Case I. Wagner Sporting Goods (30%)

Al Thomas has recently been approached by his brother-in-law, Robert Wilson, with a proposal to buy 20% interest in Wagner Sporting Goods. The sporting goods company manufactures golf clubs, baseball bats, basketball goals, and other similar items.

Mr. Wilson is quick to point out the increase in sales that have taken place over the last three years as indicated in the income statement, Exhibit 1. The annual growth rate is 20 percent. A balance sheet for a similar time period is shown in Exhibit 2, and selected industry ratios are presented in Exhibit 3. Note the industry growth rate in sales is only approximately 10 percent per year.

There was a steady real growth of 3-4 percent in gross national product during the period under study. The rate of inflation was in 5-6 percent range.

The stock in the corporation has become available due to the ill health of a current stockholder, who is in need of cash. The issue here is not to determine the exact price for the stock, but rather whether Wagner Sporting Goods represents an attractive investment situation. Although Mr. Thomas has a primary in interest in the profitability ratios, be will take a close look at all the ratios. He has no fast and firm rules about required return on investment, but rather wishes to analyze the overall condition of the firm. The firm does not currently pay a cash dividend, and return to the investor must come from selling the stock in the future. After doing a thorough analysis (including ratios for each year and comparisons to the industry), what comments and recommendations can you offer to Mr. Thomas?

Exhibit 1.

Income Statement

	198x	*198y*	*198z*
Sales (all on credit)	$1,500,000	$1,800,000	$2,160,000
Cost of goods sold	950,000	1,120,000	1,300,000
Gross profit	550,000	680,000	860,000
Selling and administrative expense*	380,000	490,000	590,000
Operating profit	170,000	190,000	270,000
Interest expense	30,000	40,000	85,000
Net income before taxes	140,000	150,000	185,000
Taxes	46,120	48,720	64,850
Net income	$ 93,880	$ 101,280	$ 120,150
Shares	40,000	40,000	46,000
Earnings per share	$2.35	$2.53	$2.61

*Includes $20,000 in lease payments for each year.

Exhibit 2.

Balance Sheet

	198x	198y	198z
Assets			
Cash	$ 20,000	$ 30,000	$ 20,000
Marketable securities	30,000	35,000	50,000
Accounts receivable	150,000	230,000	330,000
Inventory	250,000	285,000	325,000
Total current assets	450,000	580,000	725,000
Net plant and equipment	550,000	720,000	1,169,000
Total assets	$1,000,000	$1,300,000	$1,894,000
Liabilities and Stockholders' Equity			
Accounts payable	$ 100,000	$ 225,000	$ 200,000
Notes payable (bank)	100,000	100,000	300,000
Total current liabilities	200,000	325,000	500,000
Long-term liabilities	250,000	331,120	550,740
Total liabilities	450,000	656,120	1,050,740
Common stock ($10 par)	400,000	400,000	460,000
Capital paid in excess of par	50,000	50,000	80,000
Retained earnings	100,000	193,880	303,260
Total stockholders' equity	550,000	643,880	843,260
Total liabilities and stockholders' equity	$1,000,000	$1,300,000	$1,894,000

Exhibit 3.

Selected Industry Ratios

	198x	198y	198z
Growth in sales	—	9.98%	10.02%
Profit margin	5.75%	5.80%	5.81%
Return on assets (investment)	8.22%	8.24%	8.48%
Return on equity	13.26%	13.62%	14.16%
Receivable turnover	10×	9.5×	10.1×
Average collection period	36 days	37.9 days	35.6 days
Investory turnover	5.71×	5.62×	5.84×
Fixed asset turnover	2.75×	2.66×	2.20×
Total asset turnover	1.43×	1.42×	1.46×
Current ratio	2.10×	2.08×	2.15×
Quick ratio	1.05×	1.02×	1.10×
Debt to total assets	38%	39.5%	40.1%
Times interest earned	5.00×	5.20×	5.26×
Fixed charge coverage	3.85×	3.95×	3.97×
Growth in EPS	—	9.7%	9.8%

Case II. Robinson Products Company. (30%)

When the Robinson Products Company first designed its small hair blow dryer, management thought it would capture a large share of the market. Robinson's dryer was much smaller than the one sold by the competition, and it could be folded in two by swinging the handle parallel to the main blower. Robinson Products had put more than $3 million into designing and developing the dryer, but it was certain that these costs would be recovered quickly. However, that is not what happened.

When the machine was first introduced, sales were quite good. Unfortunately, one of the largest competitors came out with a similar hair dryer a month later. As a result Robinson's first-year sales were only 24% of forecast. Additionally, the company discovered that the competition had developed a much better advertising campaign.

