directors, you received the impression that there was still a great deal of loyalty to the previous president and his past decisions. The board appeared to be quite conservative. Three directors were focused only upon company performance. It is no coincidence that these three directors own 65% of the company stock. Although sales and profitability are often correlated, you had the impression from the board that profitability is a strong priority, both in the short and long run. Presently, the company has only one class of common stock (voting). Three of the other directors are CEOs from companies in other industries.

Having met with your home office personnel, both collectively and individually, you have become somewhat concerned. None of the team members demonstrate leadership ability. They seem to be “ yes” people. When asked direct questions about their areas of expertise, none are able to give a coherent or concise answer. They do not seem to have an understanding of either the big picture or specific details in their area. There is commonly a great deal of silence when you ask questions during meetings.

A different consulting company had been hired the previous year to assess the morale of people at the company headquarters. This consultant’s report had been based upon anonymous individual meetings and the results seem to have been quite direct and blunt. Conclusions included:

There was significant infighting between people.

There was no accountability for decisions and, in fact, actual clear decisions were rare.

There were many examples of passive-aggressive behavior.

Six of the eight people said that they would not recommend the company as a place to work.

Employees felt that the company was in financial difficulty and moving in the wrong direction. Most felt insecure about their jobs.

You have no information about the morale of the stores' workforce or store managers. You have decided that you must tour several stores in order to assess morale and see the overall conditions of the stores. Until you have time to do this, you must make assumptions about store morale.

The Harrison Company Case Questions and Tasks

Prepare an executive summary that starts the paper. This summary should outline the basic conclusions of your analysis, your fifth year sales and profit goals (compared with last year's performance), and the major aspects of your strategy. List any " major" constraints or assumptions you made related to the case. Finally, link operating conditions and proposed changes to your strategy. (Learning Goal #1)

Rubric Question # 2 – Ethical and Socially Responsible Decisions: Briefly identify all of the various social and ethical issues facing Harrison Company. Provide this list in a table, stating each issue in a few words. Make each issue clear. Identify one issue from the list that relates to environmental sustainability and discuss it in a few sentences. Then, select one different ethical dilemma from your list. You will use this one ethical dilemma for the balance of your answer to this question. Identify the various major stakeholders that could be affected by this dilemma and the ones who could influence the decision. Identify three possible responses to this dilemma and suggest possible consequences (for the major stakeholders) for each of the three responses. Provide a specific action plan for dealing with this specific issue. Discuss why (or why not) your plan is ethical, socially responsible, and just. How does this action plan affect your business strategy or vice-versa? (Learning Goal #2)

Rubric Question #3 – Synthesizing/Analyzing: None of your functional managers have adequate expertise and you must develop the analyses that you need to make both functional and strategic decisions. Provide a detailed analysis of the three functional areas listed below. Provide a brief conclusion for each. (Learning Goals #1 and #3)

Marketing: Prepare a five-year sales forecast for the company. List and explain/quantify each factor that went into your forecast (e. g., past three year company sales trends). Do not rely solely upon past sales trends. Make this a high level forecast and include broad items that would affect strategy. Show your calculations in a table and, if needed, explain your calculations so they are clear. Analyze your marketing efforts in terms of product, price, place, and promotion. Be specific for each of the four items and pay particular attention to the strategic implications of your pricing plan and product mix. What might be some of the financial, logistical, and strategic implications of your marketing plan?

Finance: Prepare financial analyses using data from the financial statements (Attachment 1). Use specific ratios or other measures to assess the financial strengths and weaknesses of your company using appropriate baseline comparisons. Provide this in table form. Provide the formula for each item used. Address any other issues in the case that might affect the current financial position. Be sure to address Liquidity, Safety (e. g., leverage), Profitability, and Efficiency ratios. What is your overall financial position and how should it be handled? If needed, what is an appropriate way to finance your strategy and what funding constraints might affect your strategy? Explain. Describe the specific financial linkages and effects on marketing, logistics, and strategic initiatives.

Logistics and Operations: Discuss supply chain issues and possible areas for improvement. Desired improvements should be stated specifically. The logistics areas should address all parts of the supply chain which may or may not be limited to the following six items:

Supplier transportation to Harrison’s distribution centers

Storage (inventory) at the distribution centers

Transportation from the distribution centers to the stores

Storage (inventory) in the stores

Information needs, covering all the above items including merchandise purchasing and store re-ordering

Item iii is one of the most important, strategically. Given your strategy, you will increase the number of stores (expansion strategy), decrease them (retrenchment strategy), or keep them the same (holding strategy). Although you do not need to draw a map (see Attachment 2), you should identify the number of stores affected by location in a table. Changes in distribution centers, if any, should also be outlined in this table. You will address these issues further when you discuss your strategy (Rubric #1).

