Case study ethics guide dialing for dollars marketing essay

ASSIGN BUSTER

In " Dialing for Dollars", a company is faced with low sales. Desperate to meet quota, a boss authorizes a salesperson to offer customers a 20% discount if they take delivery before the end of the quarter, and to " start dialing for dollars. Get what you can. Be creative." This prompts the salesperson to try out a few creative but questionable ways of trying to boost sales. The sales person moves from customer to customer trying different tactics to convince the customers to buy some products. This article raises the question of how far one is willing to go to succeed. In this report, we aim to discuss the creative sales tactics the salesperson employed, to evaluate if they were ethical or not, and in instances, to evaluate whether they were legal or not. We will also discuss the merits and demerits of each tactic, and whether they were in the scope of what the company would find acceptable. The four questions asked are:

Is it ethical for you to write the email agreeing to take the product back? If the email comes to light later, what do you think your boss will say?

Is it ethical for you to offer the " advertising discount?" What effect does that discount have on your company's balance sheet?

Is it ethical for you to ship to the fictitious company? Is it legal?

Describe the impact of your activities on next quarter's inventories.

Case Study Questions

Q1. Is it ethical for you to write the email agreeing to take the product back? If the email comes to light later, what do you think your boss will say?

According to the American Marketing Association's Statement of Ethics, marketers should " be forthright in dealings with customers and stakeholders. To this end, marketers should strive to be truthful in all situations and at all times."[1]

In business, " stakeholders" refers to any person(s) and/or entity/ies that has/have vested interest in the decisions businesses make. In general, these people are usually employees, customers, stockholders, consumers, and even society at large if a company's business decisions were to affect them.

In the case of " Dialing for Dollars", a salesperson finds himself in quandary when the sales forecasting system predicts quarterly sales to be " substantially under quota", prompting the salesperson's boss to suggest that the salesperson " start dialing for dollars. Get what you can. Be creative." This results in the salesperson offering a management-authorized 20% discount on orders that are delivered before the end of the quarter to its customers. Unknown to management, the salesperson also offered to take back any unsold stock the following quarter. He confirms this offer by email to the customer instead of on the purchase order, as accounting would not log the order this quarter under those conditions.

The question is: Who is affected by this decision? And what would be the outcome to those affected? In the case of the salesperson, his total sales

would be upped, including his commissions, resulting in a net gain to him. In the case of the customer, he gets his 20% discount on the new merchandise, along with a guarantee than unsold inventory could be returned the following quarter. For the customer, this is also a winning situation. In the case of the company, the company's bottom line shows hearty sales and income flows for the quarter as a result of this decision. In the short time, it is a good business decision. But businesses do not exist to operate for a short term. They exist with the hope that they will continue operations indefinitely. So a decision such as this that may appear to be a net positive in the short-term, could have disastrous consequences in the long term. This brings me to the other stakeholders, the stockholders. Stockholders purchase stock in a company based on the faith they have that the company will go on to thrive. A business decision that seeks to be deceitful and cut corners in one quarter, which will negatively affect business the following quarter, is a bad one from the point of view of stockholders. A company's public reputation is dependent on the internal ethics of the company and its employees. Any hit to its public image could perceivably cause stock prices to plummet drastically, as was the case with Martha Stewart stock during her insider-trading scandal.

To answer the question, it was not ethical to write the email to take the product back without the expressed consent of management, and if the email comes to light, the boss would probably be disappointed at the action. To quote the American Marketing Association's mantra referred to above "… marketers should strive to be truthful in all situations and at all times." Clearly this was not the case.

Q2. Is it ethical for you to offer the " advertising discount?" What effect does that discount have on your company's balance sheet?

Because the company's sales forecasting system has predicted that quarterly sales will be substantially under quota, the vice president of sales has authorized a 20-percent discount on new orders, with the only stipulation being that customers must take delivery prior to the end of the quarter so that accounting can book the order. " Start dialing for dollars," she says, " and get what you can. Be creative." With that said, three creative strategies were implemented.

The second strategy that the salesperson tried was that instead of offering the discount, the salesperson offers the product at full price, but agrees to pay a 20-percent credit in the next quarter, that way the full price is booked for this quarter. The salesperson's pitch claims that the company's marketing department analyzed past sales with a " fancy new computer system" and determined that increasing advertising will cause additional sales, so if they order more product now, next quarter the company will give 20-percent of the order back to pay for advertising. The obvious is that the customer is going to receive the credit next quarter and not buy product in that quarter, killing your sales for that quarter, but that'll be a problem for next quarter.

According to the Journal of Indian Management, " Advertising is the life blood of all business organizations, without which the products or services cannot flow to the distributors or sellers, and on to the consumers or users. Unethical issues in advertisement include providing misleading information, using ambiguous terms and defaulting and promised rewards."[2]After

analyzing the given circumstances that the company's salesperson created, many of these unethical issues were brought up. The salesperson first gave misleading information, by claiming that the marketing department analyzed past sales using a " fancy" new computer system that determined increasing advertising will cause additional sales. Secondly, the salesperson promised a reward, by stating that by buying more product in this quarter, the company in return will " reward" 20-percent of their order back for advertising. Lastly, the whole sales pitch used ambiguous terms. For example, the salesperson used terms such as, " our fancy new computer system", but mainly " we'll give you 20-percent of the order back to pay for 'advertising.'" What and how exactly will the company determine whether or not the 20-percent given back to the customer will be used for advertising, as that is a part of the agreement in the salesperson's pitch?