Over the last three years Robinson's share of the market has fallen from 14% to just over 4%. Top management is now looking either to sell the product or simply to phase it out. The company knows that a strong advertising campaign would undoubtedly return a small profit but, as one of the top managers put it, "Why push a marginal product line? We have a lot of stars that warrant our investment." At the company's evaluation of product lines last week, the blow dryer was rated as having a low competitive position in a market segment with low growth. It can be inferred as dog in terms of Boston Consulting Group's portfolio model.

Questions

1. Assume that you are the product manager of Dryer department, what will you suggest for the company?
2. What will you do for your department to survive within the company?
3. What will you do for your own career in the company?

Case III. America West Airlines (40%)

America West Airlines was established in Phoenix as an employee-owned organization that served ten cities in the southwestern region of the United States with a fleet of new MD-80 aircraft. Since then it has grown to include 60 cities and has extended its range westward to Hawaii and eastward to Boston.

The neophyte company showed remarkable daring by choosing to enter an arena where the majors, American Airlines and Delta Air Lines, were already firmly entrenched and Southwest Airlines was digging in. Even more daring, some would say foolhardy, was the timing: deregulation was threatening to swallow up small airlines faster than they could refuel their planes.

But America West came into the game prepared with a skilled and creative management team., well-trained support personnel, and an effective inside pitch. Obviously, the fledgling company did not have the resources to provide the nationwide coverage, much less the worldwide coverage, that American and Delta provided. Its smaller region, however, allowed it to do something the majors couldn't: America West established a major hub in Phoenix and offered more flights per day at lower cost between its cities than could the two larger competitors. In many cases America West offered direct routing and, consequently, relatively short flight times between destinations. American and Delta, "burdened" with serving everywhere from Tallahassee to Seattle, were able to schedule flights between America West destinations, but with longer layovers and at premium prices because they were major carriers. For example, consider travel from Austin, Texas, to Los Angeles. America West has four flights scheduled each day, each taking approximately 4.5 hours and requiring one layover of 30 minutes in Phoenix, and its least expensive fare is $228. American Airlines offers eight flights each day, each lasting at least 5 hours, and the traveler has a 60-minute layover in Dallas but spends $298 for American's least expensive flight.

When America West passengers must lay over(滯留), it is almost always at the Phoenix hub(中心). (America West has a "sub-hub" in Las Vegas, where layovers are usually overnight, an appeal not lost on many travelers.) Consequently, America West's "accommodations"(住宿) at the Phoenix airport are as comfortable as one could hope for in a place that hosts such a large number of people each day. The waiting areas are spacious, with banks of well-padded seats placed farther apart than the seats in most airports. Television monitors are mounted in several places throughout the facility. And because the concessions are run by nationally known fast-food franchises, the traveler has ample reason to "feel at home."

Southwest Airlines presented a competitive challenge somewhat different from that of American and Delta. Southwest was serving the same general region as America West and was also

offering frequent, low-cost flights, but with older Boeing 737 aircraft. Thus, it would seem that these two airlines were meeting head to head and might be destined to "flight"-to-the-finish of one of them.

Southwest established its hub at Love Field in Dallas, thereby offering its passengers easier access to and from the city, which is especially attractive to commuters. (Landing at Love Field does, however, present a problem for those who must make connection in the Dallas-Fort Worth International Terminal.) Southwest began as the "fun airline," the one with attendants in hot pants and the snappy commercials on television. Since then, it has met the competitive challenge by offering its frequent, low-cost, no-frills service. It generally has just two fares, peak and off-peak, and so it isn't necessary to call at 11 a.m. "to see if fares have changed in the past ten hours." Reservations for flights may be made by phone, but they must be paid for either through a travel agent or in person at an airport desk. There are no preassigned seats; seating is done on a first-come, first-served basis according to a numbered boarding pass handed to the passenger at check-in time. On-board amenities are usually limited to free soft drinks, juice, and peanuts. Prepackaged cookies and cracker with cheese or peanut butter are available on long flights. Alcoholic beverages are available for a price. Except for short commuter flight, routing frequently involves several lengthy layovers, and it is not always possible to check baggage clear through to one's destination.

America West has thus far managed to meet Southwest's challenge in a variety of ways. The traveler can make reservations and pay for them with a credit card number by telephone, a very real convenience for many people. Pre-assigned seating can also be done by telephone. On-board amenities include complimentary copies of USA Today and The Wall Street Journal, free beverages and peanuts, and, on longer trips, an uncooked snack such as a sandwich, salad, cheese, fruit, and dessert. Baggage can be checked on all flights.

Clearly, America West's strategies have kept it in the game, although in recent times it has been struggling with some financial problems,and so the battle is still engaged.

Questions

1 . What generic competitive strategy has America West Chosen to enter the air passenger market? What are the dangers of this strategy?

2. Marketing analysts use market position maps to display visually the customers' perceptions of a firm in relation to its competitors with regard to two attributes. Prepare a market position map for America West comparing it with American, Delta, and Southwest, using the differentiation attributes of "Cabin Service" and "preflight Service."