In terms of store operating expenses, there are several things to consider. Are the stores the right size? Constraints of the case are that you own all of your stores and you cannot lease (you may only purchase) new stores. You cannot relocate to a different store in the same town.

Prepare an additional operating analysis which outlines the planned employee load schedule for a store. Provide this in table form and clearly explain your calculations. For example, you might state that all Saturdays throughout the year should be staffed by two employees. Your analysis should reflect the number of hours available per store. How might sale forecasts be important for making these logistical and operating decisions? What might be some financial implications for the company?

Rubric Question # 4 – Identifying industry and global trends: What specific industry and global trends might have the greatest potential to affect your company and its business strategy? What would be the specific effects or constraints on your strategy? What other industry and global trends are worth watching? Why? (Learning Goal #4) List the industry and global trends separately.

Rubric Question #5 – Leadership and Group Dynamics:

What specific leadership actions and behaviors must you take to stabilize the company and allow you to achieve success for one of your specific key aspects of strategy (as described in your answer to Learning Goal 1 below)? How will you interact with and demonstrate leadership skills in dealing with the board of directors? Make sure to link your leadership actions directly to your strategic initiative. In answering this, you should address specific leadership theories. For example, what are the commonly identified types of power and which ones will you use as part of your leadership style?

You believe the consultant's report about home office morale. Discuss how you would address infighting, unnecessary arguments, and the quiet resistance between home office personnel. Specifically identify the organizational behavioral aspects of this problem using existing theories. For example, list generally accepted concepts for dealing with conflict and identify which ones you will use. Another example is that if you suggest " better communication" as a behavior to be developed, then be more specific. How, specifically, would you work to change individual and group behaviors? How long will it take to facilitate these changes in behavior? What will you do if the identified actions that you just described are resisted by one individual? (Learning Goal #5)

Rubric Question #1 – Implications of Integrated Business Processes: Will you develop an offensive strategy or defensive strategy and why? What will be the specific key aspects of your strategy? Describe how each of the functional areas will be part of your strategic plan. How do these functional plans fit together and influence each other in support of your business strategy? What generic strategy (i. e., low cost or differentiation) will you adopt as the new head of Harrison Company? Explain. Provide an overview of the aspects of your business strategy that will support your generic strategy. Will your store decisions reflect a retrenchment strategy, a hold strategy, or an expansion strategy? How long and to what degree can your generic strategy be implemented over the future five-year period? Because this is an outline of your strategy, it should restate specific conclusions from your previous analysis. Do not downplay the importance of this section. (Learning Goal #1)

ATTACHMENT 1 – HARRISON COMPANY CASE FINANCIAL

AND COMPETITOR/INDUSTRY INFORMATION

INCOME

STATEMENTS

Harrison

Last Year

Harrison

Percent of Sales

Harrison

2 Years Ago

Harrison

Percent of Sales

Harrison

3 years

Ago

Harrison

Percent of Sales

Global Market Leader

Global

Market

Leader

Industry

Average

$Million

$Million

$Million

$Million

Revenue

48. 127

100. 0%

48. 992

100. 0%

52. 102

100. 0%

348, 650

100. 0%

$25. 00

Cost of Goods Sold

38. 453

79. 9%

39. 292

80. 2%

41. 786

80. 2%

265, 152

76. 1%

80. 0%

Gross Profit

9. 674

20. 1%

9. 700

19. 8%

10. 316

19. 8%

83, 498

23. 9%

20. 0%

Operating Expense

7. 893

16. 4%

8. 132

16. 6%

7. 659

14. 7%

xxxxxxx

xxxxxx

xxxxxxx

General & Administrative

1. 059

2. 2%

. 686

1. 4%

. 625

1. 2%

xxxxxxx

xxxxxx

xxxxxxx

Marketing

. 193

0. 4%

. 245

0. 5%

. 313

0. 6%

xxxxxxx

xxxxxx

xxxxxxx

Operating, Gen., Sell, & Admin.

xxxxxxx

xxxxxx

xxxxxxx

xxxxxx

xxxxxxx

xxxxxx

64, 320

18. 4%

15. 0%

Interest Expense

. 385

0. 8%

. 193

0. 4%

. 312

0. 6%

1, 529

0. 4%

1. 6%

COGS and Total Expenses

47. 983

99. 7%

48. 548

99. 1%

50. 695

97. 3%

331, 0