With all said and done, the salesperson's " advertising" discount offer strategy for increasing the company's quarterly sales is highly unethical and raises several red flags. If the " advertising" discount offer is accepted by both sides, then the balance sheet for the current quarterly sales will show a " boom" in sales, however in the following quarter, the " advertising" discount will show up as a " bust" in the balance sheet, because that is when the 20-percent of the customer's order will be credited back to the customer for " advertising" purposes.

Q3. Is it ethical for you to ship to the fictitious company? Is it legal?

According to Business Law and the Legal Environment by Beatty and Samuelson, " Ethics is the study of how people ought to act."[3]We believe

the " Dialing for Dollars" salesperson acted very unethically for the reasons stated below.

Many organizations create a Code of Ethics which states the organizations primary values, and sets the rules employees should abide by. No legitimate business will have a Code of Ethics that makes behavior such as this salesperson's actions acceptable.

Due to expected low quota, the vice president allowed employees to offer a 20% discount on new orders. The words " start dialing for dollars… and get what you can. Be creative…" are not instructions to behave unethically. They mean that the salesperson should use creativity in trying to sell as much merchandise as possible, but in an ethical and legal fashion.

This particular salesperson, out of desperation, sold $40, 000 dollars worth of merchandise to a fictitious company owned by his brother-in-law. It is not ethical to ship to a fictitious company. The quota is met but the product is returned in the next quarter. A big lying scheme was formed with the brother-in-law. This deception causes the company to produce more merchandise based on deceptive sales amounts, which will result in the company being harmed in the long run.

According to the Association of Certified Fraud Examiners, their mission is " to reduce the incidence of fraud and white-collar crime." They performed a research " using Benford's law to detect fraud,"[4]which looked at investigative and audit sampling methods. They described something similar to what was done by the salesperson to be an embezzlement scheme. It is also illegal because the sales person created a fictitious company using his

brother-in-law as the front person and allowed the company to perform a credit check. Moreover, this salesperson is also causing his company to record fictitious revenue which is also fraud. This is a serious problem as the company is not aware of the scheme it is being unwittingly involved in.

The CPA Journal provides ways for company auditors to catch this type of fraud. They provide the following advice: " Be skeptical about large revenue transactions recorded near the fiscal year-end…" and " In reviewing purchase orders, auditors should look for cancellation clauses that could negate the sale. Auditors should read sales contracts and look for cancellation privileges and lapse dates. Revenue should not be recorded until the cancellation privilege lapses."[5]

In summary, shipping products to a fictitious company is both unethical and illegal. It causes many problems for the company in the long run. Ultimately, the company is responsible as it should take the proper steps in reviewing sales to ensure no such scheme is happening. Since the salesperson represents the company, if caught, they will both be charged with fraud.

Q4. Describe the impact of your activities on next quarter's inventories.

The impact of the three sales actions above would have terrible effects on the inventories. All of the returned material would become overstock. Since the automated system noticed the trend of increase in sales of the product it would wrongly forecast higher demand of the product. This would result in compounding the overstock problem by eventually increasing the amount of finished goods of the product in stock even more. On top of receiving back

the returned product, the automated process to increase production would cause increased orders for raw materials for the manufacture of the product. With the finished product overstock from the returns as well as ill-advised over-production and increased raw materials, space for storing all of the inventories within the warehouse may also become a problem. Further, with the increased orders for the raw materials and possible negative net income from all of the returns, the company could be placed in jeopardy with its cash flow. Depending upon how bad the situation gets, the company may be put in a position to have the sales team sell the product at a loss in order to get inventory levels back to normal and not take any further, worse losses.

In terms of accounting for inventories, one can also look at the calculation for Cost of Goods Sold as referenced from Cornerstones of Managerial Accounting:

Cost of Goods Manufactured

+ Finished goods inventory (beg. of period)

- Finished goods inventory (end of period)

Cost of Goods Sold

The Finished Goods inventory at the end of the next quarter (regardless of when the items are returned) would be increased dramatically by the returned product. This in turn would inevitably have a negative effect on the Cost of Goods Sold at the end of the next quarter.

Materials inventory as used in calculations for Cost of Goods Manufactured would also be affected because of the increase in raw materials purchased. The formula for Cost of Goods Manufactured as shown in Cornerstones of Managerial Accounting is:

Direct Materials

+ Direct Labor

+ Overhead

+ WIP (beg. of period)

- WIP (end of period)

Cost of Goods Manufactured

Since the Direct Materials would be increased because of the increase in purchases, then the Cost of Goods Manufactured would be increased, which in turn would increase the Cost of Goods Sold again.

Summary

Why is ethics in business important? Society views unethical behavior by business leadership as being socially irresponsible. Bad ethical behavior can result in crushing blows to a company's public image, resulting in a greatly decreased bottom line. Ethics is so critical that management has to pay close attention to it in order to survive. Customers' reaction to unethical management behavior can force an organization out of business. Additionally, deceptive behavior and short cuts usually result in lawsuits and

injuries, adding to a company's woes. In the end, it's always best to do the right thing from the outset.